Selling your pension annuity

The Budget confirmed that the government is exploring ways to create a market in pension annuities.

One of the criticisms of the wide-ranging reforms to pensions that take effect on 6 April 2015 is that they only apply to those who have not yet started to draw benefits. As was well-leaked in the run up to the Budget, the Chancellor plans to address this anomaly by allowing people with an existing pension annuity to sell it for cash, which they can then use under the new rules.

A consultation paper issued alongside the Budget highlighted the issues surrounding what seems like a simple idea:

- The government does not currently believe that your annuity should be sold back to the original insurance provider, in part for consumer protection reasons. You would thus have to sell your annuity to a third party.
- Individuals will not be able to buy secondhand annuities "owing to the complexity and difficulty in determining a fair price", according to the paper.
- Any sale will depend upon the consent of the original annuity provider and, probably, any secondary beneficiaries (e.g. a surviving spouse).
- It will not be possible to sell annuities held by occupational scheme trustees.
- Any withdrawal of the sale proceeds, whether as a lump sum or a series of payments, would be fully taxable as income. The purchaser of the annuity would also be treated as receiving taxable income in the two years from April 2016, when sales should begin.

This reform, while in theory welcome, is not without risks. For now, while the outcome of the consultation is awaited, the message is do nothing without taking expert advice. The value of your investment can go down as well as up and you may not get back the full amount you invested.