

# Getting the Best Annuity

## Get a better annuity from Better Retirement

Pension planning is a game of two halves. The first half is about saving into your pension plan and to do this you might have invested in a pension plan through Bestinvest or another company. The second half is about maximising your pension income by arranging the best annuity or investing in a pension drawdown plan.

In order to help clients of Bestinvest get the best annuity from their pension funds when they retire, Bestinvest has teamed up with Better Retirement Group, one of the UK's leading annuity experts, to provide a dedicated annuity broking service.

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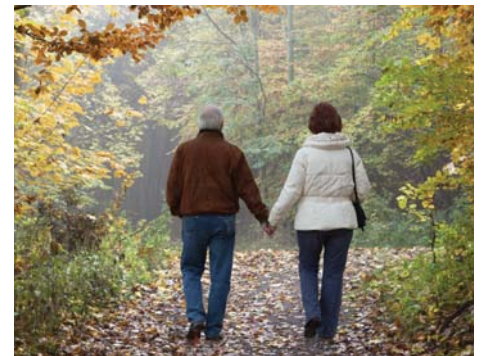
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## Important decisions when you retire

If you have a personal pension or company money purchase pension plan you will have to make one of the most important financial decisions of your life when you retire

because you must either purchase an annuity or invest in a drawdown plan after you have taken your 25% tax free cash sum. ❖



The Better Retirement Group (BRG) is a chartered firm specialising in retirement income planning, annuities and pension drawdown.

The company is run by Tim Eadon who was previously CEO of the Personal Finance Society, the foremost professional body for financial advisers in the UK and Billy Burrows who set up William Burrows Annuities which is now incorporated into BRG.

With over 20 years experience of advising clients about annuities we are recognised as one of the UK's leading annuity specialists.

# Getting the best annuity income

Annuity income differs from company to company depending on their competitive position and choice of options. Annuity rates can vary by up to 20% between the best and worst annuity companies and if you qualify for an enhanced annuity because you smoke, take prescription medication or are in poor health you may qualify for a higher annuity from a specialist annuity company.



## The Open Market Option

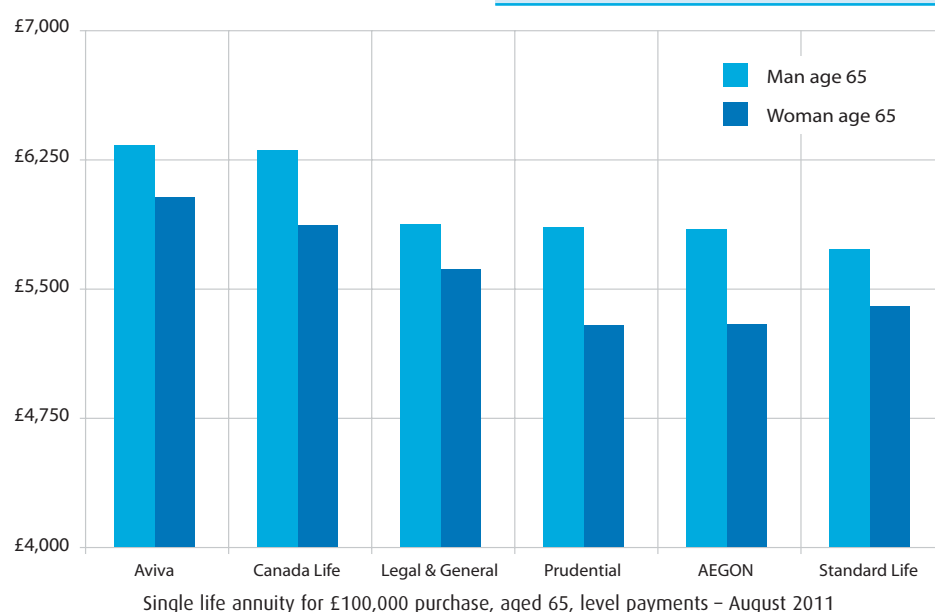
You do not have to take the annuity from the company with which you have accumulated your pension and you should shop around for the best annuity rate. This is called the open market option and pension companies are legally obliged to tell their customers that they have the option to buy their annuity from the company offering the best annuity rate.

There should be no charge for exercising this option but you should make sure that your existing pension company does not offer special terms (guaranteed annuity rates) or will apply an early surrender penalty.

Better Retirement Group offers a free service whereby they will get the best annuity rates for your circumstances and ensure that you will be better off by

arranging your annuity with another company.

