

# Five top tips to maximise your income at retirement

**By Billy Burrows**

During August 2011 we experienced the largest fall in annuity rates in a single month since we began keeping records over 20 years ago. This was coupled with volatility in global equity markets not seen since the 2008 credit crunch. Understandably this has left many retired, or soon to retire investors in a difficult position; do they purchase their annuity now or wait in the hope that rates will increase.

Although we cannot second guess the financial markets what we can give you are our top 5 tips about how to maximise your income when there is so much uncertainty in the world. Our top tips are:

1. Understand the basics of pension planning
2. Review your investment strategy in run up to retirement
3. Monitor annuity trends
4. Consider alternatives to guaranteed annuities
5. Appoint a specialist annuity firm to help you get the best annuity

## 1 Understand the basics of pension planning

At first sight pensions may seem complex and difficult to understand but if you spend a few minutes understanding the basics you will realise that pensions are simpler to understand than you think. As you will be making one of the most important financial decisions of your life when you retire it is important that you understand the key issues.

If you have a personal pension or company money purchase scheme your pension will have two phases. The first phase is where you and perhaps your employer pay money into your pension pot. The second phase is where you convert the money saved up in the first phase into a pension income for life.

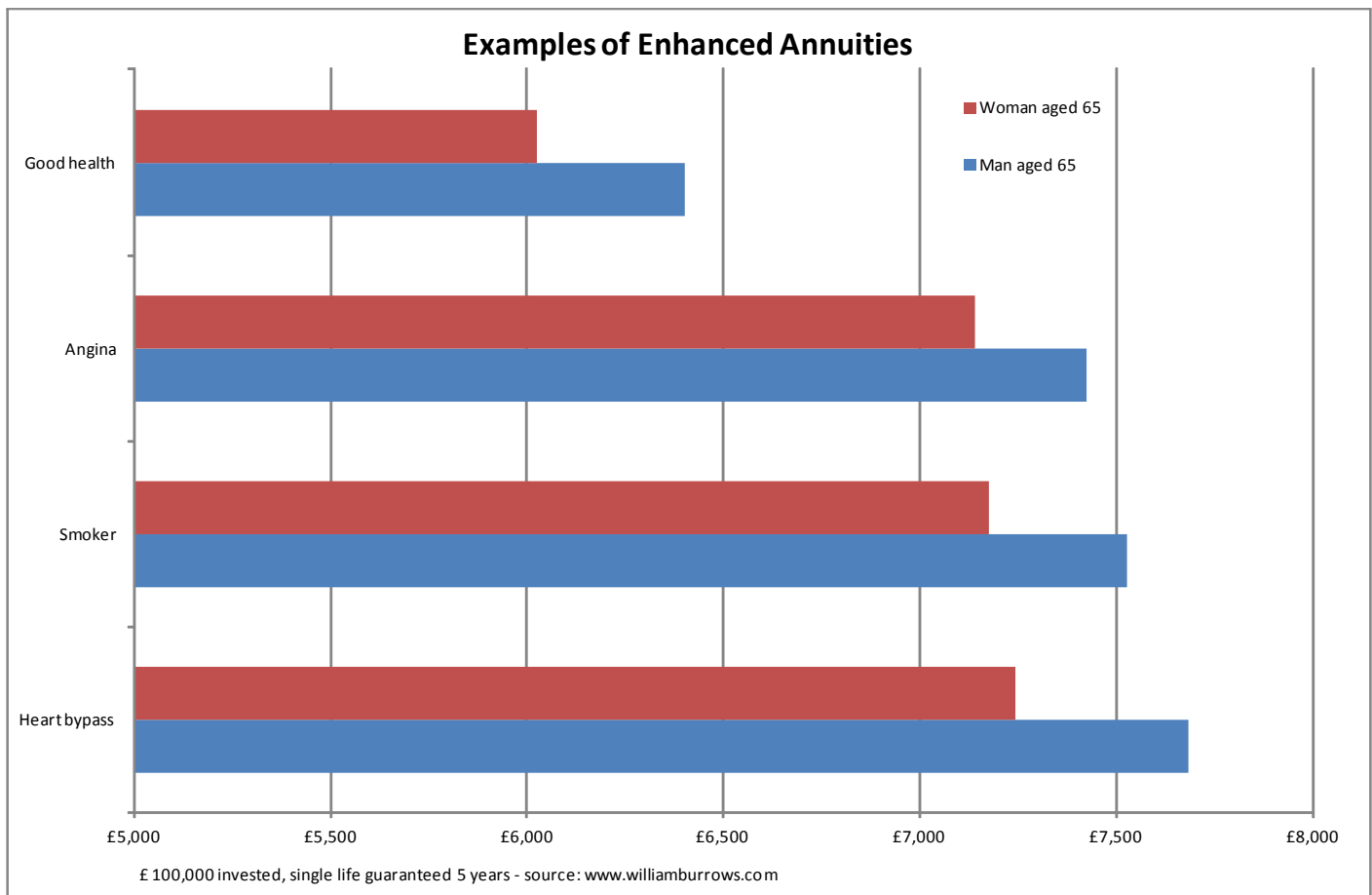
This is normally done by investing in an annuity which pays you a guaranteed income for the rest of your life. There are other options such as pension drawdown which we will explain later. Both of these options allow you to take a tax free cash sum of up to 25% of the pension pot.

