Retirement Intelligence

CONVERTING YOUR PENSION POT INTO INCOME

HOW TO COMBINE GUARANTEED INCOME AND INCOME FLEXIBILITY

Supported by our sponsor Partnership. The guide is published for information only and does not in any way constitute financial advice. If you are an individual rather than a pension professional you should take regulated financial advice before making a decision about any retirement income option.

partnership
seeing retirement differently

CONTENTS

Contents	3
Introduction	4
The importance of income	5
The new pension freedoms	7
Converting your pension pot into income	8
The advantages of a hybrid solution	12
Putting the theory into practice	15
The next step	17
Glossary	18

INTRODUCTION

A lot has been written about the new pension freedoms, especially the option to take your pension pot in cash and the amount of tax you will have to pay. However, in my opinion, not enough is being written about the best way to take income from your pension pot. After all, income is important and everyone needs enough money to pay regular bills and enjoy some luxuries.

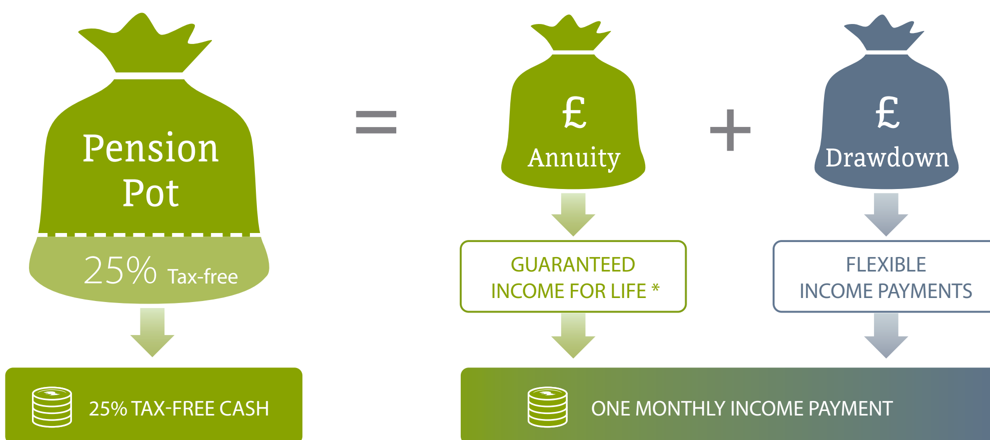
This guide will help you understand the importance of making sure you have enough income to last through your retirement. The guide will also look at a new retirement income plan – the *Enhanced Retirement Account* from Partnership Assurance.

The Enhanced Retirement Account is a new type of hybrid or combination plan that allows you to secure a level of guaranteed income as well as having some flexibility to change your income if your circumstances change in the future.

Partnership's new plan will increase the amount of guaranteed income payable if you smoke or have a qualifying medical condition (see page 9). The plan is also available to those in good health.

The new hybrid plans, so called because they are a combination of annuity and drawdown policies, have a number of advantages compared to investing in a single retirement income policy. These advantages include:

- Providing the right amount of guaranteed income to pay for essential outgoings
- Allowing you to increase or decrease your income to suit your circumstances
- Giving you the option to leave part of your pension pot to your family
- Helping to make it easier and more cost efficient to get the best income solution
- Delivering security and peace of mind
  - the security of a guaranteed income
  - the peace of mind that you still have flexibility



* You can get a higher income if you have a qualifying lifestyle or medical condition.

Is this an independent guide?

Although **Partnership Assurance** sponsors this guide, it is an independent guide explaining the options for converting your pension pot into income. I will explain the concept of combining guaranteed and flexible income by reference to the Enhanced Retirement Account, but many of the concepts will be relevant to similar plans from other companies.

About the author:

Billy Burrows is an independent pension expert who for over 20 years has advised clients on the best way to maximise the income from their pension pots. He now writes guides for individuals and financial advisers explaining how people can make the most of the new pension freedoms.

THE IMPORTANCE OF INCOME

Income is important because without it how will you pay the bills let alone enjoy the lifestyle to which you are accustomed to?

When you stop receiving income from work, you will have to replace it with income from your pension or savings. But it is very easy to underestimate how much retirement income you will need. When you work out your income requirements you should take the following factors into account:

1. It may have to last longer than you think
2. You might need more or less income at different times during your retirement
3. Inflation will reduce the spending power of a fixed income
4. If you or your spouse/partner have a medical condition, you may be able to increase your income
5. The consequences of not having enough income can be detrimental to your finances

You may live longer than you think

It may be something you don't want to think about, but how long you expect to live is an important question. In my experience, many older people underestimate how long they will live. This may have serious consequences because if you spend too much in early retirement there is a risk that you may run out of income in later life.

The table below sets out the average life expectancy for men and women. Remember that half of these people will live longer than the averages.

	Men		Women	
Age now	Years	To age	Years	To age
60	27	87	30	90
65	23	88	25	90
70	18	88	20	90
75	13	88	15	90
80	10	90	11	91
85	07	92	08	93

Sample Expectations of Life from the CMI (Continuous Mortality Investigation) 2014 Model

Annuities pay an income for life

One of the obvious advantages of purchasing an annuity is that your income will not run out while you are alive (or your partner remains alive if you purchase a joint-life annuity).

