Selling your pension annuity

The government has set out further details about the secondary annuity market.

In last March's Budget the Chancellor launched a consultation considering how existing pension annuity holders would be able to sell their annuity in return for a taxable lump sum. The logic behind the idea was to give existing pensioners the same flexibility as is available to those now reaching retirement.

The creation of a secondary annuity market raised some complex issues and by the second Budget of 2015 the Chancellor had decided that implementation would be delayed until April 2017. Even then, the most obvious purchasers – the original annuity providers – will face restrictions on buying back their own annuities. In most instances sales will have to be arranged through intermediaries, adding to the costs.

The government will legislate to require that anyone planning to sell an annuity "above a certain [unspecified] value" will have to take advice first. One reason for this is that in the government's view, "For most people, retaining an annuity will still be the best choice – it provides a regular, guaranteed income for life…". Another reason is that the value placed on an existing annuity is likely to be relatively poor: any prospective buyer will be looking to cover their expenses and then receive a return better than current annuity rates imply. In any event, the option of a sale is not assured, as there will be no obligation on insurance companies to allow their policies to be traded.

One interesting aspect of the government's proposals is that the sale option will apply to new annuities, not just those in being before pension flexibility was introduced. However, that could prove an expensive lifeline. If you are nearing retirement, it is far better to take advice *before* drawing benefits rather than hoping to unscramble an error at a later date.

The value of your investment can go down as well as up and you may not get back the full amount you invested.