advice rooms

A Guide to Choosing
An Annuity

To speak to one of our advice team please call:

0808 141 0756

Or email: info@advicerooms.co.uk

Advice Room was created as a space for individuals to receive financial advice regarding any area of their financial and/or retirement planning. Today's world makes everything seem impossibly complex with companies leaving a mind field of options when trying to plan your future finances.

Our advisers will help you understand if an annuity is the most suitable route and what benefit will need to consider to make the most out of your retirement.

Contents:

Pension wise
Your money. Your choice.

Pension Wise from MoneyHelper
Pension Wise is a free and impartial government service from MoneyHelper that offers you:

- Tailored guidance (online, over the telephone or face to face) to explain what options you have and help you think how to make the best of your pension savings.
- Information about the tax implications of different options.
- Tips on getting the best deal, including how to shop around.

Visit **moneyhelper.org.uk/pensionwise** for more details.

If you'd prefer to speak to someone over the phone or book a face-to-face appointment you can call **0800 138 3944**.

Advice Room's product guides are not intended to replicate or replace the service provided by Pension Wise, but to help you consider which retirement options may be relevant to your needs and circumstances.

What is an annuity ?

An Annuity is guaranteed income that you purchase. Once in payment, it can't be changed and is payable for the rest of your life, no matter how long you live.

How do I know if an annuity is the best option for me?

There are several factors to consider when determining if an annuity is right for you. These include your current financial situation, your retirement aspirations and your health.

Additionally, it's important to understand the different types of annuities and their features, such as the annuity's guarantee, payout options, and any fees or charges associated with the product. We recommend that you speak to one of our advisers to evaluate whether an annuity would be a suitable addition to your overall circumstances.

An annuity may be suitable for you if you want:

- ✓ A regular income payable for your lifetime. With the option for it to increase yearly, either by a fixed percentage or in line with the Retail Prices Index (RPI) to help protect it from the effect of inflation
- ✓ The option for your dependant to receive a regular income if you die before they do
- ✓ To avoid your pension pot being subject to investment risk
- ✓ A product that could pay more income if you have certain lifestyle risks or medical conditions.

An annuity may not be suitable for you if you want:

- To withdraw cash amounts from your pension pot as and when you choose
- Flexibility to change any of the options you initially choose
- Your income to vary depending on investment conditions
- To build up a pension pot by making further contributions.

How long do I need an annuity for?

When understanding how long you need an annuity for, there are several key factors to consider, including your age, life expectancy, current and future expenses, and inflation.

1. **Age:** The older you are when you purchase an annuity, the higher the income payments will be because the insurance company will have less time to pay out the annuity.
2. **Life expectancy:** Understanding your life expectancy will help you determine how long you will need the income for. The longer you are expected to live, the longer you will need the income for.
3. **Current and future expenses:** Consider your current expenses and also anticipate any future expenses such as healthcare costs. This will help you understand how much income you will need to cover these costs throughout your retirement.
4. **Inflation:** Inflation can erode the purchasing power of your income over time. It is important to consider the impact of inflation on your annuity income, and to consider options such as an inflation-linked annuity which increases the income payments each year to keep up with inflation.

All of these factors should be taken into account when determining how long you will need an annuity for. It is important to consult with a financial advisor to develop a retirement plan that takes into account all of these factors and to ensure that you have enough money to last throughout your retirement.

How much income will I receive?

The income you'll receive will also depend on a number of factors which includes age, health & the amount of money you have to use.

1. **Age:** In normal circumstances the older you are the less time the annuity income will have to be paid for, meaning that the annuity rate to an older person would usually be higher than to someone much younger, giving them a more attractive income, but for a shorter time.
2. **Heath:** The healthier you are the longer you are likely to live. For those in poor or serious ill health, enhanced annuity rates may be available, qualifying them for a higher income.
3. **Money:** The level of income you will receive will also depend on how much money you have in your pension pot. It is worth considering that depending on how long you live, the total pension income paid from your annuity could be less than the amount used to buy it.
4. **Tax:** The income you receive will be taxed in the same way as any other ordinary income. It is important to consider this against any other incomes you may have.

"It is important to understand that once an annuity has been set up you can't change your mind. We always recommend you to speak to a financial adviser who will help you understand your options and help you compare the market"

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Can my health affect the annuity rate I receive?