Cash and income are all the same to me – it's just money isn't it?

Cash includes deposits in your bank or building society, used to pay your everyday expenses as well as saving it for a 'rainy day'. Income is regular payments from your work, investments or pensions and it tops up your cash in the bank.

Ideally your income should be guaranteed and last for the rest of your life but you might need some flexibility in case your circumstances change.

Money is better than poverty, if only for financial reasons

– Woody Allen

What is an annuity?

It is a policy that converts your pension pot into a guaranteed income for life (see page 9).

You might need more or less income at different times during your retirement

Your income needs may not be the same every year of your retirement. For instance, early in retirement you might need more income so you can enjoy more holidays or travelling. In mid retirement you might need less income as your pace of life slows down. In later retirement your income needs may increase as you need more help around the home.

Drawdown gives you income flexibility

If you are taking pension income from a drawdown plan you can easily increase or decrease your income to meet your income needs at different stages of your retirement.

In the section ***Putting the theory into practice*** *(page 15),* I show how a combination of annuities and drawdown allows a couple reaching retirement to meet their twin objectives of ensuring they don't run out of income with the need for some flexibility.

Where do you get your retirement income from?

If you are still in full-time employment additional income is probably not essential but when you stop working or reduce your working hours you will need another source of income. This income can come from your pensions or be paid from your savings or capital.

When you reach State Pension age you can start receiving your State Pension. If you are still working or don't need the pension you can defer taking your State Pension until a later date.

If you have a final salary pension and have reached retirement age, you will receive income payments each month for the rest of your life and your pension may increase each year with inflation. If you have a personal or company money purchase* pension plan, you will have to decide how best to convert your pension pot into regular income.

You may also get income from dividends on your shares, interest from your savings accounts, rent from a second property or simply take an income directly from your savings.

You may be able to take income from a number of different sources as described above.

I have a number of different types of pensions; how do I find out what type they are and how much I have got?

That is something you will have to ask your financial adviser. In the meantime you could contact your pension providers and they will send you the information. Their phone number will be on their correspondence to you.

What is drawdown?

It is an option that allows you to take regular or ad hoc income payments direct from your pension pot (see page 11).

I have heard that the State Pension is changing

You can find details of the State Pension on the Government's website: www.gov.uk/state-pension

*Money purchase simply means you, and or your employer, pay money into a pension plan every month to grow your own pension pot. (See appendix for a longer explanation).

THE NEW PENSION FREEDOMS

One of the most important sources of income is from your personal or company money purchase pension, especially as there are now many options since the new pension freedoms came into effect in April 2015.

When you reach the time that you want to take income and/or cash from your pension pot, which can be anytime after the age of 55, you now have three options:

- Convert all or part of your fund into a cash sum (25% is tax-free, and the rest is taxed at your marginal rate)
- Take 25% as a tax-free sum and purchase an income for life
- Take 25% as a tax-free sum and make regular income withdrawals

Although the cash sum option may seem attractive at first, there are many reasons why taking a large cash sum may not be in your best interests and these include:

- You could end up paying much more tax than you bargained for
- If you spend cash on your short-term wants you might not have enough for your longer-term needs
- If you take cash and don't spend it you will have the problem of where to invest it

What is marginal rate of tax?

Your income is taxed in bands. If your income is above a certain level you might have to pay a higher rate of tax on a slice of your income.

This means that if you are a basic rate tax payer but take a large cash sum you could end up paying 40% tax, or more, on a slice of income.

A summary of the new pension freedoms

The graphic below shows how the traditional pension solutions and the new hybrid plans can be used with the new pension freedoms:

	Cash lump sum	Income for life	Regular / flexible income
Description	Convert all or part of your fund into a cash sum	Purchase an income for life	Take regular or flexible income withdrawals
Tax-free sum and income tax	25% of your pension pot can be paid tax-fee The rest of the combination of your income payments will be taxed at your marginal rate		
Traditional product solutions (annuities and drawdown)	Uncrystallised funds pension lump sum (UFPLS)*	Your pension pot purchases an annuity. Although your income is guaranteed it cannot normally be changed if your circumstances change	Your pension pot is used for pension drawdown. Although you have flexibility your income is not guaranteed
New hybrid or combination solutions	You can take 25% of your pension pot tax free	The Enhanced Retirement Account – allows you to have both guaranteed income and income flexibility in one single plan	
Watch out for	Paying too much tax Spending cash if you don't have enough income for the future	Your health – you can get a higher income if you qualify for an enhanced annuity	Taking too much risk as you could run out of income in the future

* UFPLS is a new payment method that allows your insurance company to pay you a chunk of your pension pot as a cash sum when you reach retirement age (normally any time after age 55). It will be taxed in the normal way; 25% tax-free and 75% taxed at your marginal rate.

