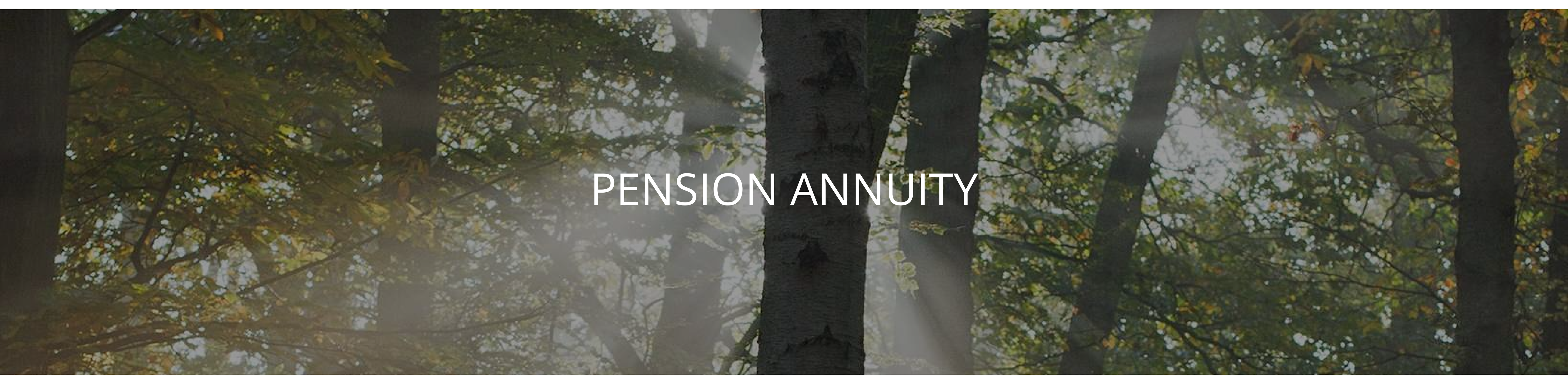

What is it?

A lifetime annuity pays a guaranteed income for your life from the funds you have built up in your pension plan. Your annuity provider will pay you a regular income taxed in the same way as earnings. The amount of income payable is dependent on your age and health, the size of your pension fund, economic factors, the type of annuity and the options you select. You should also be aware that once you have purchased an annuity you cannot cash it in or make changes to your selected options.

Annuity options include:

Single-life or joint-life

A joint life last survivor annuity pays out until the second life dies. It is possible for the annuity to continue at the same level to a survivor but most couples elect for a survivor's income of between 1/3rd and 2/3rds of the original amount. It is not necessary for a couple to be husband and wife and any person of either sex may be eligible for a survivor's pension, although it may be necessary in such circumstances to show financial dependency (the rules on who can be paid a survivor's pension were relaxed from 6 April 2015 although annuity providers will have their own restrictions in place). With some pension schemes a spouse's pension must be provided. The higher the level of survivor's pension included, the lower the starting income will be.

Frequency of Income

You may select at the outset how often you want to receive your income payments. Most people choose monthly, but you can be paid quarterly, half-yearly or annually.

Income paid in advance or in arrears

Payments can be made either in advance or arrears. If you opt for monthly income and purchase your annuity on 1 January and you receive your payment on that day, you are being paid in advance. If your first payment is not made until 1 February, you are being paid in arrears. Payments made annually in arrears would give the highest income figure but the first payment would not be received until a year after annuity purchase.

With or without proportion

When you die, an annuity with proportion will pay a proportionate amount to cover the period from the last payment until the date of death. This is most valuable when income payments are made on an annual basis. This option is only available for payments made in arrears. Without proportion represents the cheaper option.

Level, escalating or decreasing

A level annuity pays the same amount of income year after year. It pays a higher income compared to the initial starting income available under an escalating annuity, which will take a number of years to catch up and exceed a level annuity. An escalating annuity, on the other hand, is designed to increase each year. The greater the level of escalation chosen, the lower the initial income will be. It is possible to select a fixed rate of increase each year normally in the range of 3% to 8.5%. Alternatively, you can choose to link increases to reflect changes in the Retail Prices Index (RPI) - however, your income is not guaranteed to increase each year as the RPI may not rise and if it did fall, so might your income. Some annuities arising from occupational pension schemes can also escalate by Limited Price Indexation (LPI). LPI means your income increases each year in line with the RPI but only up to a maximum of 5% or 2.5% depending when the pension was earned. It is also now possible to purchase an annuity that has the facility to be decreased.

A guarantee period

If you select a guarantee period and you die within the period chosen, payments will continue for the balance of time remaining. Normally the guarantee period will be either 5 or 10 years although providers are free to offer their own choice of guarantee periods as there is no longer a maximum period set by the government. Remaining instalments would be paid as an income to the nominated beneficiary and would be tax free if you die before age 75 and subject to income tax at the beneficiary's marginal rate(s) if you die after age 75. The longer the guarantee period, the more costly the option is.