You can see a list of the current best buy annuity tables at [www.brgl.co.uk](http://www.brgl.co.uk)



**Example:** With advice from Better Retirement, Peter combines the two pension pots and gets a higher annuity income on the open market:

	Insurance Company	Pension Scheme
Fund value	£ 50,000	£ 50,000
Tax free cash	£ 12,500	£ 12,500
Balance	£ 37,500	£ 37,500
Annuity	£ 2,181	£ 2,146
<b>Total combined annuity</b>	<b>£ 4,327</b>	
	Insurance Company + Pension Scheme =	Combined Fund
Fund value	£ 100,000	
Tax free cash	£ 25,000	
Balance	£ 75,000	
<b>Best Annuity</b>	<b>£ 4,944</b>	
If Peter smokes and is taking medication he will qualify for an enhanced annuity		
<b>Increase</b>	<b>£ 617 p.a.</b>	
<b>Smoker / enhanced annuity</b>	<b>£ 5,938</b>	
<b>Further increase</b>	<b>£ 994</b>	

## What is an Annuity

A guaranteed annuity pays a secure income for the rest of your life, no matter how long that is. When you retire you have to make an important decision about how you convert your accumulated pension capital into pension income payments. For many people the best option is to invest in an annuity after they have taken 25% of the pension pot as a tax free cash sum.

For example, if you have accumulated £100,000 in pension funds at the age of 65, you can take £25,000 and the remaining £75,000 can buy an annuity which would pay £4,944 per annum gross for life as level payments or £3,120 per annum increasing in line with inflation.

There are many important decisions to make about your annuity purchase but the most two important are which company you buy the annuity from and what options you select. ❖

## How is your health?

Standard annuities assume that you are in good health but if you have below average life expectancy you can apply for an enhanced annuity which will pay a higher income at the outset.

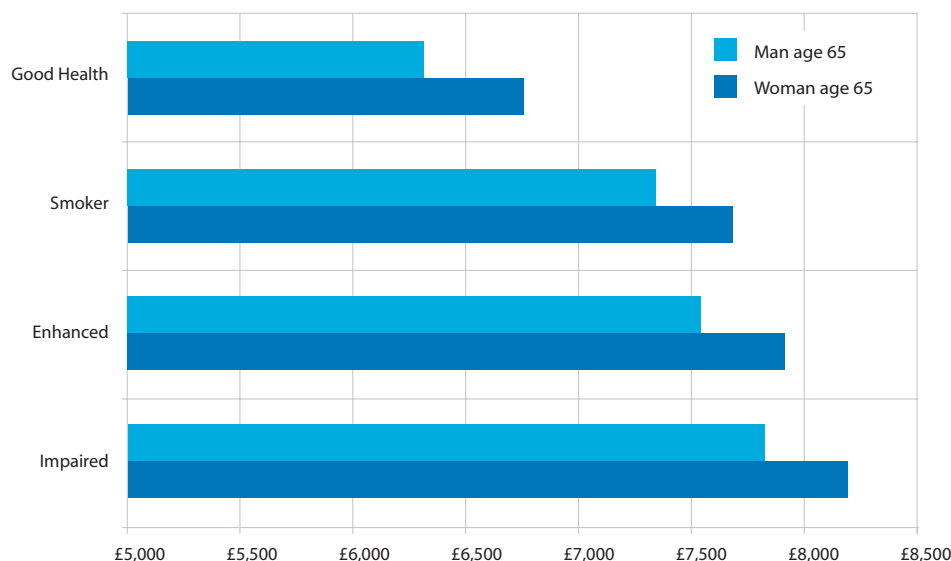
You will probably qualify for an enhanced annuity if you can answer yes to one of the following questions:

- Do you smoke?
- Are you taking prescription medication?
- Have you been to hospital recently for a medical condition?

The amount of extra income you will get depends on the state of your health but generally a smoker can get an increase of up to 15% more and if you have had a heart attack you might get up to 25% more income.

