

# “Annuity Options Explained” v2.2



## AW Financial Management LLP

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When you buy your Pension Annuity, you will have a number of options. The annuity options you choose will have a bearing on your starting level of income.

### How do you want your income paid?

annually - 1 instalment  
half yearly - 2 instalments each year, every 6 months  
quarterly - 4 installments each year, every 3 months  
monthly - 12 monthly instalments

Annually in arrears is the cheapest option and annually in advance is the most costly but most people will want their income paid monthly and most would probably seek in advance.

### Do you want your income to remain Fixed or to increase each year?

You can choose to either fix your pension income at its starting level or have it increase each year. Increases may either be by a fixed percentage of 3% or 5% each year or in line with inflation (based on the Retail Prices Index or Limited Price Inflation).

A fixed income will have a higher starting level than an income that increases, but will have reduced buying power in the future, as inflation starts to take effect.

The larger the annual increases requested, the lower your starting level of income will be.

*The remaining options relate to optional death benefits that can be included:*

### Do you want a final partial income installment to be paid after you die?

This annuity option is only available when you choose to receive your income in arrears. You can opt for a final pension payment to be made for the period between your last instalment and your death ('with proportion'). 'Without proportion' would mean no final payment will be made. Without proportion is the cheaper of the two options but the difference between the two would usually be very small.

### Would you like to add a guarantee period?

Your annuity will pay you a pension income for the rest of your life but income payments will stop when you die (unless you have built in a spouses pension - see below).

You can however arrange for income payments to continue for a period of 5 to 30 years from your annuity start date. If you died during the initial guarantee period therefore, your income will continue until the end of the guaranteed payment period. The longer the guarantee period the more costly this annuity option is, especially for older annuitants.

### Do you want to provide an income for your partner if you die before them?

You can choose for your partner (spouse, registered civil partner or financially dependent partner) to continue to receive a percentage of your pension income after you die. The larger the percentage the more costly this option is. An unmarried partner will need to prove they were financially dependent on you at the time of your death. Your dependant's pension will continue for the rest of their life.

With George Osborne's new pension death tax rules coming into play from April 2016, these dependent's pensions will be tax free if the purchaser of the annuity dies before the age 75. If death occurs after the age of 75 then the payments will be taxed at the dependent's marginal rate of tax.





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### **Do you want your guaranteed payment period and your partner's pension payments to "overlap"?**

If you die during your guaranteed payment period and you choose the 'with overlap' option, then your partner's pension payments will start whilst the remainder of your guaranteed payments are still being paid.

If you choose the 'without overlap' option your partner will have to wait until the end of your guarantee period before they start receiving their pension.

'Without overlap' is a cheaper option than 'with overlap'.

### **Is your dependant's pension for a named partner?**

If you're married or in a registered civil partnership, you can decide whether you want a pension paid to your current partner (named); or paid to your partner at the time of your death (any).

Named is cheaper but if you choose this option and you re-marry, for example, your partner at the time of your death (if different) will not be entitled to a dependant's pension.

If you're not married or in a registered civil partnership when you buy your annuity and you want to provide benefits for your partner when you die, you must name them on your application.

### **Other Issues**

You will almost certainly have the option of shopping around for your annuity. This is called the Open Market Option. This will help you to get the very best income from the pension fund that you have accumulated.

Health issues can also impact the annuity rate whereby ill-health issues or other lifestyle issues, such as height to weight ratio or smoking, will help to improve the annuity rate.

### **Summary**

It is important to be aware that once your annuity is in payment, you will not be able to change your chosen options. For this reason we recommend that these options are discussed with your AWMF adviser prior to providing you with any illustrations.

Annuity purchase is a very important area which you do need to get right. There is therefore no substitute for taking independent whole of market based advice both regarding the type of annuity to choose and the provider. Both are equally important.

Advice relating to annuity purchase will not be complete unless the adviser has a good understanding of your entire financial position.

*If you have any questions or need an independent review of your pension arrangements, please contact us to discuss your situation further.*

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*Information given in this document should not be taken as advice as it is intended for guidance only. If you wish to have an assessment of your own situation, you should contact the office for advice.*

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