Annuity protection lump sum death benefit

This option allows for a return on death equal to the difference between the cost of annuity purchase and the gross income payments received. If you die before age 75 the payment to your beneficiaries will be tax free and if you die aged 75 or over it will be taxed at the beneficiary's own income tax rate(s).

Eligibility

- You must be aged 55 (or 57 from 2028), or over, or, if younger, meet ill-health conditions
- The annuity must be purchased using funds from your uncrystallised rights held in a money purchase pension or from drawdown funds

Some annuity providers offer annuities which pay you a higher than normal income if you have a medical condition(s) which can affect your normal life expectancy. These are called impaired life annuities.

An enhanced annuity may be available if you smoke regularly, are overweight, if you have followed a particular type of occupation or live in certain parts of the country.

Main features of annuities

The main features of a lifetime annuity are:

Changes from 6 April 2024	If you have accessed a pension plan of any type before 6 April 2024 and might benefit from increasing your tax free lump sum entitlement through obtaining a Transitional Tax-Free Amount Certificate (TTFAC), then if you take a Pension Commencement Lump Sum (PCLS or tax free cash sum) or Uncrystallised Funds Pension Lump Sum (UFPLS) on or after 6 April 2024 before obtaining a TTFAC you will have lost the chance to do so. This may mean a lower entitlement to tax free lump sums during your lifetime or for your beneficiaries if you should die before age 75 than might have been the case if you had obtained a TTFAC.
Age and health	Annuity rates are calculated initially on age, so the older you are when you purchase an annuity, the higher the annuity will be. A higher than normal annuity can be purchased if you have a medical condition or qualify for an enhanced annuity as described above.
Investment risk	The income will not keep pace with inflation (unless the annuity is set up to increase each year and the increase rate matches or exceeds inflation). There is no investment risk but you should be aware that you will not benefit from future growth on your pension fund.
Other risks	In the event of death, depending upon the type of annuity you have purchased, benefits to your beneficiaries could be lower than those enjoyed under some of the other options available to you and briefly explained in this guide. The benefits may cease on death. Some pensions carry guaranteed annuity rates that you only be entitled to if you take your pension at a particular time and in a prescribed way. Once purchased, changes to the contract cannot be made. For example, it will not be possible to amend the basis chosen, the provider selected or the level of income selected at onset. There is no surrender value at any time.
Flexibility	You will be able to access your tax free cash lump sum immediately, to spend or invest as you wish. You receive a guaranteed level of gross income for life. The level of income is fixed at outset based on the available annuity rates and cannot be changed (except for any regular increases or decreases chosen). If you have a partner or dependants you wish to provide for on your death, you must make this election at outset and it cannot be changed.
Taxation	You can usually take up to 25% of your pension fund as a tax free lump sum. Your annuity will be taxed at your marginal rate(s) of tax, so if you are a non- tax payer you may receive some or all of your annuity tax free. The provider of your annuity will make your payment through the PAYE system and you should be aware that if they do not hold your correct tax code, an emergency code will be used and you may need to reclaim or pay additional tax through your self-assessment tax return or by way of a separate claim. All statements concerning the tax treatment of products and their benefits are based on our understanding of current tax law and HM Revenue and Customs' practice. Levels and bases of tax relief are subject to change.
Transfers & withdrawals	It is not usually possible to transfer your annuity once in payment. You receive a guaranteed level of gross income for life and will be taxed on this at your marginal rate(s). It is not usually possible to withdraw additional sums from your annuity. However some annuity products may be available that will allow further amounts to be withdrawn – subject to the terms and conditions defined at outset.
Availability	There are many annuity providers currently in the market and you need to ensure that you check the rates that are available as these will vary from provider to provider.
Long term care	Your pension income will be taken into account should you require care in the future.
Treatment after death	Your spouse/dependants/beneficiaries can enjoy a guaranteed level of gross income, in the event of your death (if this option is selected at outset). For survivors' annuities, the income will be tax free if you were to die before age 75 and taxed on the recipient at their marginal tax rate(s) if you die after age 75. Your pension can be payable for a guaranteed minimum period of time (e.g. 5 or 10 years). You have the option to include annuity protection – your beneficiaries will receive a lump sum on your death equal to the difference between the amount you paid to purchase the annuity and the gross annuity payments you had received up to your death (the payment will be tax free on death before 75 and on death after 75 will be taxed at the recipient's marginal income tax rate(s)).
Type of charges	An adviser charge is usually deducted by the annuity provider before the lifetime annuity is purchased, there are no ongoing product charges (the provider charges are accounted for within the annuity rate offered).
Future planning issues	If you decide to move abroad after retirement, you can arrange to have your pension paid to an overseas bank account if you wish to. Further tax-relievable pension contributions may be made before age 75. Tax relievable contributions are limited to 100% of your earnings (or £3,600 if greater). In addition, if contributions exceed the annual allowance of £60,000 a tax charge will apply. If you have accessed any money purchase pension flexibly (which includes taking an income from a flexi-access drawdown pension plan, taking an uncrystallised funds pension lump sum (UFPLS) or receiving a flexible annuity payment (from an annuity that can decrease)), your future tax efficient money purchase pension contributions will be limited to the money purchase annual allowance of £10,000.