CONVERTING YOUR PENSION INTO INCOME

If you don't take your entire pension pot as a cash sum when you reach retirement age, and you want an income (normally after taking your 25% tax-free sum) you have three options:

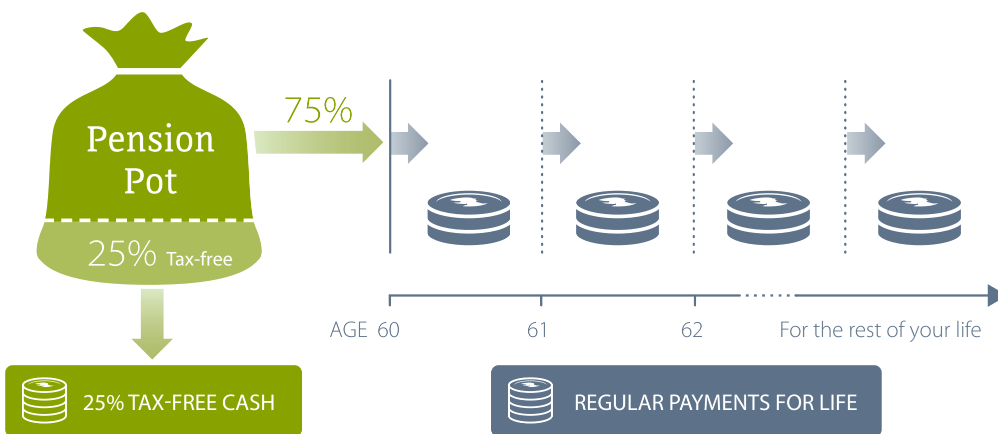
1. Arrange a policy that will pay you an income for life – an annuity
2. Invest in a plan that allows you to take regular (or ad hoc) income withdrawals directly from your pension pot – these plans are called drawdown
3. Invest in a hybrid plan that pays a combination of annuity-style income and drawdown-style income. This is a new type of pension income product such as Partnership's Enhanced Retirement Account.

Annuities

An annuity converts your pension pot into a guaranteed income for life. When you purchase an annuity, the insurance company will invest your money in very safe assets such as gilts, fixed interest investments and sometimes property. They repay your capital together with interest in regular instalments, normally monthly, for the rest of your life.

The income for life promise is guaranteed because insurance companies use a technique called mortality cross-subsidy. This means that those who die younger than expected produce a notional profit that is used to subsidise the annuities of those who live longer than expected.

Mortality cross-subsidy acts like an invisible force to boost income payments from an annuity. This income boost increases with age and is higher for those who qualify for an enhanced annuity. This may appear complex, but the key thing to understand is that the extra income resulting from mortality cross-subsidy makes annuities an attractive proposition for those looking to maximise their lifetime income.



The amount of income you get from your annuity depends on a number of factors such as current interest rates and the options selected but the thing that has the most impact is the state of your health. When you apply for an annuity it is important to give details about your health and lifestyle because you may get a higher income if you smoke or have certain medical conditions. This is because the shorter your life expectancy the higher the annuity income.

I thought annuities were old hat now the new pension freedoms are here?

I have been involved with annuities for over 20 years, and I still think there is a strong case for annuities.

I have published a guide called the ***The case for annuities*** in which I explain why annuities are still the policy of choice for those who want a guaranteed income for life.

You can download this free guide from **www.williamburrows.com**

How do I get the highest annuity rate?

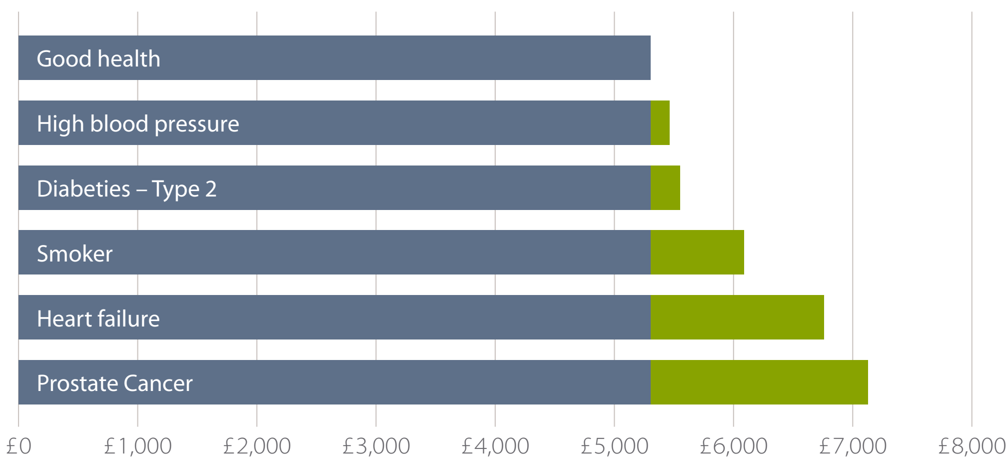
You can get the highest income by shopping around for the best annuity rate in the market.

Most specialist annuity websites have an on-line calculator or best buy tables which you can use to compare rates from different companies.

Your health and annuities

Imagine two 65-year-olds; one is in good health and the other smokes and is not in good health. In all likelihood, the healthy person will live longer than their smoking contemporary. Therefore, some annuity companies will pay the person in poor health a higher income than the person in good health because the annuity for the unhealthy person will probably be paid a shorter period of time. This explains why you will get an enhanced income if you have a qualifying medical condition.

