Transferrable Annuities: A red herring?

Having filled itself with Christmas cheer, the pensions world came back in January to much silliness and talk of transferable annuities. Whilst Steve Webb should be applauded for keeping the debate going over the broken annuity market, transferable annuities already exist – they are called Short Term Annuities and in my mind add complication and cost where there doesn't need to be.

The problem with Short Term or Transferrable Annuities are they're just that; you can't pay a fee, make a choice and stick with it for life (with zero ongoing advice costs), nor can you benefit from the mortality cross-subsidy that effectively comes from the fact that the longer you live, the more of your peers will die before you, effectively boosting your annuity rates.

For those who don't want to make a one off decision, and are willing to bear some investment risk, an appealing option may be Pension Fund Withdrawal (Drawdown). Income can go down as well as up, and ongoing adviser fees paid – therefore this is not an option for those with smaller funds, or those who cannot afford the risk of the loss of some income.

The annuity market does need fixing, but Transferrable Annuities are not any significant part of the solution. Pensioners need sensible defaults, in particular to use their open market option. Advice should be more heavily promoted, so pensioners understand better the implications of having no inflation increases, or spouse's pensions, for example. In a economy where Payday Lenders charging usury rates of interest can survive it should be no surprise that the more complex retirement market is not working for many people.