

An annuity is a guaranteed income for life, purchased with the remainder of a pension fund, after the lump sum has been taken. There are various 'sub' choices to be made if you decide that you like the idea of a guaranteed income for life, including:

- ❖ Do you want a pension for your spouse if you die first?
- ❖ Do you want your income to be level or increase with inflation?
- ❖ Do you want your income paid monthly, quarterly or annually?
- ❖ Do you want it to be guaranteed for 5 or 10 years , even if you die before that?

At first glance, you'd think it was obvious what your answer would be in each case, but every time you opt for the answer that benefits you or your family a bit more, the level of pension reduces slightly. It is therefore important to balance the level of income with the chosen benefits.

The main risks associated with this form of pension is that once you have made your choices and bought the annuity, other than in the circumstances explained later, you cannot ever change your mind. Annuity rates are based upon interest rates and life expectancy, both of which are currently working against you. This means that, whilst a guaranteed income for life might sound attractive, in reality it might be less than you need. What is more, it could improve in the future if interest rates go up and you get older, but not if you have already bought an annuity.

The other major disadvantage is that, other than the choices for spousal pensions and guarantees, discussed earlier, once purchased, an annuity dies when you die. Whatever remains of your fund, stays with the annuity provider.

Ill-Health or Impaired Life

What you may not be aware of is that, having made it to retirement, if you have anything that might detract from your life expectancy, you may be able to get a higher level of pension. The lower your life expectancy, the higher the pension – the list of things that may make you eligible is long, but can include:

- ❖ Diabetes
- ❖ High blood pressure
- ❖ Raised Cholesterol
- ❖ Heart Disease
- ❖ COPD
- ❖ Angina
- ❖ Cancer
- ❖ Being a smoker

As well as many others

To discover if you might be eligible for an Impaired Life or Enhanced Annuity you can call us to discuss your situation. It is worthwhile doing this - it could make up to 40% difference to your income.

The Open Market Option

If you have an invested pension, of the types listed earlier, you have the right to exercise what is known as the 'Open Market Option'.

The Open Market Option (or OMO) allows someone approaching retirement to 'shop around' for a number of options to convert their pension pot into an annuity, rather than simply taking the default rate offered by their pension provider.

Although, this is strictly a right associated with annuity purchase only, in reality, it is a principle always to bear in mind – you are not obliged to simply accept what is offered to you by your provider. You are entitled to compare that offer with every other provider to see if you can secure yourself a better deal. Even if everything else is exactly the same, this choice can make an enormous improvement to your income.

Example

The following table shows various 'option' available to a retiring male, aged 60 with a £133,333 pension fund and varying requirements, to give you some idea as to the differences that certain choices make.

This gentleman has taken 25% of his fund as a tax free lump sum and has £100,000 to use to purchase an annuity.

Annuity options	£ p.a.
Lowest open market option (OMO) level annuity with no guarantees	£4,816
Best open market option (OMO) level annuity with no guarantees	£5,936
Best open market option (OMO) level, impaired life annuity with no guarantees,	£6,886
Best OMO level annuity with 50% spouse's pension	£5,599
Best OMO 3%pa inflation linked annuity, no spouse's pension	£4,062
Best OMO 3%pa inflation linked annuity, with 50% spouse's pension	£3,620
Best OMO 3%pa inflation linked annuity, with 50% spouse's pension, guaranteed for 10 years	£3,602
Best OMO 3%pa inflation linked, Impaired life annuity, with 50% spouse's pension, guaranteed for 10 years	£4,440

It is important to bear in mind that there are many more options than these, including different levels of spouse's pensions, inflation linking option, guaranteed periods and levels of life impairment. The point of this table is simply to show the difference that some of these options can make and the importance of getting the decision right. As you can see, the differences can be huge.

N.B. Partner is assumed to be 3 years younger than male life.