The chart below shows examples of the annuity income for a range of medical and lifestyle conditions:



Source: William Burrows – January 2016
Gross annual income, £100,000 purchase, single life, age 65, guaranteed 5 years and level payments.

Annuity options

A basic annuity pays the highest income but payments will stop when you die. If you want your annuity payments to continue after your death, especially if you die soon after purchasing the annuity you can select a number of options including:

Joint life - If you are married or have a partner, you can take advantage of the joint life option that ensures that a proportion of your income will continue to them if your die before them.

Guarantee period - You can have your income guaranteed for a specific period of time no matter what happens. Most annuities are guaranteed for a five year period, but you can guarantee payments up to 20 years from the start of the policy.

Value protection – This option pays a lump sum if you die and the total of your annuity payments is less than the original sum invested.

Each of these options has a cost which will reduce the amount of annuity income paid.

Billy's top tips for getting a higher income:

Provide details about your medication and any medical conditions.

The more information you provide the more likely that you will get a higher income.

Details about your lifestyle are also important such as:

- whether you smoke
- how much you drink
- your height and weight

You don't have to be at death's door to qualify for an enhanced annuity.

Any medical condition that may reduce your life expectancy, such as high blood pressure, will be taken into account.

Drawdown

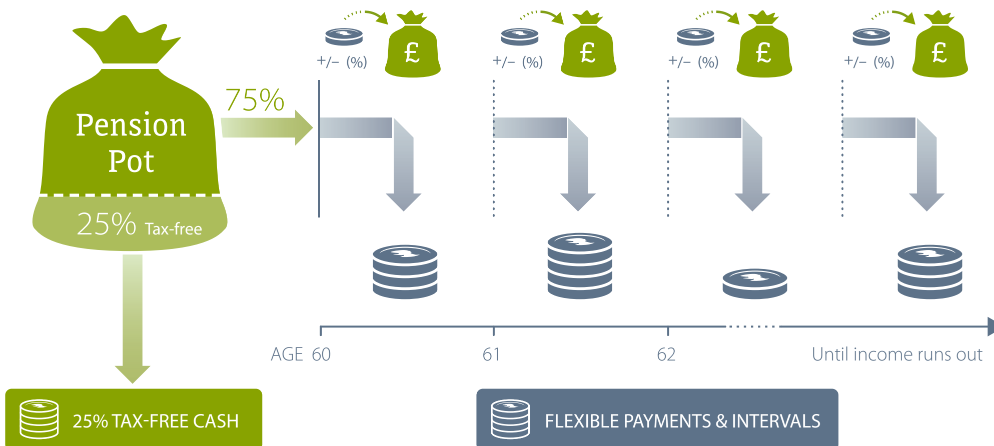
With drawdown, your fund remains invested in your pension pot, and you simply make regular income withdrawals. When you die, you can leave your pension fund to your beneficiaries.

Drawdown has three distinct advantages compared to purchasing an annuity:

Income flexibility – you can take as much or as little income as you want when you want

Investment control – you can choose to invest in assets such as cash, gilts or equities

Choice of death benefits – you can choose who receives income or cash from your pension pot after your death



Although Drawdown is simple to understand compared to annuities it is easy to underestimate the risks of taking an income that is not guaranteed in the same way as an annuity. There are three important risks that must be managed when you invest in a drawdown plan:

Income risk – this is the risk that you could end up with a reduced income in the future or in the worst case run of income. Your income could reduce if you take too much income from your pension pot, especially in the early years

Investment risk – If your drawdown is invested in equities, and there is a fall in the stock market, or you make unwise investments, the value of your pension pot will fall in value and could result in reduced income in the future. In particular you should guard against the 'sequence' of returns risk (see box right)

Annuity risk – If you intend to purchase an annuity at a later date in order to secure a guaranteed income from your drawdown pot you should be aware that the income from annuities could be less in the future if rates have fallen

I have read that drawdown is risky because the pension pot is invested in the stock market.

Most drawdown plans are invested in the stock market so you can benefit from any investment growth, and therefore get a higher income in the future. However, there is a risk that your investments will fall in value and you may end up with a lower income.

One way to reduce the risk is to invest in funds designed to be less risky or, to use investment jargon, less volatile. Hybrid plans such as Partnership's Enhanced Retirement Account offer a range of funds including some with lower investment risk. Your financial adviser will explain this in more detail.

