HARGREAVES LANSDOWN

GUIDE TO ANNUITIES

IMPORTANT INFORMATION

We've written this guide to give you useful information about annuities, but it's not a personal advice.

The earliest age you can normally take your pension is 55 (rising to 57 in 2028).

What you do with your pension is an important decision. We strongly recommend you understand your options and check your chosen option is right for your circumstances. Take advice or guidance if you're unsure.

The government provides a free and impartial service to help you understand your retirement options. Go to **www.hl.co.uk/pension-wise** to find out more.

The information in this guide is correct as at 12 March 2024 unless stated otherwise. All figures apply to the 2024/25 tax year. Pension and tax rules can change though, and benefits depend on your circumstances.

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WHAT IS AN ANNUITY?

A guaranteed income for life.

An annuity is one of the few ways of getting a secure income from your pension. It's a guaranteed income for life, no matter how long you live, or what happens to the stock market.

You can usually choose to take up to 25% of your pension as tax-free cash (normally up to a maximum of £268,275), and use the rest to buy an annuity (a taxable secure income). You don't have to take your pension in one go, or just choose an annuity if you don't want to. You can use a mix of retirement options to match your needs.

Annuities are provided by a range of insurance companies and rates will vary. Your current pension provider is unlikely to offer the best rate, so it's worth shopping around to compare quotes.

Once you set up your annuity, you normally can't change or cancel it, so it's important to choose your options carefully.

Pension and tax rules can change and benefits depend on individual circumstances.

Up to

25%

of your pension as tax-free cash

HOW MUCH INCOME COULD YOU GET?

Many different factors will affect how much annuity income you get. These include:

SIZE OF YOUR PENSION
The more of your pension you use to buy an annuity, the higher your income is likely to be. Although, you may not want to lock your entire pension into an annuity in one go, so buying more than one annuity over time may be a strategy worth considering.

ANNUITY RATES AT THE TIME YOU BUY
Annuity rates determine how much income you could get. They change all the time because they're linked to gilt yields (the yield made on government bonds) and are particularly sensitive to interest rate changes.

When yields have been high, annuity rates have also tended to be higher. When low they have typically been lower.

View our best annuity rates at **www.hl.co.uk/retirement/annuities/best-buy-rates**

YOUR AGE, HEALTH AND LIFESTYLE DETAILS

You'll tend to get a higher annuity income the older you are. If you disclose unhealthy lifestyle choices or underlying health conditions it might also lead to more income.

Even confirming details like how much alcohol you drink or your height and weight could mean you get an enhanced rate.

We explain more on page 9.

ANNUITY FEATURES AND OPTIONS

When you set up an annuity, you can normally choose for your income to increase over time, to receive monthly or annual payments and if your income should continue to your spouse when you die.

OPTIONS INCLUDE:

Single life
Your annuity income will pay for the rest of your life, but will stop when you die.

Joint life
Your annuity income will continue to be paid to your beneficiary (usually your spouse or partner) if you pass away first.

Guarantee periods
Your income will continue to be paid until the guarantee period ends, even if you die before.

Value protection
The original amount you used to exchange for an annuity income, minus any income already paid, will be paid out as a lump sum when you die.

Index linked
Link your income to the Retail Price Index (RPI).

Increasing income
Set your income to rise by a fixed percentage each year (typically 3% or 5%).

WHAT ARE MY OPTIONS?

Questions to get started.

1 DO YOU WANT TO TAKE TAX-FREE CASH?

You can usually take up to 25% tax-free cash from your pension (normally up to a maximum of £268,275). But you don't have to take any if you don't want to. For example, some clients might want to use the entire value of their pension to secure more income. Others may prefer a tax-free lump sum to spend or save as they choose.

2 DO YOU WANT YOUR INCOME TO KEEP UP WITH INFLATION?

An annuity payment can stay the same, or increase each year. Increases will mean you start with less, but your income will be better protected from inflation. This is important, as you may be receiving the income for 30 years or more. Over the past 30 years the price of goods and services has roughly doubled. Goods and services costing £10 in 1994 would now cost you just over £20.

You have the option to increase your income by a set amount each year. Typically 3% or 5% but you can choose others. Alternatively, you could link your income to the Retail Prices Index (RPI) so it increases in line with the cost of goods. This means your income will retain its buying power by tracking inflation.

3 HOW OFTEN DO YOU WANT INCOME PAID?

You can choose to receive your income every month, every three months, every six months or once a year.

You can either have income paid in advance (immediately once your annuity is set up), or paid in arrears (at the end of your chosen payment period).

4 DO YOU WANT YOUR INCOME TO CONTINUE TO YOUR LOVED ONES?

Once set up, your annuity income will continue to be paid to you, regardless of how long you live for. Single life annuities pay a higher income but, if you have no other features or guarantees built in, the income will stop when you pass away.

If you're married, have a partner, or have other financial dependents you might want to make sure your pension continues to pay them after you're gone. Particularly if they don't have a pension of their own, or you think they might struggle financially without you.

Annuities can be set up to pay income (or a lump sum) after your death to your loved ones. These options will reduce your starting income, but they could give you peace of mind and more income could be paid out overall. The tax treatment of payments after you die will depend on your age.