Yes, your health can have an effect on the annuity you receive. Some annuity providers may offer "enhanced annuities" to individuals who have certain health conditions or lifestyle factors that may reduce their life expectancy. These individuals may be able to receive a higher income than someone who is in good health because the insurance company is taking on more risk by providing an income over a shorter period of time.

Examples of health conditions or lifestyle factors that may qualify for an enhanced annuity include:

- Smoking
- High blood pressure
- Diabetes
- Obesity
- A history of heart disease or cancer

When purchasing an annuity, you may be asked to provide information about your health and lifestyle. This information will be used to determine if you qualify for an enhanced annuity and what rate you will be offered.

It's important to note that not all providers offer enhanced annuities and the criteria for enhanced annuities may vary among providers.

Also, providing incorrect or false information when applying for an enhanced annuity can have serious consequences. That's why it is important to consult with a financial advisor to evaluate whether an enhanced annuity would be a suitable addition to your overall investment portfolio.

Case study:

Mary is a 65-year-old woman* who is nearing retirement and is looking to secure a steady income for her retirement. She has a savings of £150,000. However, Mary is a smoker and has a history of high blood pressure. These factors qualify her for an enhanced annuity.

After consulting with a financial advisor, Mary decides to purchase a single-life annuity with a guaranteed minimum payment period of 10 years. The provider offers her an enhanced rate because of her health status.

The single-life annuity provides Mary with an income of £11,000 per year, which is paid out on a monthly basis. This is higher than the standard rate offered to individuals in good health, due to the enhanced rate offered to her because of her smoking and high blood pressure.

After 10 years, if Mary passes away, the income payments will stop and no lump sum will be paid to her beneficiaries.

* This is an example case study intended for demonstration purposes only.

Choosing a guaranteed minimum payment period

Firstly, a guaranteed income payment period in annuity terms is the length of time you choose to protect a payment to your chosen beneficiary on your death.

When you purchase an annuity, it will provide you with a steady income for the rest of your life. However, if you choose a guaranteed minimum payment period, your income will continue to be paid when you pass away. The guaranteed minimum payment period begins on the start date of your annuity and you can usually choose a period of up to 30 years.

Keep in mind that the maximum age at the end of the period is 100, so if you're over 70, your choice of period will be shorter than 30 years.

If you pass away during the guaranteed minimum payment period, any remaining income payments will go to the person you nominated as a benefiaicary or to your estate. It's important to note that selecting a guaranteed minimum payment period will decrease the amount of income you receive. The longer the period you choose, the lower your income will be.

Case Study

John is a 60-year-old man* who is nearing retirement and is looking to secure a steady income for his retirement. He has a savings of £200,000 and after consulting with a financial advisor, he decides to purchase a single-life annuity with a guaranteed minimum payment period of 10 years.

He also chooses to add a provision for his partner, Jane, to receive an income when he passes away. This is known as a "partnership annuity" option. This will ensure that Jane will continue to receive an income even after John's death, although the income will be lower than what John was receiving.

The single-life annuity provides John with an income of £12,000 per year, which is paid out on a monthly basis. The cost of the guaranteed minimum payment period and partnership annuity option reduces his income slightly, but he is comfortable with this trade-off for the added security it provides for Jane.

After 10 years, if John passes away, Jane will continue to receive an income of £7,500 per year for the rest of her life.

* This is an example case study intended for demonstration purposes only.

Choosing a single or joint life policy

When choosing between a single-life or joint-life annuity, there are several factors to consider.

