ANNUITY GUIDE

A retirement income you can rely on for life

Fidelity INTERNATIONAL

Retirement is a time of life to look forward to, especially now you have the freedom to spend your retirement savings as you choose. The priority for most individuals is to use their savings to generate an income. One option you have is to use your pension fund (in full or in part) to purchase an annuity, a product which provides you with a guaranteed income for the rest of your life.

Here we explain what annuities are and why they might be a good idea. We also explain their disadvantages. It's really important to consider all the pros and cons carefully prior to buying an annuity.

Fidelity's retirement specialists can provide advice or guidance to help with this decision. Simply call them on **0800 368 6873** or visit **fidelity.co.uk/annuity** for a free, no-obligation annuity quote.

The government offers a free and impartial guidance service to help you understand your options at retirement. This is available via the web, telephone or face-to-face through the Pension Wise service which is now part of MoneyHelper; the easy way to get free help for all your pension and money choices. You can find out more by going to **moneyhelper.org.uk/pensionwise** or calling them on **0800 011 3797**.

Important information

The value of investments and the income from them can go down as well as up and you may get back less than you invested. Tax treatment depends on individual circumstances and all tax rules may change in the future.

Once you have bought an annuity and your initial Cancellation Period has expired, you will not normally be able to change your mind or alter your policy in any way.

Always tell your annuity provider information about your health and lifestyle, as this can affect the income you'll receive.

You should shop around to find a product and provider that is best for you.

Unless you choose one of the death benefits options, the income payable from your annuity will stop, and no further benefit will be payable.

This information is not a personal recommendation for any particular product, service or course of action. Pension and retirement planning can be complex, so if you are unsure about the suitability of a pension investment, retirement service or any action you need to take, you should speak to an authorised financial adviser of your choice.

What is an annuity?

An annuity pays you a guaranteed income for the rest of your life. The exact amount you receive depends on a number of factors. These include:

- Your age – the older you are, the higher the annuity rate will be
- Your health – if you are in poor health you should receive a higher rate
- The type of annuity you buy (we cover the options in more detail over the next two pages)
- Where you buy the annuity from – some insurance companies offer better rates than others. Therefore, it's very important to shop around and we're here to help you find the best deal.

An annuity is purchased with your pension savings, although you don't have to spend all of your savings when you buy one. The income paid to you is taxable.

Can I take a tax-free lump sum before purchasing an annuity?

Yes, you can normally take up to 25% of your pension as a tax-free cash sum prior to buying an annuity (please read our 'Taking Cash' factsheet for more on this option). You can invest or spend this amount as you wish.

Why might an annuity be a good idea?

As they pay a secure income for the rest of your life, annuities can be a good choice if you are looking for security and peace of mind. We are living longer today, with around 1 in 10 males aged 65 expected to live to 96, and 1 in 10 females aged 65 expected to live to 98[1]. Having an annuity ensures your income won't ever run out. Another advantage is you don't have to manage your pension income on an ongoing basis as the income is simply paid into your bank account each month in the same way your earnings would have. Annuities are also fully protected by the Financial Services Compensation Scheme. This means that if anything should happen to the company you bought your annuity from, your pension income will not be affected – you will continue to receive 100% of your income.

It's also worth remembering you don't have to use all your savings on just one option. You could, for instance, use some of your savings to buy an annuity which covers your day-to-day living expenses. The remainder of your pension could then be used to fund optional items like holidays, eating out and replacing the car every few years.

What types of annuity are there?

There are a number of different types of annuities and we've listed the main ones below. However, selecting the right one for you and your family is very important and before you make a decision we recommend you shop around to find the best deal for you, as you would with any other purchase. Your preferred pension provider may not offer the option you want or other providers may be able to offer you a better deal, so it is worth comparing what each provider can offer.

The MoneyHelper website provides more information on shopping around: **moneyhelper.org.uk**

1 Source: ONS, National life tables, January 2022.

Alternatively, Fidelity has a team of retirement specialists who can talk through all the options and help you find the best deal. You can call them on **0800 368 6873**.