Sequence of returns risk

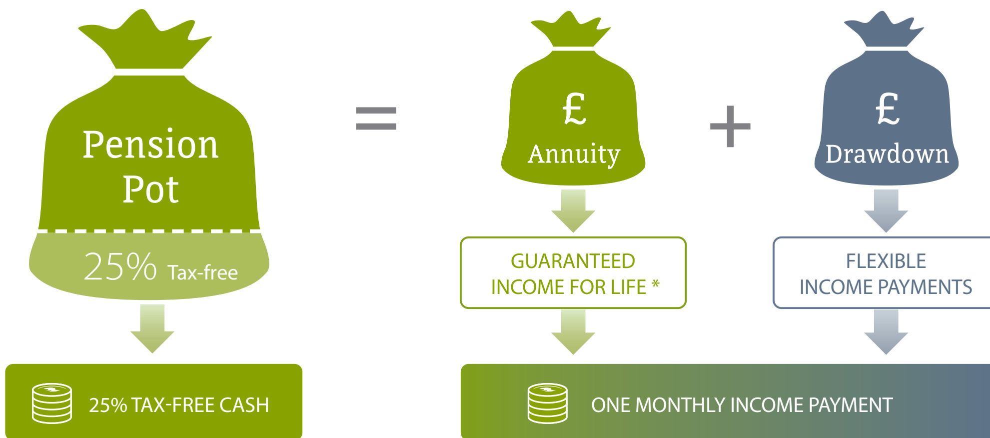
Put simply, if the investment returns are low or negative in the early years of a drawdown plan it will make it very difficult for the drawdown plan to make up the early losses in future years and may lead to a significant reduction in capital and/or income.

Hybrid plans – a combination of annuity and drawdown-style income

You will probably be familiar with the well known investment adage 'don't put all of your eggs in one basket'. This equally applies to your pension income because it may not be sensible to convert all of your pension pot into one annuity or one drawdown plan.

Most hybrid plans, including Partnership's ***Enhanced Retirement Account***, work in the following way:

1. You transfer your existing pension pot (or pots) to a new flexible pension plan
2. You decide how much tax-free cash you wish to receive – normally 25% of the fund
3. You select how much income you want and decide:
   - how much income is guaranteed for life
   - how much income is taken by making regular income withdrawals
4. You choose which funds your drawdown pot will be invested in
5. You review your plan at regular intervals to monitor your investments and to decide if you wish to have more guaranteed income.



* You can get a higher income if you have a qualifying lifestyle or medical condition.

Your financial adviser will help you understand how the plan works in practice and advise you which of the options are most suitable for your circumstances.

How do hybrid plans work?

Think of this as having two pots of money. One pot pays annuity-style income, i.e. guaranteed income for life, and the other pot provides drawdown-style income, i.e. you have total flexibility.

You can move money from the drawdown pot to the annuity pot but you can't move money from the annuity pot to the drawdown pot.

Each pot has its own income tap. You can turn either or both income taps off at any time and the income not taken can be paid out a future date.

THE ADVANTAGES OF A HYBRID SOLUTION

This combination of guaranteed and flexible income has a number of advantages over the traditional single annuity or drawdown solution including:

1. Ensures you have the right amount of guaranteed income to contribute towards paying for your essential outgoings
2. Has the potential to maximise your pension income over the longer term
3. May help you to reduce the overall risk to your retirement income
4. Provides the option to leave part of your pension pot to your family
5. Making it easier and more cost efficient to get the best income solution
6. Gives security and peace of mind:
    - the security of a guaranteed income
    - the peace of mind that you still have flexibility

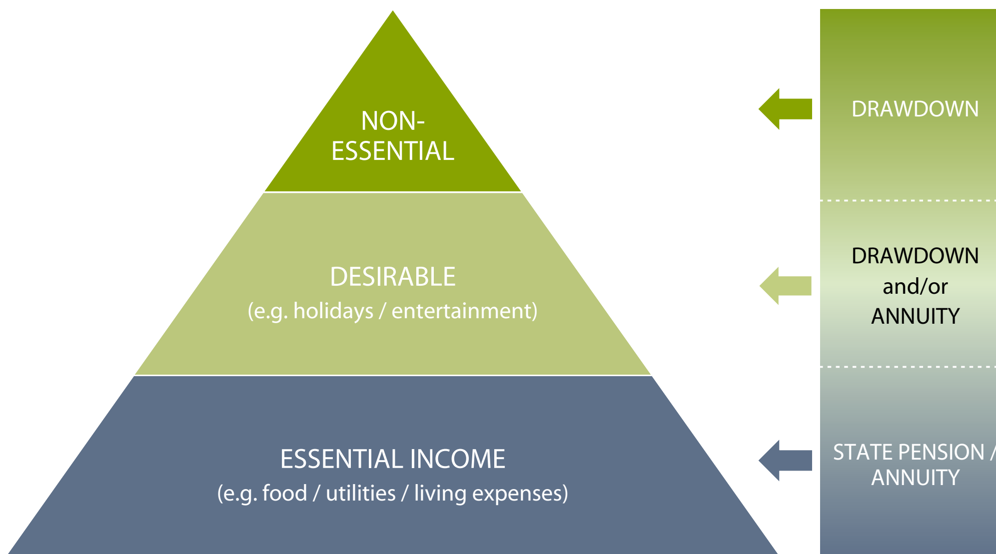
Recap – Hybrid solutions:

A hybrid solution refers to a new type of pension plan which provides a combination of guaranteed income and regular but flexible income payments.

Ensures you have an amount of guaranteed income to pay for your essential outgoings

As I explained at the beginning, income is important, and most people need lots of it. However, you may need income for different purposes. For instance, you will need some to pay the essential bills, some for enjoying yourself and some for luxuries.

A combination of annuity and drawdown-style income can help you create your own 'income pyramid' where income that is essential can be guaranteed, income for desirable expenditure such as holidays should not be put at risk, and non-essential income can be taken from more risky investments.



