Buy a regular income for life (Annuity)

At a glance...

If you choose to buy a regular income, known as an annuity, you'll have:

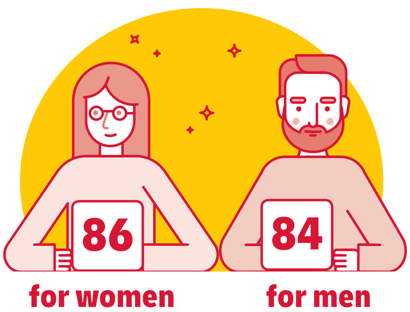
- **A regular, secure income** paid for the rest of your life
- **Choice** over the type of income you'll receive, so you can match it to your personal circumstances
- **Security for your dependants** – the option to purchase a regular, secure income for your dependants if they outlive you
- **Tax-free cash** – the option to take up to 25% of your pension account as a tax-free cash lump sum at the point you retire.

Does this option meet your needs?

We don't tend to think about the financial implications of getting older, such as the possibility of needing care or how long you'll live for. But as you approach later life and need to make a decision about your retirement income, it is important to think ahead.

Only you know your financial circumstances – for example, whether loans or mortgages still need to be paid off and the sort of needs you may have later on.

On average*, 65-year-olds in the UK live until they are:



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Here are some things to help you consider which options will be right for you:

Your pension account is your main or only source of retirement income

vs

You have other sources of retirement income in addition to your pension account

- You may prefer to buy an annuity if you:
  - » Are reliant on a regular income for your retirement; and/or
  - » Cannot afford to take risk; and/or
- Appreciate the security and predictability of a set, regular income.

- Instead of an annuity, you may prefer one of the other options for using your pension account if you:
  - » Already have a sufficient, secure regular income from other pension savings; and/or
  - » Are not reliant on a regular income; and/or
  - » Are able to afford to take more risk.

You prefer predictability

vs

You prefer flexibility

- You know how much income you'll receive, for the rest of your life.

- You have some flexibility to buy an annuity to suit your personal circumstances, such as your health or marital status.
- However, once you buy an annuity, you cannot normally change this choice in the future.

You prefer security

vs

You prefer opportunity

- Your annuity will provide you with a regular, secure income for life.

- Once your annuity starts, your income is fixed, so there is no opportunity to grow it any further through investments.

You prioritise short-term income

vs

You prioritise long-term income

- While you have the option to take up to 25% of your pension account as a tax-free cash lump sum on retiring, you can't usually take a higher income in the short term in return for a reduced income in the longer term.
- If you take the tax-free cash lump sum upfront, your long-term income is likely to be lower to take this into account.

- You will receive a regular, secure income for the rest of your life.

You have a short life expectancy

vs

You have a long life expectancy

- If you (and your spouse or civil partner if you buy a spouse's pension) die early, your pension account would be lost and your pension would not normally be passed onto the next generation unless you buy an annity with a guarantee.
- If you have a health or lifestyle issue that affects your life expectancy, you may be able to get a higher income than you would've otherwise received.

- An annuity will provide you (or your spouse or civil partner if you buy a spouse's pension) with a steady income for life – you won't need to worry about running out of money if you live for a long time.

Buy a regular income for life (annuity)

What are your options if you buy a regular income for life (an **annuity**)?

Feature	Option 1	Option 2	Comparison
Pension increases	An income which increases during retirement, either at a fixed rate or linked to inflation. This is known as an 'increasing annuity'.	An income which remains level throughout retirement. This is known as a 'level annuity'.	• An **increasing annuity** will start at a lower initial amount than a level annuity but will increase (normally in line with inflation) during retirement, maintaining what your income can buy. • A **level annuity** will start at a higher initial amount than an increasing annuity but will not increase during retirement, so you need to be aware that inflation will erode the purchasing power of your income over time.
Spouse's pension	An income which continues to be paid to your spouse or civil partner upon your death (at a reduced level). This is known as a 'joint life annuity'.	An income which ceases on your death. This is known as a 'single life annuity'.	• An annuity which includes an income for your spouse or civil partner after your death will be lower than the income from an annuity paid just to you, as it is expected to be paid for longer.
Guarantee period	An income which **stops on your death** (or the death of your spouse or civil partner). This is known as an annuity with 'no Guarantee period'	An income which is **guaranteed** to be paid for a minimum period regardless of how long you live. This is known as an annuity with a 'Guarantee period'	• An annuity which includes a **Guarantee period** will have a lower income than an annuity which stops on your death. • However, if you die shortly after you start to receive your income, a **Guarantee period** will ensure your loved ones still get something back.
Health/lifestyle/ enhanced terms	An income which does not take into account your health and lifestyle. This is known as a 'standard annuity'.	An income which takes into account your health and lifestyle. This is known as an 'enhanced annuity'.	• If you have a diagnosed medical condition, smoke or have a poor lifestyle, you may be eligible for **enhanced terms**. • An annuity with enhanced terms will typically have a higher income than a standard annuity as it is expected to be paid to you for less time.