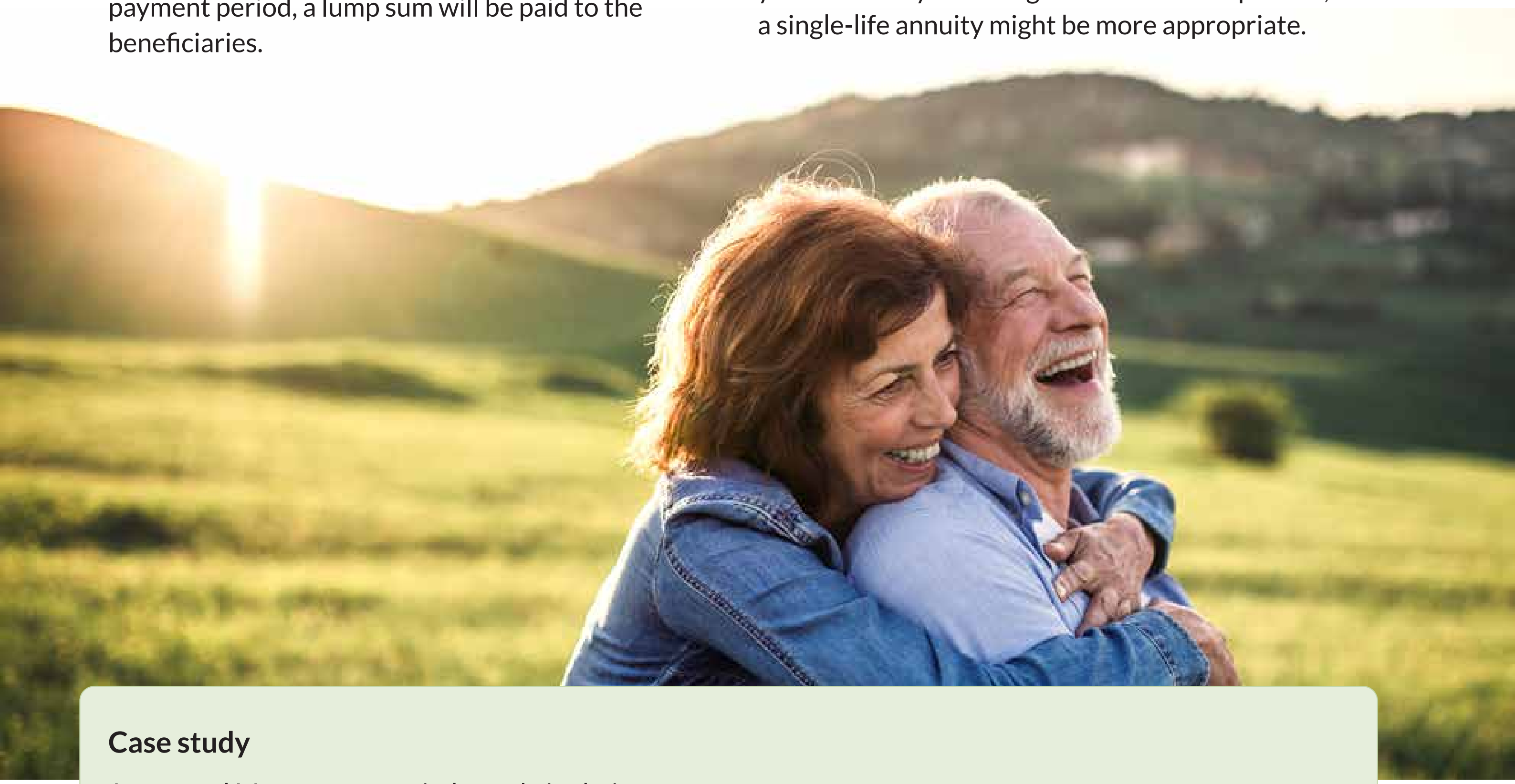
Single-Life Annuity: This type of annuity provides an income for one person, typically the person who purchased the annuity. If the person who purchased the annuity passes away, the income payments will stop and no lump sum will be paid to the beneficiaries.

Joint-Life Annuity: This type of annuity provides an income for two people, typically a married couple. The income payments will continue for the remaining spouse if one of them pass away.
If both pass away within the guaranteed minimum payment period, a lump sum will be paid to the beneficiaries.

When choosing between a single-life or joint-life annuity, it's important to consider the following:

- Your current marital status and whether you plan to get married or remarried in the future
- Your life expectancy and that of your partner
- Your beneficiaries and who you would like to provide for after your death.

Therefore, if you're looking to maximize income, a single-life annuity may be the better option.
In general, if you're married or have a partner, a joint-life annuity can be a good choice because it provides an income for both of you and ensures that your partner will be taken care of in case of your death. If you're single or don't have a partner, a single-life annuity might be more appropriate.



