



GUIDE TO ANNUITIES

OPTIONS AT RETIREMENT

IT TAKES MANY YEARS OF PLANNING, SAVING AND SACRIFICE TO BUILD UP A SIGNIFICANT PENSION – AND AFTER ALL THOSE YEARS YOU WANT TO BE SURE YOU ARE MAKING THE MOST OF IT.

This guide is designed to provide the basic information you need to start investigating your retirement opportunities. It cannot make any recommendations or decisions but, armed with the information it provides, you can start to ask questions and, with our help, make sure your retirement is as lucrative as it can be.

What is an annuity?

An annuity is a guaranteed fixed income which you buy with a lump sum. Its term may end either at a fixed date in the future, when you die or when another named person dies.

The most common reason for buying an annuity is retirement,

when the lump sum which you have built up over the years through a company or private scheme is used to buy an annuity and thereby provide you with a lifetime income. However, they can be bought by any investor requiring income, with a cash lump sum from any source.

What are the current retirement rules?

It used to be compulsory to purchase an annuity at retirement. However, now, you can take a 'pension commencement lump sum' of up to 25% of your pension fund at retirement and defer your annuity purchase or you can draw an income direct from your fund instead.

Alternatively, you can combine annuity purchase, deferral and tax free lump sums so that you retire in stages over several years. Not all these options are suitable for everyone and there are costs and risks associated with each - but they all deserve at least some consideration before you take the plunge.

This guide therefore provides the basic points, and a visit to your professional adviser will help you look at each in more detail.

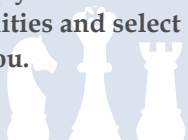


BUYING AN ANNUITY THE PROCESS

Selecting a Provider

It can be tempting to simply look for the highest rate you can find and take it - but, as mentioned, the long-term security of the annuity provider should be of greater consideration, as should the safeguards you include to guard against inflation. Life expectancy means retirement could now last 20 years or more.

Comparison information on annuities is widely available, so make sure you shop around. Indeed, we can help you take a look at the entire market of annuities and select the one which is right for you.



THE FIRST AND MOST IMPORTANT QUESTION YOU HAVE TO ASK IS WHETHER YOU WANT TO BUY AN ANNUITY AT ALL (SEE THE ALTERNATIVES OVERLEAF).

Always remember that, once you have purchased a specific annuity, you have it for life - you cannot go back on your choice - so it is important to get that decision right. Annuity rates will change with the interest rate climate so, for example, if you are buying at a time when interest rates are particularly low, you may decide not to invest your whole retirement fund immediately and hold onto some instead.

Also, when considering whether to buy that annuity, remember that it will consolidate the value of your investment - there is no possibility of benefiting from future growth. In addition, unless you write in certain guarantees, you will not be able to pass any of that value on to your heirs. If you die earlier than expected, the full purchase of an annuity will mean that much of the fund will be lost.



1

HAVE YOU CONSIDERED THE OPEN MARKET OPTION?

Over the years, you will have amassed a retirement fund either through a company scheme or through a private plan.

At retirement, the pension provider will write to you offering a range of annuity options, one of which will be an 'open market option'. This is important as it allows you to take your retirement fund to a different provider than the one with whom you have actually built up your fund. It is now a legal requirement to ensure you are made aware of what your open market option will be.

2

WHAT TYPE OF ANNUITY SHOULD YOU BUY?

a) Single life or joint life?

This will depend on whether you have a partner you need to provide for after your death. If you have a single life annuity, the income you receive will stop if you die before your partner. If they have no income provision of their own, this could leave them in a difficult situation which a joint life annuity would help alleviate. However, as the joint life annuity will be based on your combined life expectancy, the income you receive from this option will be lower.

b) Would you like protection against inflation?

Since December 2009, the Consumer Price Index figures have been above the Government's target rate of 2%, demonstrating that the potential for increased inflation still exists. However, even with

inflation at a low rate, a fall of just 2% every year in your disposable income could have an important impact over the long term. Protecting your annuity against inflation will cost you more in the short-term, but may give you piece of mind in the long run.

c) Would you like a guarantee period?