Annuity income differs from each 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.

### Tip

Learn as much as you can about the basics of pensions and annuities, especially about the advantages of shopping around for the best annuity. The more you know, the better decisions you will make.

<b>Action</b>	Request our brief guide to annuities and drawdown our download it from our websites <a href="http://www.brql.co.uk">www.brql.co.uk</a> or <a href="http://www.williamburrows.com">www.williamburrows.com</a>
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## 2 Review your investment strategy in run up to retirement

The amount of income you will be able to get from your pension is a product of the size of your pension fund and the annuity rate available when you retire. Therefore it is vitally important that you aim to maximise the size of your pension pot without taking undue risk.

There are two important things you should do as you approach retirement:

- i) First you should make sure that you are not paying excessive fees or charges for the running of your pension plan. This is particularly important in the early and mid years of your pension planning so it is never too early to take expert advice about which type of pension plan to invest in.
- ii) Secondly you should ensure that you are invested in the correct funds and have an appropriate investment strategy reflecting your risk profile. This is especially important as you approach retirement because if you are mainly invested in equities and there is a stock market crash just before you retire your pension fund may fall in value.

### Tip

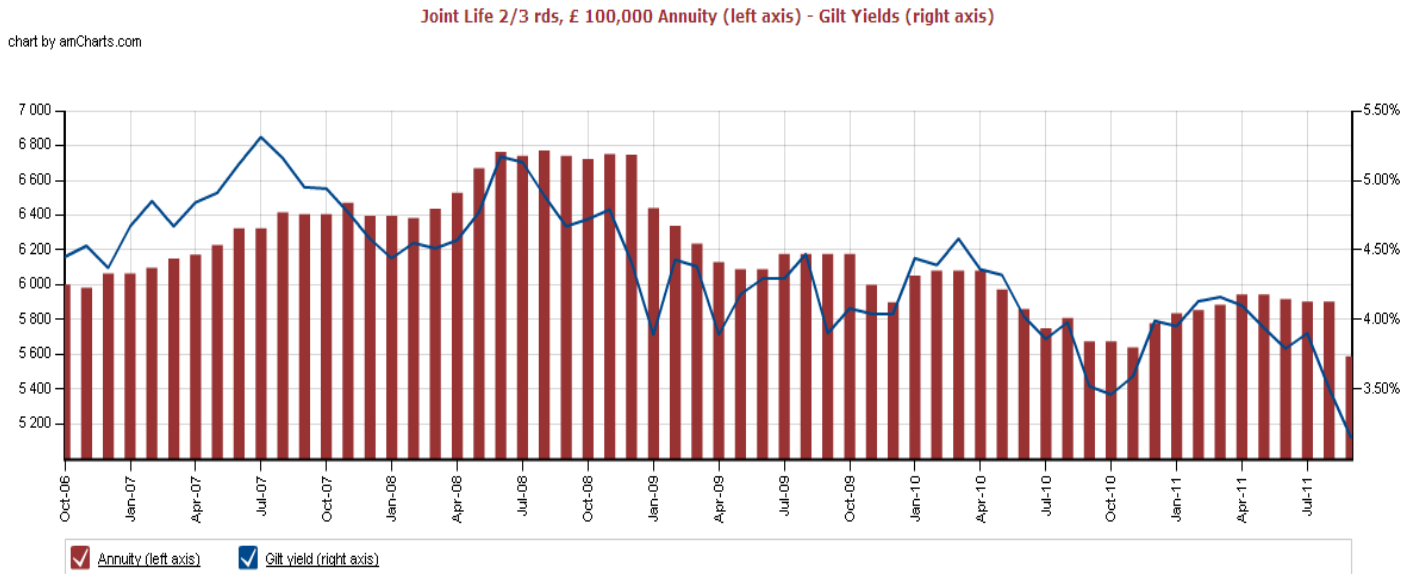
As you approach retirement you need to focus on the important issues and keep one eye on where your pensions are invested and one eye on annuities.

### Action

Contact Better Retirement for a review of your pension plans and investment strategy

### 3 Monitor annuity trends

Annuity rates are calculated with reference to the yields on long term gilts and corporate bonds. As these yields fall, annuity rates fall as well. The graph below shows how annuity rates and gilt yields have moved over the last few years.



\* Male age 65, Female 60, £100,000 purchase, joint life 2/3rds, guaranteed 5 years and level payments

Annuities are also priced on other factors such as longevity and the cost of capital. Both of these are exerting downward pressure on annuities because life expectancy is increasing and new rules called Solvency II come into effect in 2012 requiring insurance companies to reserve more capital to back their annuity business.

We think the most intelligent comment about future annuity trends is to recognise that long term interest rates may rise in the coming months but the full benefit of any rise may not be passed on to investors as insurance companies are slow to increase their rates and may hold a margin back to allow for ever increasing life expectancy and the increased risk of default in the corporate bond market.

