

Securing an income stream for the rest of your life

Deciding what to do with your pension fund can be a complex decision

Are you approaching retirement age and have a pension fund that you need to decide what to do with?

There are several options available to you, but one option is to buy a lifetime annuity. An annuity is a financial product that converts your pension fund into an annual pension.

If you've contributed to a defined contribution pension scheme during your working life, you may have a sizeable pension fund built up by the time you retire. Buying a lifetime annuity is one way you can use that pension fund to secure an income stream for the rest of your life.

COMPLEX DECISION

It's important to remember that the first 25% of your pension pot can be taken tax-free, subject to no protection in place and not exceeding £1,073,100, but you'll be charged income tax on any additional money you take. Furthermore, you may need to consider the impact on your eligibility for state benefits or care services.

Overall, deciding what to do with your pension fund can be a complex decision. It's important to consider all options available to you and seek professional financial advice to make the most suitable decision for your individual circumstances.

APPROACHING RETIREMENT

Nearly one million (990,000) pre-retirees, those aged over 55 and still in work, are considering annuities for the first time in preparation for their retirement, according to new research^[1].

One in six people approaching retirement but still working (16%) are looking at annuities due to improved rates against the backdrop of rising living costs. This is in addition to the 828,000 (14%) of working over-55s who had always planned to buy an annuity in retirement^[2].

PRE-RETIRES

Aside from the improvement in rates (18%), people considering an annuity are drawn by the stability of a guaranteed income making it easier to plan their finances (78%) and the assurances the product offers in a volatile market (36%).

But there is still a lack of awareness around annuities. Of the one in five pre-retirees who wouldn't consider an annuity (20%), 16% said it was because they believe they offer a bad deal.

GUARANTEED INCOME

An additional two out of five pre-retirees (44%) described wanting a guaranteed income for the rest of their lives but only half that number want or are considering an annuity, despite this being exactly what it is designed to achieve.

There's no hard and fast rule when it comes to deciding how to fund your retirement. What might work well now, may not be suitable for you in 10, 15 or 20 years' time so it's really important to remain actively engaged with it throughout later life. If an annuity has been purchased there will be no option for alteration in later life.

FINANCIAL PRESSURES

Despite annuities becoming more popular, the research shows there's still a lack of understanding about what an annuity is and what it can offer. This means people risk having an 'either/or' approach to funding their retirement, when in fact a blended approach might be more suitable.

It's important people are aware of all the options they have and whether a combination of these may present the best outcome. Having this knowledge will ensure people can reclaim their retirement at a time when they might be feeling lost due to financial pressures outside their control. ■

READY TO DISCUSS HOW YOU CAN MAKE SURE YOU RETIRE ON YOUR TERMS?

Will your finances be able to support the lifestyle you want? What happens if you outlive your savings? The good news is that you don't have to face these questions alone. We can help you prepare your pension and wider finances so that you can retire on your terms. So don't wait until it's too late. Please contact us to discuss your future plans.

Source data:

[1] This is based on Legal & General's own data. The YOY data was calculated in the 12 months ending in October 2022.

Research was carried out online by Opinium Research amongst 2,003 UK adults aged 55+ who are still in work between 8–17 November 2022. Pre-retirees relates to those aged 55+ who are still in work. According to ONS statistics, there are over 6,000,000 UK adults aged 55+ who still work. 16% of working adults aged 55+ who had not previously considered an annuity are now considering one because of interest rates and cost of living. This equates to 990,000 UK adults.

[2] According to ONS statistics, there are over 6,000,000 UK adults aged 55+ who still work. 14% planned to buy an annuity, which equates to 828,000 UK adults.

A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL AGE 55 (57 FROM APRIL 2028 UNLESS PLAN HAS A PROTECTED PENSION AGE).

THE VALUE OF YOUR INVESTMENTS (AND ANY INCOME FROM THEM) CAN GO DOWN AS WELL AS UP WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

YOUR PENSION INCOME COULD ALSO BE AFFECTED BY THE INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS.