

Open Market Option: an update on the review

November 2008



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ISBN 978-1-84532-532-2
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Update on the Review of the Open Market Option

1.1 The Open Market Option (OMO) allows those with accumulated pension savings to choose the provider from which they buy their annuity. By using the OMO and shopping around people may be able to increase the annual income they get from the annuity bought with their pension savings. At Pre-Budget Report 2007 the Government published a review of the operation of the OMO. That review made a number of recommendations aimed at improving the operation of the OMO. Significant progress has been made against these recommendations:

- The Pensions Advisory Service (TPAS) launched a structured choice web-tool in May 2008. The web-tool guides people through the choices involved in selecting an annuity and includes a link to the FSA's annuity comparison tables, allowing people to compare annuity rates from different providers. Initial results have been promising showing that around 95% of those who have used the site, and provided feedback, found it useful and felt that it would help them to make a more informed choice about their annuity. The ABI will be encouraging its members to inform those nearing annuitisation about the website;
- The DWP in conjunction with HM Treasury have formed a working group to look at the operation of the OMO. The group comprises representatives from Government departments, regulatory bodies, consumer groups and the pensions industry. The group has made recommendations regarding best practice and has fed into the other areas of progress. This working group will continue to work towards improvements in the operation of the OMO;
- The FSA has reviewed reported delays in companies making OMO transfers against its Treating Customers Fairly principle and has found that in 62% of the cases reviewed delays were experienced by consumers. The reasons for, and sources of, these delays varied and correspondingly a number of solutions will be required. In the first instance the FSA has committed to working with the industry, through the ABI, to reform the overall process – in particular, to achieve standardisation and rationalisation of the systems and documentation involved in fund transfer;
- The FSA has also reviewed the information that pension companies send to their customers as they approach retirement. This research has shown that the material provided by almost 40% of the firms examined did not meet the FSA's minimum rules and principles under the requirement of Treating Customers Fairly. All of the firms involved have received individual feedback from the FSA and now have until December 2008 to ensure that their documentation meets the Treating Customers Fairly rules and principles. After the deadline the FSA will be examining firms' progress and will instigate any further actions required;
- The Association Of British Insurers (ABI) has produced a new Good Practice Guide "Improving Customers' Retirement Experiences" and is working with member companies to promote best practice. The Guide includes new template content for pension companies' pre-retirement "wake-up" letters, which emphasises the potential benefit of shopping around. The guidance also requires firms to promote details of TPAS's online annuity choice tool;

- The ABI is also working with pensions companies to simplify and speed up OMO transfers. A new service designed to improve OMO transfer processes is being built to address the delays identified in the FSA review. FSA will be liaising with the ABI on this initiative; and
- HM Revenue and Customs has clarified that tax legislation allows pension schemes to offer an annuity under an open market option without having to provide a pension themselves.

1.2 HM Treasury has been monitoring progress in the operation of the OMO and will be using key success criteria – a “basket of indicators” to continue to measure progress. The two key success outcomes are that:

- people coming up to retirement understand the importance of choosing the right annuity and shopping around for the best rate; and
- the process of shopping around and switching providers is as quick and simple as possible.

1.3 The FSA review of the operation of OMO found that 40% of those taking an annuity from a personal pension do so on the open market. Of those who do not take the OMO ABI research suggests that half of them are aware of the OMO but choose not to exercise their right and the other half remain unaware of the option. This suggests that firms must renew their efforts to ensure that those who are approaching annuitisation are aware of the OMO and sources of information to help them make an informed decision.

1.4 The Government believes that the changes instigated so far will help deliver real improvements in outcomes for people approaching what could be one of the most important financial decisions in their life – how to take their pension income. However there are still improvements to be made in the area of taking an income from pension savings.

1.5 To date much of the focus has been on ensuring that consumers are aware of their right to shop around to select the provider of their annuity. This is an important factor in selecting an annuity and can ultimately lead to the consumer receiving a significantly higher income than they may have otherwise had.

1.6 However, once purchased an annuity is payable for at least the remainder of the individual’s life. This could be a significant period of time and the annuity could represent the majority of that person’s income during that period as well as any ongoing income for surviving spouses and/or dependents after the member’s death. Few other products can have such a profound impact on an individual’s lifestyle and it is therefore highly desirable that chooses the right type of annuity for their needs as well as getting the best available rate.

1.7 Among the most important aspects of annuity choice are choosing whether to provide income for a spouse or partner in the event of the holder’s death or whether to have an annuity which provides for increased income payments over time.

1.8 Following on from the launch of the TPAS annuity website the Government intends to work with the Open Market Option Working Group to look in more detail at the nature of choices made in annuity selection and additional methods of ensuring that people are able to make an informed choice when selecting not only their annuity company but also the type of annuity they take.

ISBN 978-1-54532-532-2



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