

## **Open Market Options**

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In 2003 the Financial Services Authority introduced a requirement that insurance companies quoting retirement options to their customers tell them about the Open Market Option (OMO). The FSA even put sample rates on their own website to help people compare rates. Yet in the whole of 2004 just 31% of policyholders used the OMO and a staggering 69% stayed with the company that they had saved with. And whilst 50% of these stayed with two of the leading annuity providers (Prudential and Norwich Union), the other 50% stayed with companies which paid out up to 20% lower pensions.

An OMO allows a pension plan policyholder to take their fund at retirement to an annuity provider of their choice, rather than securing their income with the company with which they have been investing. They might do this to obtain additional options – as an example not all companies offer RPI linked annuities – but the best reason to switch your funds is to get more income for the rest of your life. This might simply be through going to a company with better rates, or alternatively it might be by going to a company offering smoker rates, or impaired life terms. In the first half of 2005 a fifth of all policyholders using OMO's benefited from enhanced terms.

Inertia may be the reason why some people leave their funds with the original insurance company, or it may be from some misplaced sense of loyalty. If they have been happy with the investment performance of the company, and they like the representative who has called on them over the years, they will often assume that the same company will 'look after them' in retirement. Unfortunately the figures suggest otherwise.

There is an increasing number of annuities available on the market which offer improved rates to people who are judged to have shorter life expectation than 'average'. Those with known medical problems can buy an 'impaired life' rate, which might be individually underwritten, but even those who smoke will find they can get better rates – our 60 year old could up his pension to £342 per month if he were a smoker.

The companies that are currently offering the best annuity rates may have strong reserves which make annuities a good long-term business. Alternatively they may be doing so because they want to attract this sort of business for various short-term technical reasons. If the company you are with is not one of them, then no matter how well they have invested your money in the past, they will pay you a lower income for the rest of your life.