

DSL

DAVID S LOWE FINANCIAL
MANAGEMENT

A Guide to buying your Annuity



*Shopping around for your
annuity could really pay off*

2 Back Green, Outlane, Huddersfield, West Yorkshire, HD3 3YT

Tel: 01422 378642 **Fax:** 01422 310036 **Email:** dslowe@btinternet.com **Web:** www.davidslowe.co.uk

Authorised and regulated by the Financial Services Authority



Annuities explained

Shopping around for the annuity that best suits your needs

Welcome to 'A Guide to buying an Annuity'. This information is based on the current rules; however in June 2010 the government announced a review of the requirement to take your income by age 75. This is subject to consultation and new rules are likely to take effect in April 2011. If you reach 75 before April 2011 there are interim measures in place.

WHAT IS AN ANNUITY?

An annuity is a regular income paid in exchange for a lump sum, usually the result of years of investing in an approved, tax-efficient pension scheme. Currently you can choose when to start taking an income from your pension at anytime between the ages of 55 and 75. When you do this, up to 25 per cent of your pension can normally be taken as a tax-free lump sum. The remainder of your pension fund can then be converted into an annuity.

There are 2 different options to choose from:

SINGLE LIFE

The income will be paid throughout your life only. When you die the income will cease.

If you're in a relationship where you're financially dependent on each other, you should consider choosing a joint life annuity which continues to pay an income to your spouse or partner, in the event that you die first.

JOINT LIFE

You can choose up to 100 per cent of the income to continue being paid to your surviving partner after your death. If you have protected rights (from contracting out of SERPS or the State Second Pension) and are married, separated or in a civil partnership, a 50 per cent spouse's income for your protected rights must be chosen.

HOW DO I RECEIVE AN INCOME?

The vast majority of annuities are conventional and pay a risk-free income that is guaranteed for life. The amount you receive will depend on your age, whether you are male or female, the size of your pension fund and, in some circumstances, the state of your health.

Your pension company may want you to choose its own annuity offering, but the law says you don't have to. Everyone has the right to use the 'open market option', to shop around and choose the annuity that best suits their needs. There can often

be a significant difference between the highest and lowest annuity rates available.

Some insurance companies will pay a higher income if you have certain medical conditions. These specialist insurers use this to your advantage and will pay you a higher income because they calculate that, on average, your income should be paid out for a shorter period of time.

Some older pension policies have special guarantees that mean they may pay a much higher rate than is usual. Guaranteed Annuity Rates (GARs) could result in an income twice or even three times as high as policies without a GAR.

A conventional annuity is a contract whereby the insurance company agrees to pay you a guaranteed income either for a specific period or for the rest of your life in return for a capital sum. The capital is non-returnable and hence the income paid is relatively high.

Income paid is based on your age, i.e. the mortality factor and interest rates on long-term gilts and income is paid annually, half yearly, quarterly or monthly.

Payments from pension annuities are taxed as income. Purchased life annuities have a capital and interest element, the capital element is tax-free, the interest element is taxable.

WHAT ARE THE DIFFERENT TYPES OF ANNUITY?

The different types of annuity include:

IMMEDIATE ANNUITY

The purchase price is paid to the insurance company and the income starts immediately and is paid for the lifetime of the annuitant.

GUARANTEED ANNUITY

Income is paid for the annuitant's life, but in the event of early death within a guaranteed period, say five or 10 years, the income is paid for the balance of the guaranteed period to the beneficiaries.

COMPULSORY PURCHASE

Also known as open market option annuities, these are bought with the proceeds of pension funds. A fund from an occupational scheme or buy-out (S32) policy will buy a compulsory purchase annuity. A fund from a retirement annuity or personal pension will buy an open market option annuity, an opportunity to move the fund to a provider offering higher annuity rates.

DEFERRED ANNUITIES

A single payment or regular payments are made to an insurance company, but payment of the income does not start for some months or years.

TEMPORARY ANNUITY

A lump sum payment is made to the insurance company, and income starts immediately, but it is only for a limited period, say five years. Payments finish at the end of the fixed period or on earlier death.

LEVEL ANNUITY

The income is level at all times and does not keep pace with inflation.

INCREASING OR ESCALATING ANNUITY

The annuitant selects a rate of increase and the income will rise each year by the chosen percentage.

Some life offices now offer an annuity where the performance is linked to some extent to either a unit linked or with profits fund to give exposure to equities and hopefully increase returns.

THERE ARE TWO VERY IMPORTANT POINTS TO CONSIDER WHEN SETTING UP AN ANNUITY. YOU RARELY HAVE TO STAY WITH YOUR EXISTING PENSION PROVIDER WHEN YOU RETIRE AND OFTEN THEY WILL NOT OFFER YOU THE BEST ANNUITY INCOME. ALSO, DIFFERENT ANNUITY PROVIDERS OFFER DIFFERENT ANNUITY RATES. THE DIFFERENCE BETWEEN THE BEST AND WORST ANNUITY INCOMES CAN BE SIGNIFICANT. TO DISCUSS YOUR PARTICULAR SITUATION, PLEASE CONTACT US FOR FURTHER INFORMATION.

Content of the articles featured is for your general information and use only and is not intended to address your particular requirements. They should not be relied upon in their entirety and shall not be deemed to be, or constitute, advice. Although endeavours have been made to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough examination of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions taken in respect of any articles. The pension and tax rules are subject to change by the government. The value of fund units can go down as well as up and investment growth is not guaranteed.