It is very easy to apply for an enhanced annuity. All you have to do is provide us with details of your health and we will

apply on your behalf. There is normally no need for a medical report or for you to visit your doctor. ❖



## Annuity options

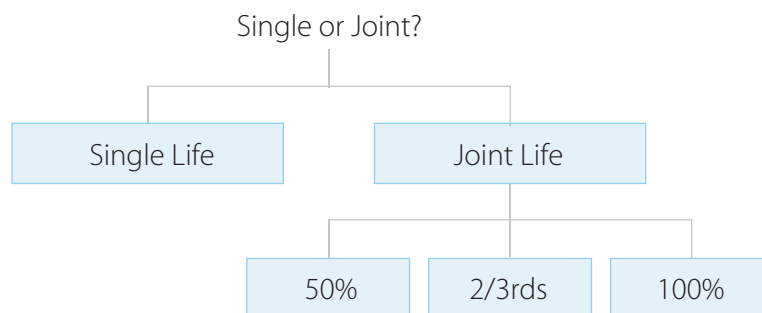
There are many different annuity options but the two most important are the choice between a single or joint life and between a level annuity and an inflation linked annuity.

Although it is tempting to take the higher income it is important to remember that future inflation will erode the spending power of a level annuity.

annuity is paid for a minimum term even if you and your partner die during that period. Annuities can be paid monthly, quarterly, half yearly or annually. ❖

### Single or joint life

A single life annuity pays a high level of income, but stops when you die so if you are married, or in a civil partnership, you can choose to have a joint life annuity which will continue to your partner if you die first. You can choose how much income your partner will get should you predecease them and normal options are shown below:



### Level or increasing

The other important decision is between a level annuity which pays the highest income but will not increase in the future or annuity that pays a lower income but will increase each year in the future.

There are two types of escalating annuities; those that increase with inflation and those that increase by a fixed percentage, e.g. 3% each year. Generally speaking, inflation linked annuities starts 30% - 35% lower than a level annuity and it takes over 10 years, depending on age, to catch up with the level annuity.



### Other options

There are other options including a guaranteed period and choice of payment modes. A guaranteed period ensures the

Please visit [www.brgl.co.uk](http://www.brgl.co.uk) for more information.

# Investment linked Annuities

Although most annuities pay a guaranteed income for life, there are annuities where future income payments will rise or fall depending on future investment returns. These are called investment linked or flexible annuities.

The rationale for investment backed annuities is that an annuity is a long term policy which can often be paid for 20 / 30 years or more and therefore annuities should be invested with the long term in

mind. Fixed interest funds are long term but over time inflation will reduce the spending power of a fixed income whereas stock market investments have potential for growth which can result in a higher income



to help to offset the effects of inflation. However stock market investments can be risky and volatile and the future income could be less rather than more so these types of annuities are only for those who can take a risk.

Insurance companies such as Prudential and MGM offer investment backed annuities and more details are can be found on our website.

Fixed Term annuities are another type of annuity where you are paid a guaranteed income for a fixed period, say 5 or 10 years and at the end of the term you will receive a guaranteed maturity amount which is typically between 80% and 85% of the initial sum invested.

One of the advantages is that if annuity rates increase or your health deteriorates, you may be able to get a higher annuity or enhanced annuity. ❖

# Pension Drawdown

Pension Drawdown allows you to make income withdrawals direct from your pension fund instead of buying an annuity.

If you invest in a drawdown plan you will have the flexibility to change your income from year to year subject to a maximum limit. You will also have control over your investments as you can invest in a wide range of assets. For many the main advantage of drawdown is the choice of death benefits including the option for a lump sum death benefit (less 55% tax).

New rules for drawdown came into force on 6th April 2011 formally ending the effective compulsion to buy annuities by

age 75 and created two new types of Drawdown

Flexible Drawdown which means that if you can meet the Minimum Income Requirements (MIR) of £ 20,000 per annum of secured income you will be allowed to take unlimited amounts of income from your pension funds but this will be taxed at your marginal rate.

Capped Drawdown will be available to everybody and allows you to draw an

income from your pension fund for as long as you like with no age restrictions. The maximum income will be 100% of the specially produced rates from the Government Actuaries Department (GAD).

The basic rules for drawdown are simple, but it is a complex option because of the risks. When you buy an annuity you give up control of your pension fund in return for a secure income.

With drawdown you maintain control of the pension fund but your income will not be secure and the amount of your future income will depend on investment returns. ❖

## Next Step

Purchasing an annuity or investing in a pension drawdown plan will be one of the most important financial decisions that you will ever have to make so it is important that you speak to a specialist adviser.

If you would like a free annuity/drawdown illustration or to discuss any aspect of your annuity/drawdown options please contact either your Bestinvest consultant or Better Retirement.

Please contact us at:

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