#### Tip

We cannot predict the level of future annuities so our advice is to take as long as you need to decide what type of annuity is most appropriate for your circumstances. However, when you have made your decision it may be better to purchase an annuity sooner rather than later because those who defer their annuity purchase in the hope that they will increase are mostly disappointed.

In addition, if an annuity purchase is deferred you will miss out on immediate payments and you may not recover this lost income in the future even if annuity rates rise.

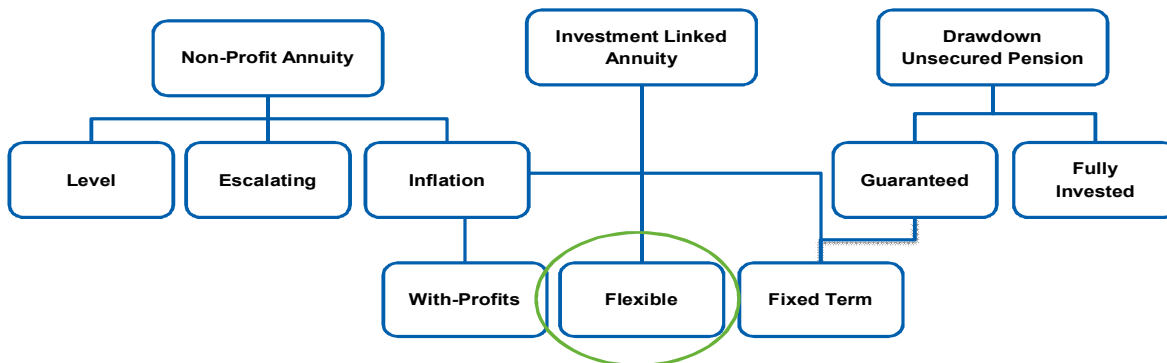
#### Action

Monitor annuity rates with our unique charts and regular annuity updates at [www.williamburrows.com](http://www.williamburrows.com)

## 4 Consider alternatives to guaranteed annuities

At times of low annuity rates it is more important than ever to consider the alternatives to guaranteed annuities. These have many advantages, the most important being that they pay a guaranteed income for the rest of your (and your partner's) life. However there are some disadvantages such as you will not benefit if interest rates rise in the future or if your circumstances change.

One of the biggest drawbacks of guaranteed annuities is that they do not provide protection against future inflation unless you choose an escalating annuity where the income starts up to 40% lower. The alternatives to guaranteed annuities fall into two camps; Flexible Annuities and Pension Drawdown, and the graphic below shows the various options.



The advantages of these options include:

- ✓ Pays an income for life (flexible annuity only)
  - Exchange of capital in return for income for life
  - Incorporates principle of 'mortality cross subsidy'
- ✓ Potential for future income growth
  - Future income based on investment returns
- ✓ Income flexibility
  - Option to change to income in future years
- ✓ Investment Choice and Flexibility
  - Choice of funds and option to switch funds

The disadvantages include:

- ✓ Risk that future income could be lower than expected
  - If future investment returns are lower than expected the level of income will reduce

### Tip

Don't forget that you do not have to put all your eggs in one basket and you can invest in more than one type of annuity. For example you can invest part in a guaranteed and part in a flexible annuity.

### Action

Contact Better Retirement for more information about flexible options and flexible annuities quotes

## 5 Appoint a specialist annuity firm to help you get the best annuity

There are many firms and organisations offering to get you the best annuity but few have the experience and expertise to ensure that you get the best annuity appropriate for your circumstances. A specialist annuity broker will research the market to make sure that you get the best terms for your annuity and will consider all of the options. Before you buy an annuity you should check that the firm you are using can do all of the following:

- ✓ Apply for enhanced annuities
  - If you are unwell or taking prescription medication you should qualify for an enhanced annuity
- ✓ Get annuities from all the major annuity companies – i.e. is fully independent
  - Not restricted to a limited panel of annuity providers
- ✓ Check the details of your pension plans to ensure there are no special terms
  - e.g. guaranteed annuity rates or early termination charges
- ✓ Is qualified to give advice
  - Even if you start off wanting no advice you need a firm that can give you advice if you need it. In many cases the cost of arranging annuity with advice is the same (or even lower) than the cost of using a no advice broker
- ✓ Offer choice of fees or commissions
  - Whilst it is probably more cost effective to arrange smaller annuities with commission, it is to your advantage to negotiate a fee instead of commissions for larger annuity purchases

### Tip

Better Retirement and William Burrows Annuities are recognised as one of the UK's leading annuity specialists and therefore are well placed to arrange your annuity on the best possible terms.

<b>Action</b>	Contact Better Retirement for the best open market annuity quotations
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### The next step

If you would like any further information about drawdown or annuities or if you would like to obtain a quotations, please call us on **020 7636 7278** or visit [www.brql.co.uk](http://www.brql.co.uk). You can also visit [www.williamburrows.com](http://www.williamburrows.com).

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