The potential to maximise your pension income over the longer term

There are two ways in which you could potentially get a higher income with a hybrid plan. First of all, if the money invested in the drawdown pot increases in value through investment growth, you will be able to take more income in the future.

Secondly, if you move money from the drawdown pot into the annuity pot, you may get a higher annuity income if annuity rates have increased or your health has deteriorated so you qualify for a higher enhanced annuity.

It is important not to forget that you could end up with less income not more if investment returns are lower than expected, or there is a reduction in annuity rates. Your financial adviser will explain all the relevant risks to you.

May help you to reduce the overall risk to your retirement income

When you retire you should be aware of a number of risks including:

Longevity risk - you could die soon after retiring or live to be 100

Inflation risk – it could remain low or go higher thereby reducing your spending power

Stock market risk – equity prices may fall as well as rise

Income – your income requirements may change so may need flexibility

Health risks – if your health deteriorates you may need more income or flexibility to deal with your changed circumstances

The importance of listing these risks is to make a very important point. Until recently there has been no single financial plan that can effectively help you manage all of the above risks but the new hybrid plans allow you to manage all of them in one single policy.

Annuities are the only policy that can take away the risk that you will outlive your income but they are not flexible – the options cannot be changed if your circumstances change.

Drawdown can help manage income and health risks because it provides the flexibility to manage the amount of income you take. However, drawdown is riskier than annuities.

Therefore a policy that provides a combination of annuity and drawdown income can help you manage the many different types of retirement risks.

This all sounds very good but will a hybrid plan be expensive?

The charges for a hybrid plan may be lower than the cost of a full drawdown plan because the charges for the drawdown element can be very competitive and there is normally no additional cost for the part of the plan that is invested in an annuity.

Your financial adviser will explain all of the costs including their adviser charge.

The option to leave part of your pension pot to your family

One of the most exciting things about the new pension freedoms is the option to leave your pension to your family or friends after your death.

The rules are a bit complex and explained in the box below.

Your pension option	Death benefit options	Taxation
Annuity already purchased	• Joint life option • Guarantee payment period • Value protection	**Death before age 75:** • Any cash or income will be paid free of any tax
Pension untouched or in drawdown	• Remaining pot can continue to be paid as a lump sum • Pension pot can be transferred to beneficiary's drawdown • Dependant's annuity can be purchased	**Death after age 75:** • Any income will be taxed at the beneficiary's marginal rate • Any lump sums will be taxed at 45% (marginal rate from April 2016)

In my experience, many people are torn between the desire to leave their family with an inheritance and the desire to spend their income on themselves.

On the one hand, it is only natural to want to leave lump sums to the family but on the other hand it is natural to want to maximise your own income.

One of the most important benefits of a hybrid plan is that it is possible to combine the option to maximise income while still leaving an inheritance.

Security and peace of mind

When you retire and begin relying on your pension income, your attitude to money and risk may change. One of the most important priorities is to have financial security in retirement. You probably do not want to worry about whether you will have enough income to do the things you want to do or whether your investments will fall in value.

Although a combination of annuities and drawdown will not eliminate all of your worries and risk, it will provide you with a good deal of security and peace of mind.

Peace of mind

When I wrote one of my first guides to annuities more than 20 years ago, I added an A–Z of annuity terms but I didn't know what to write for the letter 'Z'. A colleague suggested I write 'zzznooze factor'. I was amazed how many people said that is what they wanted; to sleep easy at night. This is a true story.

PUTTING THE THEORY INTO PRACTICE

I have explained how annuities and how drawdown work as well as the advantages of having a combination of these options in one single plan. Now it is time to consider how a new combination plan could benefit you in practice so let's consider the illustrative example of Jack and Sarah.

They have approached their financial adviser for advice about how best to convert their pension pot into income. Jack and Sarah own their own house and have some modest savings. Their pension arrangements are summarised below.

	Jack	Sarah
State pension	Both have full state pensions from age 66	
Company pensions*	Inflation linked company pensions	
Personal pensions	£ 200,000	N/A
Tax free cash sum (25%)	£ 50,000	N/A
Pension pot after cash	£ 150,000	N/A

Jack and Sarah: We would like to take the tax-free cash because we want to spend some money on the house car and take some extra holidays. Any spare cash will top up our savings. However, we are not sure what to do with Jack's personal pension. On the one hand we could purchase an annuity but that will not give us any flexibility. On the other hand we could invest in drawdown but that could be risky.

Financial Adviser: We are getting ahead of ourselves. Before we start discussing annuities or drawdown, we need to discuss your long-term income requirements and objectives. From the information you have given me so far it would seem your priorities include:

Income requirements	You would like as much income as reasonably possible at the outset but that can reduce when your state pension starts at age 66. You would also like to be able to take more income in later retirement
Income for life guarantee	You would like to have some of your income guaranteed for life so you have some peace of mind and security
Income flexibility	You would like to have some flexibility in case your personal circumstances change in the future
Attitude to risk	Although you are both risk-adverse and like the idea of guaranteed income for life you are prepared to accept some investment risk with the part of your pension pot that will provide flexible income

Jack: This summaries our retirement objectives very well. If I die before Sarah I want to leave her without any money worries and if possible, leave a small inheritance for my children.