Having saved for years for a decent retirement fund and then bought an annuity, there is the unfortunate possibility that you will die early, the annuity will then end and much of that fund will go to waste. This encourages some retirees to put off buying an annuity for as long as possible (see overleaf). The alternative, however, is to buy an annuity with a guarantee. This guarantees the income will be paid for a set period even if you die earlier, meaning your heirs will get some benefit.

d) Could you accept some investment risk?

Investment linked annuities invest your money into stocks and shares on the basis that investment growth could offer the potential for higher income payments in the future without the need for you to buy inflation protection (see b above). There are risks to this approach, however, as your investment might not grow - indeed it might actually fall. Then, even if the investment does grow, it may not grow in line with what you expect - so either your income will then have to be cut or will be maintained but start to eat into the capital value of your investment. If that possibility concerns you at all, you should stick to conventional annuities.

e) Do you want to buy from more than one provider?

Although the income from annuities is guaranteed, retirees still have to take a risk on the provider. As the Equitable Life incident demonstrated, no company is 100% safe. That said, changes in legislation following the problems at Equitable Life mean that annuity providers are now better capitalised, so investors have greater protection than before. However, as with any investment portfolio, you may feel more comfortable spreading your risk across a number of different providers, which could also make other choices easier. For example, you could inflation-proof just part of your income or put just a small amount into a joint life annuity if you need to provide for a dependent.

f) Do you qualify for an 'enhanced' annuity?

If you are suffering from a life-shortening condition, such as heart disease or cancer, you can get an 'enhanced' or 'impaired life' annuity. Some life offices also provide these annuities for 'lifestyle choices' like smoking. In general, the term 'impaired life' annuity is used where there is a reasonable expectation that the person will die within five years. An 'enhanced' annuity is for someone whose life expectancy is reduced but not perhaps to such an extent.



WHAT ARE THE ALTERNATIVES?

a) Deferred annuity purchase

Deferring the purchase of an annuity to older age might mean the rate of income you can get increases. If you have the flexibility, you may also be able to choose a more favourable time in the interest rate cycle and benefit from any growth in your pension pot for longer. Of course, always be aware that it also means that your retirement fund can be eroded by poor investment performance, lower interest rates or difficult markets - or even a recalculation of life expectancies - the risks of which must be weighted against the potential gains.

If you defer the purchase of an annuity you can arrange an unsecured pension (drawdown) scheme for the interim which allows you to draw an income direct from your pension fund. The rest stays invested until you want to use it to buy an annuity. You can then choose the amount of income you want (subject to HMRC maximum limits) so, for example, those who want to continue working could initially draw a smaller pension but increase the amount slowly until they retire in full. Alternatively, take just the tax free lump sum but leave any income until further down the line. This option is flexible but can be expensive so is generally only worth considering if your pension fund is significant.

b) Phased annuity purchase

Phased retirement is really a series of mini retirements which allows you to buy an annuity or draw down income in stages rather than all at once. You decide the level of income you need each year

and take that amount from the plan. Clearly, the level of annuity rate will vary as factors like your age and interest rates will change every year, which could ultimately be a benefit or could work against you depending on the environment at the time.

However, at each stage, you could get part of your tax-free lump sum, plus a mini-annuity or a mini drawdown plan, which would use up part of your overall fund (up to 25% under current rules). As time goes by, you could then take a bit more of your tax-free amount and convert more of your pension pot to income as your needs change.

c) Other options

There are other options such as short term annuities and lifetime cash flow products. **For example:** the latter is designed to guarantee a certain percentage as an income each year for life but you retain control of the assets and have access to the remaining capital at any time. However, whatever your thoughts, to ensure you consider the full range of options, we would suggest you consider getting professional advice.

To arrange a no obligation meeting
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