Media Statement

18 March 2015

Aegon responds to the Budget 2015

Following the Chancellor's Budget announcement this afternoon Aegon issued media comments on the following:

- Selling on annuities
- Lifetime allowance cut is a disappointing short-termist approach to pension tax
- Death of the tax return
- The new 'fully flexible ISA'
- In depth view of the Treasury's consultation paper

'Selling on' annuities

Short view:
Steven Cameron Regulatory Strategy Director at Aegon said: "The ability to swap a regular guaranteed income for a cash lump sum will appeal to some, but it won't be in everyone's interests. This announcement breaks new ground for the pensions industry. We're pleased the consultation focusses on the three areas of the scope and operation of the secondary market; tax implications; and the many aspects of consumer protection and delivering value, which will be vital."

Detailed comment:

- **The ability to sell on an annuity will appeal to many but won't be in everyone's interests**
- **We welcome the consultation which will be needed to ensure this is workable and that consumers are adequately protected**
- **Current communication about the pension flexibilities assumes annuities cannot be re-sold and government, industry and regulator must now agree on how to refer to future changes here**

Steven Cameron, Aegon's Regulatory Strategy Director said:
"There's no doubt there are some people who have bought annuities in the past who rightly or wrongly feel they missed out on more flexible options. Proposals to allow them to sell their future annuity instalments to a third party in return for a lump sum are likely to have an appeal. But it won't be right for all – and for many, could be a very bad decision so it will need to be carefully designed to offer consumer support and protection.

"We welcome the government consulting fully and deferring this new facility until April 2016. The consultation rightly focusses on the three areas of the scope and operation of the secondary market; tax implications; and the many aspects of consumer protection and delivering value, which will be vital.

"For customers choosing between drawdown, cash and annuity purchase in future, we don't believe the announcement changes the respective merits of each. Annuity on-selling is unlikely to be appropriate for the majority of annuity purchasers. But we will need urgent clarification from Government and regulator on how to explain the proposed change to future customers.

"Individuals who sell on their annuity for a lump sum are likely to be taxed at their marginal rate. Offering the alternative of 'transferring' the proceeds to a drawdown contract and remaining within a pension wrapper may avoid a tax hit. This would be breaking new ground and needs careful consideration.

"Anyone turning future annuity income into cash is giving up a guaranteed flow of income – for their and possibly a partner's future life. Swapping this for a lump sum, calculated based on a range of factors, is undoubtedly a complex and risky decision and specialist advice would be essential.

Duncan Robertson, Head of Marketing at Aegon's ULG specialist Aegon Ireland comments:
"The Chancellor's promise to create a second-hand annuity market highlights an inherent flaw of these products, in that while they provide a guaranteed income, they offer pensioners little flexibility.

"Allowing annuities to be traded goes some way to bringing flexibility for savers, but the lack of transparency on amounts paid in the second hand-market remains a significant challenge. The solution lies in guaranteed unit-linked drawdown products, which will become more popular both for those retiring now and potentially for retired people planning to trade in their annuities."

Lifetime allowance cut is a disappointing short-termist approach to pension tax

Steven Cameron, Regulatory Strategy Director at Aegon said: "How disappointing to see the government once again taking a short-term approach to pension tax by cutting the Lifetime Allowance from £1.25m to £1m from next year.

"A £1m pension pot may seem huge, but with improvements in health and life expectancy, people who retire at 60 may need to use their pension income to cover their costs for 30 years or more. If you want your pension to continue to your partner and rise with inflation, £1m will buy you less than £30k a year. Many people aspire to more than that.

"As people live longer, Government should be encouraging them to build up adequate savings for longer lives including paying for very expensive long-term care. Reducing the amount that can be saved in pensions is, in our view, a move in the wrong direction."

Death of the tax return

Kate Smith, Regulatory Strategy Manager at Aegon said: "This is a further signal that digital is the way forward across all customers' finances. Online services have revolutionised the way we manage our pensions and bank accounts and the Revenue is moving into the digital age."

"A new digital tax account allows people instant up-to-date access to their tax affairs and will allow them to sort out their tax quickly as it cuts out paper. It should also avoid nasty tax demand surprises in the future, as by going online people will know instantly what they owe the revenue or what it owes them. We hope it will encourage more people to claim back higher rate tax relief on their pension contributions. Only basic rate tax is added automatically to people's pension savings, with any additional tax relief claimed back, currently via a self-assessment tax return at the end of the tax year"

The new 'fully flexible ISA'

Steven Cameron Regulatory Strategy Director at Aegon UK comments:
"The central theme of the pension reforms has been flexibility and the Chancellor extended this principle to ISAs today. At the moment, if you use up your annual ISA allowance and withdraw some of it later in that year, you can't redeposit until the next ISA year. That's now changed meaning ISAs are more flexible – and simpler to understand. Anything which incentivises savings is welcome. The only irony is we could end up with more ISA than pension millionaires!"

