

Your
retirement
choices

money purchase benefits in
occupational pension schemes

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This leaflet is for you if:

- you are approaching retirement;
- you have money purchase benefits in an occupational pension scheme set up by your employer (including any money purchase benefits in a final salary or 'hybrid' scheme, for example, in-house additional voluntary contributions (AVCs));
- the scheme offers a choice of annuities and the 'open-market option' (see page 5); and
- you want to know what to do next.

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About this leaflet

If you are approaching retirement, your pension scheme will write to you with details about your pension fund. This will include information about using your fund to buy a lifetime annuity, which will provide you with a pension income for the rest of your life.

You do not have to accept the annuity quoted by your pension scheme. Your scheme allows you to shop around to find the best deal.

This leaflet gives you information about your options and briefly explains the different types of annuity available. The leaflet is not advice, either from the Pensions Regulator or from the person or firm who gave it to you.

When deciding which type of annuity is right for you, you will need to consider your overall financial situation and your expected future financial needs. If you are not sure what action to take, we recommend that you get financial advice.

Please read this leaflet and the information provided by your scheme carefully, and ask your pension scheme or financial adviser to explain anything you do not understand.

This leaflet has been approved by the Secretary of State for Work and Pensions and the Department for Social Development. If this leaflet is issued to scheme members by trustees, this will meet the legal requirements (see note 1) that trustees give certain information to members approaching retirement.

Note 1: Paragraph 7 of Schedule 2 of the Occupational Pension Schemes (Disclosure of Information) Regulations 1996 (SI1996/1655) as amended by The Personal and Occupational Pension Schemes (Indexation and Disclosure of Information) (Miscellaneous Amendments) Regulations 2005 (SI2005/704) and paragraph 7 of Schedule 2 to the Occupational Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 1997 (SR1997 No. 98) as amended by regulation 18 of the Personal and Occupational Pension Schemes (Indexation and Disclosure of Information) (Miscellaneous Amendments) Regulations (Northern Ireland) 2005 (SR2005 No. 170).

What is a lifetime annuity?

A lifetime annuity converts your pension fund into pension income – the income you will be paid for the rest of your life. Insurance companies usually provide annuities.

You will have to pay tax on your pension income in the same way you pay tax on your salary.

The open-market option

Your pension scheme will offer you an annuity, but you can also shop around to see what rates or arrangements other insurance companies offer – this is called the ‘open-market option’.

What types of lifetime annuity are there?

There are different types of annuity to suit your needs and circumstances. The basic types are as follows.

- **A single-life annuity**

This is an annuity just for you, if you don't have anybody who relies on you for an income (they have their own pension arrangement).

- **A joint-life annuity**

This is an annuity that will pay out to your husband, wife, partner or dependant when you die. If you are not married, check that your partner is eligible to receive the annuity. Joint-life annuities pay out a lower income than single-life annuities. Some joint-life annuities will pay a reduced income to your husband, wife, partner or dependant, for example, half or two thirds.

The following types of annuity may also be available to you.

- **A level annuity**

The pension income you receive will stay the same throughout your life. You will get more money to start with than with an escalating annuity, but it will not increase.

- **An escalating annuity**

The pension income you receive will change throughout your life, in line with inflation (the Retail Price Index), or increase at a fixed rate, for example, 3% or 5% each year. You will initially get less money than with a level annuity, but it will increase each year. If inflation stays low, it can take as long as 20 years or more for an escalating annuity linked to the Retail Prices Index to pay out as much as a level annuity. But if you don't have an escalating annuity, even low levels of inflation can, over time, significantly reduce your standard of living.

- **A guaranteed annuity**

Your pension income can be guaranteed for a set number of years, usually five or 10 years, so that it will continue to pay the income (usually to your husband, wife, partner or estate) for the rest of the guaranteed period if you die before the period is up. If you do not include a guaranteed period, and your annuity is set up on a single-life basis, the income payments will stop when you die.

Or, you may be able to choose an **annuity protection lump-sum death benefit** to make sure that if you die before age 75, your annuity will not end. This allows a taxable lump sum to be paid to your estate, equal to the cost of your annuity less any income you have already been paid.

You may also be able to benefit from the following.

- An **enhanced annuity** which pays a higher income if you are overweight, a smoker, or have done certain manual jobs or live in a particular part of the country.
- An **impaired-life annuity** which pays a higher income if you have a health problem that threatens to shorten your life.

What other options are there?