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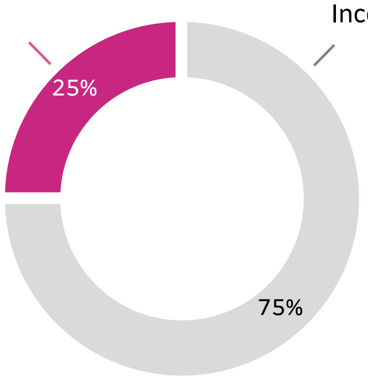
Tax

Tax-free cash lump sum

- You can take up to 25% of your pension account as tax-free cash.
- The amount you could take depends on the value of your pension account and other retirement savings.



Income (subject to tax)

- Your annual income will be taxed at your marginal rate of income tax for that year (20%, 40% or 45%).
- As your annuity income is stable, you can expect to pay a similar level of tax each year (subject to any other income you have).

How do I buy an annuity?

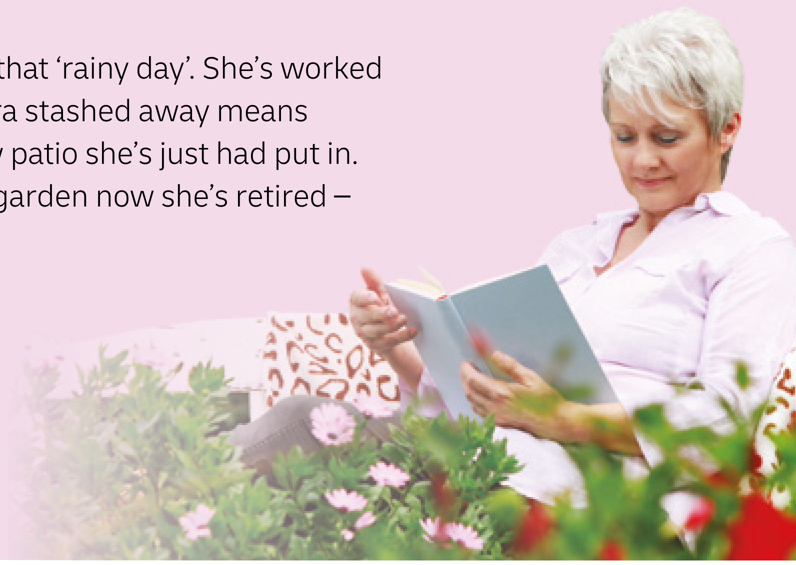
Different annuity providers offer different rates for different types of annuity. So you may be able to secure a higher income, or an income that better suits your needs, by shopping around. This is often referred to as an 'Open Market Option'. You can shop around yourself, or you can use an annuity comparison service, the Trustee have appointed **HUB Financial Solutions** to provide this service to members. If you live in the UK and your pension account is worth more than £1,000, they will send you details of how they can help once you have requested a retirement quote from the pensions department.

Is this for you?

Meet Jane

Jane has always put money aside each month for that 'rainy day'. She's worked hard for it and knowing that she has a little bit extra stashed away means she can treat herself now and again... Like the new patio she's just had put in. After all, she'll be spending a lot more time in the garden now she's retired – hopefully without too many rainy days!

Jane chose to take the maximum tax-free cash lump sum, to top up her treat fund, and used what was left to buy an annuity. This will give her peace of mind and a regular income for the rest of her life.



Jane prioritised...

Predictability

Jane liked knowing she could rely on a regular income to cover the basics, leaving the rest of her savings for the niceties.

Security

She knew that her income was not dependent on investment performance.

Long-term income

She took comfort knowing that her pension would be paid for the rest of her life.