Jack and Sarah are married. They are both aged 60 and have recently retired.

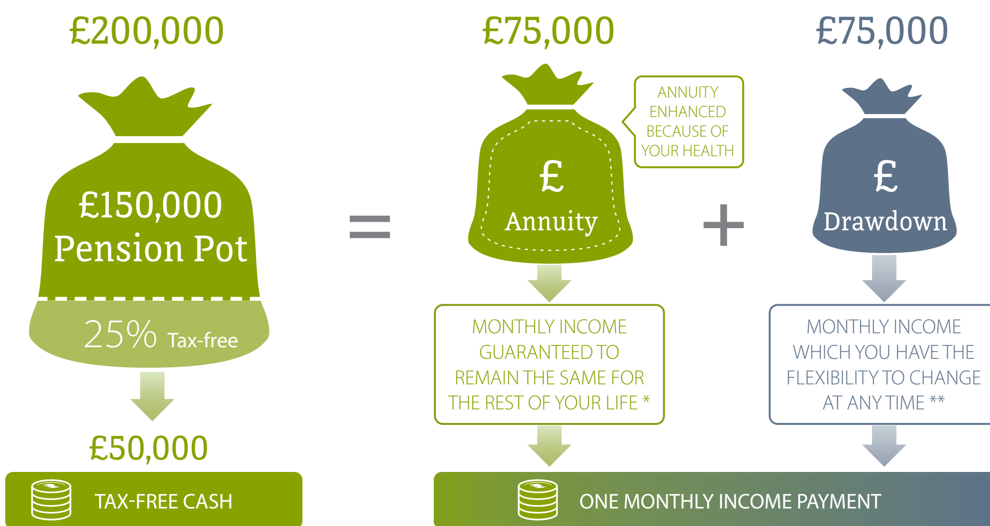
Jack is an engineer and worked for in the aerospace industry. He has a company pension. Sarah worked as a medical receptionist and also has a company pension.

* They both can take their company pensions at age 60 which means that Jack's personal pension can be used to supplement these.

They both have recently had medical treatment and are taking prescription medication, so they will qualify for an enhanced annuity. They have a son and daughter who are both financially independent.

Financial Adviser: As your guaranteed income requirements, need for flexibility and attitude to risk change over time, I think a combination of annuity and drawdown will be more suitable for your circumstances than a single annuity or drawdown plan.

With a hybrid plan such as Partnership's Enhanced Retirement Account part of your pension pot can be used to pay a guaranteed income, and the rest will be used to pay a regular income which can be changed at any time. As you both have health issues you will qualify for an enhanced annuity. Although you can have any combination of guaranteed and flexibility I suggest looking at a 50/50 split as follows:



This plan has the following advantages:

- You can easily change the amount of income you get each month by increasing or decreasing the amount of drawdown income
- If you need less income your guaranteed income can be paid into the cash account until you need it – you will not pay tax on income paid into the cash account
- As you get older you can easily convert flexible income to guaranteed income for life. If your health deteriorates you may qualify for an enhanced annuity
- You will get one payment each month net of tax. This means you will not have to worry about tax because you are a basic rate taxpayer.

Sarah: What happens if Jack dies before me?

Financial Adviser: One of the many advantages of a hybrid plan is the flexibility of death benefits. If Jack dies first you have a number of options including:

- Payment of a cash lump sum if there is money in the cash or drawdown accounts
- Continued income payments if the annuity has a joint-life benefit

If Jack dies before age 75 there will no tax to pay on any cash or income paid out but if he dies after age 75 tax will be paid at Sarah's (or the beneficiary's) marginal rate.

Finally, if there is money invested in the drawdown or cash pots when Jack dies, the children could still benefit if they are named as beneficiaries.

***How much income will we get from the annuity pot?**

This depends on the options chosen, current interest rates and your health. Your financial adviser will obtain a personalised annuity quotation showing how much income you can get.

****How much income can we take from the drawdown pot?**

You can take an income between zero and 100% of the pot, but it is sensible to take an amount of income that will meet your requirements for the rest of your retirement.

How do we get an enhanced annuity quotation?

Your financial adviser will ask you about your lifestyle and your health and obtain an enhanced quotation if you qualify.

THE NEXT STEP

Converting your pension pot into cash and income may well be one of the most important financial decisions you have ever faced (except for buying your home). Therefore, you should get expert help and advice.

The only people who can advise you which options are most suitable for your circumstances are financial advisers. Other people such as Pension Wise or customer services at your pension company can give you a certain amount of help, but they cannot actually advise you what the best solution is.

All advisers will be qualified to a very high standard and regulated and authorised by the industry watchdog the Financial Conduct Authority (FCA). In addition, they will have had specialist training on the new pension freedoms and the new hybrid options.

Before you speak to your financial adviser you should think about the following questions:

How do I find a financial adviser?