If you don't think one of these annuities is suitable, there are other options you could consider. Some of these options may only be suitable if you have a pension fund of over £100,000 and are comfortable taking some risk with your fund. If you are interested in any of these options, we recommend that you get financial advice.

Investment-linked annuities

This type of annuity invests your fund in higher-risk investments such as stocks and shares. It offers the chance of higher income, but also involves some risk that your income could go down as well as up.

Phased retirement

Your fund is split into a number of parts so that you can buy annuities at different ages.

Unsecured pension

An unsecured pension is a way to take an income direct from your pension fund until you reach age 75 without buying an annuity.

Short term annuities

This allows you to use all or part of your fund to buy a series of fixed-term annuities of up to five years. In the meantime, the rest of your fund continues to be invested.

Alternatively secured pension

This type of arrangement allows you to take an income from a pension fund after you reach age 75 without buying an annuity.

There is more detailed information on annuities in the 'FSA guide to pensions 3 - Annuities and other retirement options'. This is free of charge. See 'Where to get more information' on page 14.

How is a lifetime annuity worked out?

These are the most important factors that affect the income you will get from your annuity.

- The amount of money in your pension fund when you retire.
- The amount of tax-free lump sum you decide to take as this will reduce the amount left in your fund to buy an annuity with.
- The annuity rate offered by the insurance company. (Annuity rates vary from company to company.)
- The type of annuity – joint or single life, level or increasing payments, guaranteed or not guaranteed and so on.
- Your age.
- Your sex – annuities for women cost more, as women are expected to live longer than men (but see also ‘What if I am contracted out of the additional state pension?’).
- Your health – some companies pay higher annuities to people in poor health.
- Your lifestyle – some companies pay higher rates to people with a certain lifestyle, for example, people who smoke or are overweight.

How can I shop around for the best deal?

You have a choice of who provides your annuity when you retire.

Some people have found that they have been able to increase their income by as much as a third if they take their annuity from an insurance company rather than from their scheme. Whether you can improve your income in this way depends on the size of your pension fund and what your scheme is offering you.

Your pension scheme will normally give you an estimate of the value of your fund before you retire. They will also tell you what income the annuity they offer will provide. You can use this information to compare the income different insurance companies will offer you with the open-market option.

Here are some things to remember when shopping around for your annuity.

- If you use your open-market option and decide to buy your annuity from an insurance company, your pension scheme might take charges from your fund. You need to get an estimate of the value of your fund (less any charges) before you can ask insurance companies for an annuity quote.
- Remember to compare similar annuities. Make sure you don't accidentally compare a level annuity quote from one company with an escalating annuity quote from another.
- Look at annuity quotes that fit your circumstances. Do you need a guaranteed annuity or do you qualify for an enhanced annuity?

- Check whether you will lose any benefits (for example, the option to buy an annuity at a guaranteed rate of interest) if you don't take up your pension scheme's offer.
- Remember that annuity rates can change over time. Annuity quotes are fixed for a limited number of days, usually between seven and 28 days. The insurance company will also tell you whether you have the right to cancel the contract if you decide not to go ahead with it and, if so, how long you have to do this.
- Not all companies will deal with you direct. It may be better to ask a financial adviser to look at the annuity rates on offer. Some advisers specialise in annuities, and it may be worthwhile going to one that does.
- If you use the open-market option, the adviser may be paid by commission. The insurance company will pay this, so this should not affect the amount you pay for the annuity. But ask the adviser if you will have to pay any other charges. If you take your annuity from your pension scheme, your scheme may not pay commission, so your adviser may ask you to pay a fee for the advice they have given you.
- Remember, once your annuity is in place, in most cases, you cannot switch to another annuity provider or a different type of annuity at a later date.

The Financial Services Authority (FSA) provides tables you can use to compare open-market option annuity rates. These can be found on their website at www.fsa.gov.uk/tables.

What else do I need to consider?

What if I have more than one pension fund?

If you have more than one pension fund, you may want to get financial advice about your options.

What if I am contracted out of the additional State Pension?

If your employer's scheme is contracted out of the additional State Pension (this was called SERPS, now the State Second Pension), you must use part of your pension fund to buy a 'protected rights annuity'. Your pension scheme will tell you if protected rights apply to you and what they mean in your circumstances. You can choose between taking a level or escalating annuity, if your scheme allows this choice. The annuity rates will be the same for both men and women. If you are married, you will have to buy a joint-life annuity.

What if I have an individual pension policy?

If you have an individual pension arrangement, for example, a personal pension or a free-standing additional voluntary contribution plan, please see the FSA factsheet 'Retiring soon – what you need to do about your pensions'.

