

A Guide to

# ANNUITIES

We'll set the scene to help you secure  
a bigger retirement income



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You've spent years putting money aside into a pension scheme, but what actually happens once you retire? Sadly, it's not as simple as simply withdrawing the money. You must now convert your pension pot into an income, which is typically done by buying an annuity.

## EXCHANGE A LUMP SUM FOR AN INCOME

An annuity is a financial product where you exchange a lump sum for an income. In the case of pension schemes, you usually exchange your pension fund for an income payable for the rest of your life, often called a compulsory purchase annuity.

Anyone who has a lump sum and wants to convert this into an income can buy an annuity, but most people come across them for the first time when they're coming up to retirement and need to convert all or part of their pension fund into an income.

## TYPE OF ANNUITY

You'll need to buy an annuity with funds from any personal pensions, stakeholder pensions and most

money-purchase employer schemes. The type of annuity you buy with your pension fund money is called a compulsory purchase annuity or pension annuity. If you belong to an employer's final salary scheme, your pension is usually paid directly from the scheme, so you don't have to think about annuities.

Thousands of people should end up with bigger pensions as new rules will force insurers to inform customers about better annuity options. The Association of British Insurers' (ABI) new code of conduct forces insurers to give more information about how consumers can 'shop around' for a better deal, while ensuring that those with health problems receive a higher income as a result.

## BUYING THE WRONG TYPE OF ANNUITY

Currently, according to the ABI, more than half of all investors who buy an annuity - which pays a fixed income for life - simply buy the default annuity deal from their current pension provider. As a result many end up buying the wrong type of annuity or effectively locking into an uncompetitive pension deal for the rest of their lives. Shopping around for the best annuity deal could increase the size of a pension by over a third. A recent report from the National Association of Pension Funds claimed that this was costing pensioners more than £1bn in lost retirement income.

## BENEFITS OF SHOPPING AROUND

The new rules stop insurers from including an application form in the information pack sent to customers approaching retirement, making it less likely that people will simply buy the first annuity they see. These 'retirement packs' have been



redesigned to place greater emphasis on the benefits of shopping around. Crucially, where insurers are selling an annuity to one of their existing customers, they will be required to ask about their circumstances and medical conditions before providing a quote.

*A pension is a long-term investment. The fund value may fluctuate and can go down as well as up. You may not get back your original investment. Past performance is not an indication of future performance. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances. This is for your general information and use only and is not intended to address your particular*

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#### **CONTACT US FOR FURTHER INFORMATION**

**IF YOU ARE APPROACHING RETIREMENT IT IS ESSENTIAL THAT YOU RECEIVE THE BEST POSSIBLE ADVICE WHEN BUYING AN ANNUITY. TO GET THE MOST OUT OF YOUR PENSION SAVINGS FUND YOU SHOULD BE CONFIDENT THAT YOU ARE MAKING THE RIGHT DECISIONS ABOUT YOUR RETIREMENT INCOME. TO DISCUSS HOW WE COULD HELP YOU, PLEASE CONTACT US FOR FURTHER INFORMATION.**

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