In depth view of the Treasury's consultation paper

Having reviewed the scope of the Treasury's consultation paper, Steven Cameron of Aegon makes the following points regarding the questions under consideration around the "selling on" of annuities.

- Consultation should consider whether funds can be moved into flexi-access drawdown to maintain tax efficiency
- Buyers of annuities will insist on understanding health of annuitants
- Joint life annuitant's dependents must be involved in the decision
- Detailed consumer protection will be required

Steven Cameron Regulatory Strategy Director at Aegon said:

"The ability to assign future annuity instalments in return for a cash lump sum or flexi-access drawdown pot will appeal to some, but it won't be in everyone's interests. The call for evidence correctly focusses on three key areas - the scope and operation of the secondary market; tax implications; and consumer protection which is particularly key as many being offered this new option may be elderly or vulnerable."

"It's good to see the Government making clear that they consider most individuals will be better retaining their annuity – we agree this will be something which is likely to be sensible only for a minority or for those whose annuity may be only a small part of their overall retirement income."

Annuity to flexi-access drawdown

"The attractions may increase if transferring the proceeds into flexi-access drawdown can be made workable without adverse tax consequences. This would mean funds continue to be used within a pensions wrapper to provide a regular, but more flexible retirement income."

Underwriting will be required

"We fully expect individual underwriting to be required because buyers won't be able to offer a price without information on the individual's life expectancy. This makes providing benchmark selling prices or shopping around "before you sell" problematic – each prospective purchaser might demand their own medical evidence. For joint life annuities, both partners may need to provide medical evidence."

Joint life annuities and protecting dependants

"The risks of assigning joint life annuities need further careful consideration – unless all dependants are party to the agreement, we are storing up shocks for widows and widowers who might otherwise not know their deceased partner has cashed in their future income too. This could be another area where women suffer – they already on average have lower private and state pensions.

"For joint life annuities, we can't see how assigning only that part of the annuity paid to the main life can be made workable."

Consumer protection

"The risk of consumer detriment here is arguably higher than with any other retirement decision. Anyone turning future annuity income into cash is giving up a guaranteed flow of income – for their and possibly a partner's future life. Swapping this for a lump sum, calculated based on a range of factors, is undoubtedly a complex and risky decision and we believe specialist advice will be essential. Our starting position would be to require the full range of FCA protections, similar to those transferring out of defined benefit schemes – compulsory advice alongside risk warnings.

"Pension Wise may have a role to play here, for example in explaining implications on means tested benefits. The Government rightly wants to avoid individuals 'opting into' means tested benefits so those who take and spend the cash shouldn't expect to then start claiming extra benefits."

Who will qualify?

"The right to assign will not extend to those receiving a pension from an occupational scheme. The difference between this and having an annuity may not be clear to all."

Notification of when the annuitant dies

"Existing annuity providers who agree to assign future instalments will face complexity and increased risks of not being notified of the death of the annuitant. We believe Government can play a more central role in notifying of deaths, perhaps linking into state pensions."

Those making future retirement income choices

"For customers choosing between drawdown, cash and annuity purchase in future, we don't believe the announcement changes the respective merits of each to any significant extent. Annuity assignment is unlikely to be appropriate for the majority of annuity purchasers and those purchasing an annuity shouldn't be doing so with the intention of assigning at a later stage. We will, however, need to reflect the proposed changes in customer guides – and we expect the Government to do so within Pension Wise."

Also available is Aegon's Budget 2015 Analysis, or go to www.aegon.co.uk/flexibility

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Notes to Editors

- In the UK, Aegon offers retirement, workplace savings and protection solutions to around two million customers and employs approximately 2,100 staff. Aegon UK's revenue generating investments totalled £59 billion as at 31 December 2014.
- As an international life insurance, pensions and asset management company based in The Hague, Aegon has businesses in over twenty five markets in the Americas, Europe and Asia. Aegon companies employ over 28,000 people and have millions of customers across the globe as at 31 December 2014. Further information: www.aegon.com
- The value of an investment can fall as well as rise and is not guaranteed. Investors may get back less than originally invested.
- This information is based on our understanding of current legislation, taxation law and HM Revenue & Customs practice, which may change. The value of any tax relief depends on the individual circumstances of the investor.
- Aegon is the Lead Partner of British Tennis.