Case study

James and Mary are a married couple in their 60s. They have a combined savings of £250,000 and are looking to secure a steady income for their retirement. After consulting with a financial advisor, they decide to purchase a joint-life annuity.

They choose a level annuity with a guaranteed minimum payment period of 10 years. This means that if either of them pass away within 10 years, the remaining spouse will continue to receive the income payments. The joint-life annuity provides them with an income of £13,500 per year, which is paid out on a monthly basis.

The cost of the guaranteed minimum payment period and inflation-link option reduces their income slightly, but they are comfortable with this trade-off for the added security it provides.

After 10 years, if either of them pass away, the remaining spouse will continue to receive the income payments for the rest of their life. If both pass away within the 10-year guaranteed period, their beneficiaries will receive a lump sum of £225,000, which is the remaining value of their annuity fund after the income payments have been made.

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Other areas to consider

There are a number of factors to consider, all of which will play an important part on the level of your income.

Inflation

Inflation is an another important factor to consider when choosing an annuity as prices increase over time so the buying power of your money is likely to be much lower in the future.

To offset the effect of inflation you can choose to increase your payments year on year. Annual increases in payment will effect the rate or income you receive so we advise that you compare quotes to understand the effect of your decision over time.

Payment frequency

When you purchase an annuity you can choose what payment frequency you wish to receive the payment, you can also choose to be paid in advance or in arrears, your decisions will affect the rate you receive. Your payment will be higher if you chose 'in arrears' over 'in advance'. We always recommend speaking to one of our advisers when deciding which is best for you.

Fluctuating annuity rates

Annuity rates change on a daily basis, on top of your circumstance and the options you choose, interest rates and gilt yields all play a pary in what rates are offed at any particular time.

What happens when you die

The death benefit of an annuity is chosen when you purchase a policy and is often called a guaranteed period. The longer period you guarantee for your money to be handed down on your death, the lower the income will be offered. When speaking to a financial adviser remember to discuss your needs to support others people when you die.

Your options

Each option comes with an associated cost that will impact the initial level of your income. The more options you choose, the greater the impact on your income will be. To help you understand the effect of different options, you can request multiple illustrations from an adviser. This will allow you to compare the impact of different options available.

Increasing annuity payments

Most annuity providers give the option of an increasing annuity, providing a way to keep up with inflation and maintain a consistent standard of living in retirement. Please remember that this will affect the amount of income you receive.

Comparing annuity quotes

It is essential to compare annuity quotes because different annuities can have different features and the income they provide can vary greatly. By comparing quotes from different providers, you can find the annuity that best meets your needs and offers the highest income.

Additionally, you can compare the different options that may be available, like the length of the guarantee, the level of protection period, and how the income is paid out.

We recommend that you speak to one of our advisers to determine which annuity offers the best value for your money. By shopping around and comparing quotes, you can make an informed decision about which annuity is right for you. Choosing the right policy can make a big difference towards your future.

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What to do next...

The information throughout this guide helps to give an understanding of what you need to consider when choosing an annuity. However, everyone has a unique set of circumstances so please speak to one of our advisers to discuss your plans and understand the best way to create your personalised strategy.

When discussing your plans your adviser will:

- **Discuss** – your circumstance to fully understand your needs moving forward
- **Help define your income needs** – especially your essential expenditure, it is common to use guaranteed income to cover the basics
- **Explain the impact of inflation** – and how costs rise over time
- **Discuss the need for Tax Free Cash** – and check whether you need to take any of your pension fund as cash, this could be sensible if the money is used to pay off existing debts
- **Collect your health and lifestyle information** – this can have a big impact on the guaranteed income available to you in retirement
- **Discuss long term care options** – for you or your dependant
- **Discuss leaving a legacy** – is your intention to leave some of your assets to your children or to others? It may also be important to your discuss your dependant's income and how will those who are important to you be catered for after you die
- **Research the market** – and explore the options that will help you achieve aspirations in retirement
- **Produce a suitability advice report** – to suggest a suitable strategy moving forward. The report will include retirement projections, suitable product and investment while identifying any other need to be considered. All of this will be discussed with you in detail so you fully understand the recommendations that have been made

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Nothing contained within the report constitutes as financial advice or a personal recommendation.

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