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Building a reliable income stream for your golden years

Make sure you maximise your retirement income through annuity shopping

When it comes to using your pension pot, buying an annuity is one option that provides a regular and guaranteed retirement income for either your lifetime or a fixed term. However, it's important to note that purchasing an annuity is typically an irreversible decision.

Do you know that shopping around for an annuity could earn you £15,000 more over your retirement?^[1] Recent analysis has shed light on the benefits of exploring your options regarding annuities. Therefore, it becomes crucial to carefully consider your options, select the appropriate type of annuity and strive to secure the best possible deal.

VALUABLE TOOL FOR RETIREMENT PLANNING

Annuities are a valuable tool for retirement planning as they offer a reliable and predictable income stream, often lacking in other investment options. Furthermore, certain annuities can be linked to inflation rates, providing stability during periods of economic volatility. This makes annuities attractive for individuals prioritising risk aversion in their pension savings strategy.

The primary difference between annuities and pension drawdown products is that annuities require using the entire pension pot to purchase an insurance product that provides a fixed retirement income. In contrast, pension drawdown products allow flexible income withdrawals with the remaining funds invested.

BALANCE SECURITY AND FLEXIBILITY

Unlike pension drawdown arrangements, annuities do not typically pass down any remaining funds to beneficiaries after the holder's death. However, it is possible to balance security and flexibility by partially combining annuities with pension drawdown.

According to the analysis, a 66-year-old with a £100,000 pension pot can now purchase an annuity with an annual income of £6,790. This represents an increase of £842 compared to the previous year. The surge in interest rates has resulted in the highest demand for annuities in years.

IMPORTANCE OF SHOPPING AROUND

Data further emphasises the importance of shopping around. It has revealed that the difference between the best and worst annuity rates available can be substantial. For a 66-year-old with a £100,000 pension pot, rates can differ by as much as 9.1%, translating to a potential annual income difference of £622 or a staggering £14,928 over the average retirement period.

The recent focus on annuities can be attributed to rising interest rates, which have a tangible impact on the income of those who have already purchased an annuity. However, it is essential to understand that while record rates are advantageous, they should be considered part of a broader discussion. ■

Source data:

[1] Research by Legal & General Retail as of 30/6/23 based on a standard lifetime annuity with a rate of 6.79% for a single life with a £100k premium, 66 years old, with a 5-year guarantee and a level benefit paid monthly in advance. Legal & General Retail estimates that an average 66-year-old with a standard level of health will have a life expectancy of 90 years.

LOOKING FOR A GUARANTEED INCOME THROUGHOUT YOUR LIFETIME?

Annuities continue to be attractive for individuals seeking peace of mind and the assurance of a guaranteed income throughout their lifetime. If you are contemplating an annuity, speak to us and we'll explain how to assess all your options. As the research suggests, shopping around is crucial in securing the best possible deal for your retirement income.

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