There are a number of financial adviser directories including:

www.unbiased.co.uk

www.thepfs.org/yourmoney

www.moneyadviceservice.org.uk

Things to consider:

1	How much will my state pension be?	Find out by going to **www.gov.uk/state-pension-statement**
2	Do you have any outstanding debt?	You might want to re-pay this before you fully retire
3	How is your health?	You might be able to qualify for a higher annuity
4	How much income do you need now and in the future?	☐ As much as possible each month ☐ More income initially and less later on ☐ I don't know and want the option to change my income regularly
5	How much of this income do you need to be guaranteed?	☐ All of my income guaranteed – Consider a lifetime annuity ☐ Some of my income guaranteed – You could split your income between annuity and drawdown options ☐ None of my income guaranteed – Consider pension drawdown
6	How much flexibility do you need?	☐ Flexibility is less important because I prefer guaranteed income ☐ As much flexibility as possible because I don't need guarantees ☐ Some flexibility and some guarantees – a combination of annuity and drawdown options
7	How would you describe your attitude to risk and capacity for loss?	Attitude to risk: ☐ Risk averse ☐ Medium risk ☐ Higher risk
8	Have you thought about the longer term?	☐ Yes – Very good because it is important to plan ahead ☐ No – It might be in your interest to think about this or you could run out of income

GLOSSARY

I have tried to avoid using jargon but inevitably I have had to use some technical names in this guide. Where I have used jargon or a technical term it has been highlighted and I have provided a plain English explanation below:

Pension jargon	Plain English
Annuity	An annuity converts a pension pot into regular income payments for the rest of your life. These payments are normally guaranteed and continue to your spouse or partner after you die if a joint-life option is chosen.
Beneficiaries	You decide who will benefit from your pension fund after your death. Although you can nominate who will be the beneficiary, it is normally at the discretion of the trustees who are in charge of the pension fund because this avoids any inheritance tax (IHT).
Drawdown	A pension option that allows you to take regular or ad-hoc income payments direct from your pension pot and thereby maintain control and flexibility over your pension pot.
Enhanced Annuity	If you smoke, have certain lifestyle factors or medical conditions you may be able to get a higher annuity income.
Flexible income	Describes the flexibility to take as much or as little income as you want when you want from a drawdown plan.
Guaranteed income	Income continues to be paid at the same amount (or an increasing amount) no matter what happens to the stock market or interest rates.
Income pyramid	Explains the concept that most people need a wide base of guaranteed income, a narrower band of discretionary income and a small amount to spend on luxuries.
Hybrid plan	A new type of pension income solution which combines the advantages of guaranteed income from annuities with the flexibility of drawdown in one simple to understand and administer plan. Some of these plans allow you to change the amount of income paid from the annuity so you only pay tax on the amount of guaranteed income you need.
Mortality cross subsidy	Those who die earlier than expected subsidise the annuity payments of those who live longer than expected. Mortality cross-subsidy acts like an invisible force to boost income payments from an annuity.
Marginal rate of tax	Your marginal rate of tax is the highest rate which you pay. In other words, if you are a basic-rate taxpayer only, your marginal rate will be 20%. However, if you are a higher-rate taxpayer your marginal rate of tax will be 40% and you will pay some tax at 20% and some at 40%. If you take cash or income from your pension you could end up paying higher rate tax. These are the current rates (January 2016) of tax and could change in the future.
Money purchase pension	This is a pension where you, and sometimes your employer, pay money into a pension pot every month. The money you pay in gets tax relief and at retirement you have a pension pot which you can convert into cash and income.
Pension freedoms	You can now take your pension pot as cash or income at any time from age 55.
Sequence of return risk	If the investment returns are low or negative in the early years of a drawdown plan it will make it very difficult for the drawdown plan to make up the early losses in future years and may lead to a significant reduction in capital and/or income.
Zzznooze factor	A term used to describe the 'peace of mind factor' or being able to sleep easy at night.

Billy Burrows – Retirement Intelligence

Billy Burrows has been involved with annuities for over 20 years, advising clients on all aspects of annuities and retirement income options. Since January 2013 he has concentrated on strategy, marketing and consultancy.

In 1993 he helped establish Annuity Direct and then in 1997 he set up William Burrows Annuities. A year later he joined Prudential Annuities as their marketing director for annuities. In 2001 he returned to running William Burrows Annuities and in 2010 the business was incorporated with Better Retirement Group Ltd to provide clients with a wider range of services.

Billy now divides his time between hosting the popular consumer retirement options website www.williamburrows.com and running Retirement Intelligence which provides consultancy services to insurance companies on new product development, marketing and strategy.

He is frequently quoted in the national press and appears on radio, podcasts and videos and writes extensively on annuity and drawdown options.

billy@williamburrows.com
www.williamburrows.com

Partnership

Partnership is a FTSE-listed specialist provider of financial solutions for people with health/lifestyle conditions. Twenty years ago, the company launched the UK's first enhanced annuity and since then has gone from strength to strength.

Partnership provides annuities for clients with a wide variety of lifestyle habits and health conditions, from the relatively minor such as a smoking habit and high blood pressure, to the more serious such as heart failure, stroke, diabetes, kidney failure and cancer.

www.partnership.co.uk

Retirement Intelligence ©2016

RET4313 01.16

Design: paulmckenziestudio.co.uk 03/16