Regulatory responsibilities

We regulate occupational pension schemes and have produced this leaflet to explain the retirement choices available from occupational schemes providing money purchase benefits, including AVCs. However, you will usually buy your annuity from an insurance company and these are regulated by the Financial Services Authority (FSA).

Where to get more information

You can get more information from the following organisations.

Financial Services Authority (FSA)

Publications ‘Retiring soon – what you need to do about your pensions’
‘FSA guide to pensions 3 - Annuities and other retirement options’

You can order these free publications by calling the FSA Consumer Helpline on **0845 6061234** or the Minicom/textphone line on **08457 300104**. You can also get these publications, and other unbiased information, on the FSA website at **www.fsa.gov.uk/consumer**. The website also has tables of different annuity rates so you can shop around for the best deal.

Department for Work and Pensions

For advice on preparing for your retirement, see The Pension Service website at **www.thepensionsservice.gov.uk**. The Pension Service is part of the Department for Work and Pensions. If you live in Northern Ireland, see the Department for Social Development website at **www.dsdni.gov.uk**.

The Pensions Advisory Service

If you have any questions about pensions, contact the Pensions Advisory Service. This is an independent organisation which can help with your pension and annuity enquiries.

Phone: **0845 6012923**

Minicom and textphone: **0845 7300204**

Email: **enquiries@pensionsadvisoryservice.org.uk**

Website: **www.pensionsadvisoryservice.org.uk**

The Pension Tracing Service

The Pension Tracing Service can help you track down pension schemes you have been a member of in the past. Their tracing service is free and you can phone them on **0845 6002537** (textphone **0845 3000169**) and ask for a tracing request form. Or, you can write to them at:

Pension Tracing Service
The Pension Service
Whitley Road
Newcastle upon Tyne
NE98 1BA.

You can also use their online form at **www.thepensionservice.gov.uk**.

For financial advice, you can contact one of the following organisations.

IFA Promotion

Phone: **0800 0853250**
Website: **www.unbiased.co.uk**

Personal Finance Society

Phone: **020 85300852**
Website: **www.thepfs.org**

Institute of Financial Planning

Phone: **0117 9452470**
Website: **www.financialplanning.org.uk**

Checklist

If your scheme offers you a choice of annuity and the open-market option, use the checklist below to help you decide what annuity quote to accept.

- 1 Get an estimate of the value of your pension fund (less any charges for using the open-market option) from your pension scheme. Your pension scheme should send this to you before your retirement date, so you can start to shop around.

Estimated pension fund value	£
Minus tax-free lump sum	£
Fund left to buy an annuity	£

You may find it difficult to shop around if you have a small pension fund (less than £5,000). Some firms may not be interested in giving you advice on small amounts, or might have high charges for this service.

- 2 Tick the features you're interested in.
(See pages 6 and 7 for what these terms mean.)

Joint-life annuity Single-life annuity
100% survivor's pension or less – please give details.

Level annuity
Escalating annuity which increases by a fixed rate
(for example, 3% or 5%) or inflation – please give details.

3 If you think you might be eligible for an impaired-life or an enhanced annuity, some providers of these annuities are interested in pension funds smaller than £5,000, so shop around for the best deal. Do you want an: impaired-life annuity? enhanced annuity?

4 If you want an annuity with a guaranteed period, how long do you want your pension income to be guaranteed for?
Five years 10 years

5 Ask a range of providers for quotes for the gross monthly pension income (before deductions) you will receive for the options you're interested in. Annuity quotes are usually valid for seven to 28 days.

Also, if your scheme offers you a choice of annuity, you should still make sure you check out annuities with the features you're interested in – don't just accept the first annuity they offer you.

There are many choices available. If you're not sure what to do, you may want to get financial advice. See 'Where to get more information' on page 14.

About the Pensions Regulator

The Pensions Regulator was set up under the Pensions Act 2004 and replaces the Occupational Pensions Regulatory Authority (Opra).

We are the regulator of work-based pension schemes. We work with trustees, scheme managers and employers to help protect scheme members' benefits.

We provide information, education and help to everyone involved in running work-based pensions. We aim to achieve the highest possible standards in the way pension schemes are run. This is the best way to prevent problems which could put your pension benefits at risk.

How to get in touch with us

The Pensions Regulator

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Brighton
BN1 4DW

www.thepensionsregulator.gov.uk

Customer support

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Textphone: **0870 2433123**

Fax: **0870 2411144**

Email: customersupport@thepensionsregulator.gov.uk



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