- **Flat rate or 'level' annuities** – these provide you with an income that will remain fixed (each payment is the same). However, this does mean your income will be affected by inflation (you'll be able to buy less with the same income as you get older.)
- **Increasing annuities** – these provide you with an income that will increase over time to help keep up with the increasing cost of goods and services. Your income will start at a lower level and you can choose whether your income should increase by a fixed amount each year, or directly in relation to the level of inflation.
- **Single life annuities** – these provide an income just for you. No provision is made for your spouse or dependants. Payments usually stop on your death, unless you have chosen to add extra features to your annuity.
- **Joint life annuities** – these provide an ongoing income for a nominated dependant should you die before them (like a spouse or civil partner). They provide a lower income initially but payments will continue to your dependant for the rest of their life.
- **Impaired or enhanced annuities** – these tend to provide a higher amount of income on the basis that you are suffering from a medical condition and your life is expected to be shorter and so the income will not be paying out for as long. They are still guaranteed to pay you an income for the rest of your life and you may qualify even if you have a relatively minor condition. It's surprising how many people miss out on higher rates simply because they think a life-threatening condition is required to qualify. This is not the case and we strongly recommend you complete a medical questionnaire whenever you buy an annuity.
- **Investment-linked annuities** – these provide you with an income linked to the performance of investments managed by the annuity provider (you will typically be able to choose from a range of investment approaches). The starting income will depend on the anticipated returns of the investments. However, your future income may rise if they perform better than expected, although the income may also fall if the investments perform poorly. Reassuringly, the annuity will pay you a guaranteed minimum income, although this is likely to be less than for a level annuity.
- **Fixed term annuities** – These are different from other annuities because they do not guarantee to pay you an income for the rest of your life. Instead, they pay you a fixed income for a set period (this could be for as little as three or as long as 25 years). A lump sum may be returned to you at the end of the period depending on the income amount and number of years selected. The advantage of a fixed term annuity is that you can reassess your options at a later stage. At that point you will be older or may have health problems, for instance, which could mean you'll be able to secure a higher income from the sum that is returned to you (although this isn't guaranteed). They can also be useful if you wish to fill a specific income gap you may have over a set period of time. For instance, if you need a certain level of income before your state pension becomes available.

Your other options when buying an annuity

- **Guarantee Periods** – These allow you to specify a minimum period that your income will be paid for, even if you die within this time.
- **Income Payment Options** – You can normally specify how often you want to receive your income (eg monthly or annually) and whether you would like to receive your income at the beginning of this period (in advance), or at the end of it (in arrears).

What level of income will I receive?

This will depend on many different factors, most of which we have described earlier. However, to give you an idea of how the various options can affect your income, we've shown some examples below. This is based on a healthy 60-year old Londoner with pension savings of £100,000 (after the tax-free cash has been taken). The annuity that pays the highest initial income is a single life policy where no increases are made each year and payments are made annually in arrears.

Option	Yearly income
Single life annuity with no increases or guaranteed period, paid annually in arrears	£6,747
Single life annuity with no increases or guaranteed period, paid monthly in arrears	£6,531
Single life annuity with no increases, paid monthly in arrears, including a 30-year guaranteed period	£5,929
Single life annuity increasing by 3% each year, with no guaranteed period, paid monthly in arrears	£4,468
Single life annuity with annual increases in line with inflation, with no guarantee period, paid monthly in arrears	£3,801
Annuity paid monthly in arrears with a 100% spouse's pension for a healthy 57- year old spouse, no increases or guaranteed period	£5,729

This table has been provided by iPipeline Ltd. It is an example only and actual rates will vary (produced 7 July 2023).

What are the potential drawbacks?

An annuity isn't right for everyone. There are a number of issues to consider and so please give us a call if you need to talk these through:

- If you die relatively early, the income paid to you may be less than the cost of the annuity.
- Annuities are not flexible – you can't usually switch to a different contract or provider once you've bought one.
- Unless you buy an increasing annuity, your income will remain the same each year and so it will be worth less in real terms as the years go by due to inflation.
- Whilst your income is guaranteed, you won't benefit from improved economic conditions or future stock market growth (unless you buy an investment-linked annuity).
- Unless you buy a joint life annuity or include a guarantee period, all income from an annuity will normally stop when you die, and nothing further will be payable.

Some things you should keep in mind

Before you buy an annuity, it's worth remembering some key points:

- Make sure you get the best deal – never simply accept the annuity offered to you by your pension provider without shopping around for a higher rate. Talk to us about what deals are available in the market or visit the MoneyHelper website for more information on shopping around.
- Some older pension policies may have valuable options such as 'guaranteed annuity rates'. Shopping around for the best annuity rates is always a good idea but you should check your existing policy before making any decision.
- If you have any health problems – or for example, are taking regular medication – make sure you declare this to your insurer or adviser before you make your purchase. You may be entitled to an enhanced annuity which could provide a higher income.
- Think about the features you want built into your contract – do you want it to pay a spouse's pension, for instance, or offer some protection against inflation?
- Once you have purchased an annuity and your initial cancellation period has expired, you will not normally be allowed to change your mind or change your policy in any way.
- Some advisers only recommend annuities from a restricted range. Fidelity's retirement service will look across the whole market when obtaining annuity quotes. It's worth remembering that annuity providers change their rates and conditions all the time. The top provider today may not pay the best rate tomorrow.

Here to help

Whether you're approaching retirement or already there, Fidelity's retirement service is here to help you through the many important decisions you'll need to make. They can support you with general guidance or give you personalised advice.

Talking through all of the options open to you (pension drawdown, an annuity, tax-free cash or a combination of any of these) can help you make the best choices for you and your family. If an annuity is right for you, Fidelity's retirement service can draw upon over 20 years' experience to find the very best rates.

If you would like someone to take a detailed look at your financial position and circumstances, to weigh up all the options for you and make a recommendation as to the best way to arrange your pension income, you can call **0800 368 6873**. The team will provide you with a full breakdown of all our products, services and charges.

READY TO DISCUSS ANNUITIES?

Have a chat with our retirement specialists today **on 0800 368 6873**

Guidance from the government: Pension Wise

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