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Second Hand Annuities: How Robust Is the Treasury's £1 Billion Windfall?

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- Projection shows £1.075 billion additional tax receipts in first 2 years of operation
- Hargreaves Lansdown estimate this equates to 250,000 investors cashing in their annuities
- Anticipated tax take conflicts with Treasury statement that 'vast majority' should continue with existing annuity

According to the Treasury's policy costings, the second hand annuity market is projected to raise over £1 billion in additional tax receipts between 2016 and
2018.

(page 15).

Hargreaves Lansdown estimates this £1 billion tax windfall to the Treasury implies 250,000 people are expected to use the scheme in its first two years of operation.

Tom McPhail, Head of Pensions Research 'It is far from certain that this scheme can ever be developed at all, much less that it can raise this kind of revenue for the Treasury without exposing hundreds of thousands of retired investors to a misselling risk. It is widely acknowledged that even if the consultation produces a workable model, it will require robust and potentially expensive safeguards to ensure that investors get a fair price in exchange for their annuity. For 13 years the Treasury and DWP have tried and failed to create a shopping around system which serves investors well when they first buy an annuity; it is quite a leap of faith to expect them to achieve this now in the space of just one year for a market which doesn't even exist yet.'

Our estimate of 250,000 investors is based on the following assumptions:

£1.075billion tax revenue (according to HM Treasury).

All tax is levied at the basic rate of 20%.

The median annuity purchase price has been around £20,000 in recent years.

In reality the number could be higher or lower. Many existing annuities were purchased with smaller sums. Due to the likely fixed costs of a second hand annuity broking market, it may not be economically viable for smaller annuities (below £10,000 capital value) to be sold at all. Potential purchasers may well want to medically underwrite potential vendors. Vendors may need to pay for regulated financial advice.

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