Joint life annuities – a pension for your loved ones
Joint life annuities continue to pay income to your surviving spouse or partner when you die. You decide what proportion of your income will be paid after you pass away.

Guarantee periods – a certain amount of income is paid out
You can choose for your annuity to pay for a minimum number of years. Guarantee periods of 5 or 10 years usually cost relatively little. Longer guarantee periods up to 30 years are also available.

Value protected annuities – a lump sum for your loved ones
Value protected annuities return the original amount you used to buy the annuity, less any income paid, to your beneficiaries.

ENHANCED ANNUITIES

Could you qualify for a higher income?

Unlike some other insurance products, if you confirm your health and lifestyle details when you get an annuity quote you'll normally get a better deal.

There are over 1,500 health conditions and lifestyle factors which could mean you get a higher income.

An enhanced annuity could pay you a lot more than a standard annuity.

Visit www.hl.co.uk/enhanced-annuity

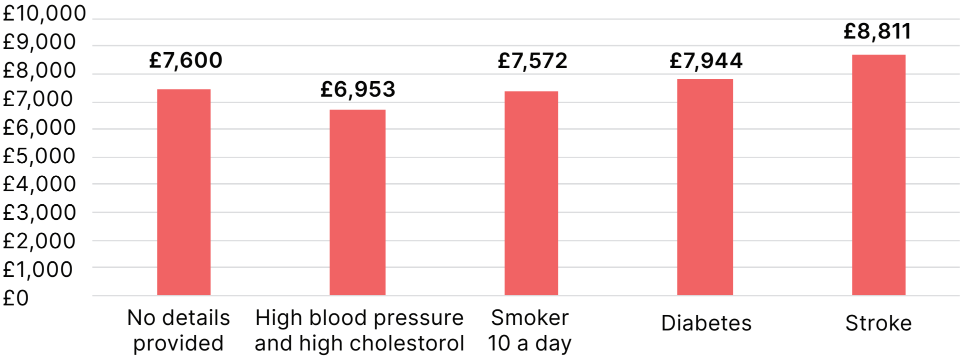
or call **0117 980 9940**.

Some common factors that could mean you qualify for an enhanced rate:

- drinking alcohol
- being overweight
- smoking
- high blood pressure
- high cholesterol
- diabetes
- heart problems
- regularly taking prescribed medication.

The amount of income you could receive will depend on your personal circumstances.

HOW LIFESTYLE AND HEALTH CONDITIONS CAN INCREASE ANNUAL INCOME



Source: Hargreaves Lansdown Annuity Calculator, 23 February 2023..
All quotes are for a single life annuity, paid in monthly in advance, with no escalation or guarantees built in costing £100,000. Quotes are for a married man aged 65 with a wife 3 years younger, who lives in an area which has an average life expectancy. When health details have been added, we've also said they drink 7 units of alcohol a week and have a Body Mass Index of 27.

GET A QUOTE

Compare quotes from across the market in minutes.

It's important you shop around to find out how much annuity income you could get. Your current pension provider is unlikely to offer you the best deal. There are currently six annuity providers in the open market and each one will offer you a different annuity rate.

In the past, getting an annuity quote took time, not to mention lots of paperwork. Our online annuity calculator lets you do it straight away online – at any time.

It can help you to compare quotes from all five annuity providers. Your quote will show you exactly how much income you could get each year based on the annuity options you choose. With quotes there is no obligation to buy an annuity but they're only guaranteed for a limited period and rates will go up and down in future.

Visit **www.hl.co.uk/retirement/annuities** to compare quotes and find out how much secure income you could get.

All you need to do is answer a few questions about you and your pension. And if you confirm your health and lifestyle details – it could mean you'll get a higher annuity income.

“

My annuity purchase was carried out quickly and efficiently. Your staff are a pleasure to speak to -extremely helpful. Thank you.

MRS PAULA BLAKE

WHY USE HL'S ANNUITY SERVICE?

1. **Speak to a dedicated expert straight away.**
Our Helpdesk can answer any questions you have or get you quotes over the phone. If you think you need advice, they can put you in touch with an adviser.

2. **Get the best rates from the UK's leading annuity providers from across the open market.**
Shopping around and comparing rates is vital if you want to secure the most income available.

3. **Get live quotes in minutes.**
HL's online annuity service makes it easy to confirm your details and get quotes.

4. **A secure, FTSE-listed company.**
We've been helping UK investors for over 40 years.

MAKE THE MOST OF YOUR TAX-FREE CASH

Short and medium term ideas.

You can usually receive up to 25% of your pension tax-free (normally up to a maximum of £268,275). If you use all your pension to buy an annuity, you'll receive all your tax-free cash in one payment. If you buy several annuities, you could receive a tax-free cash payment each time.

It's up to you how you save or spend this cash. You might decide to use some to pay off your mortgage, to take an extended trip abroad, or to help your loved ones financially. It's your money and your choice.

Your retirement might last 30 years or longer, and inflation reduces the spending power of cash over time. So having a plan for your cash is important.

Tax rules can change, and the value of benefits will depend on your circumstances.

SHORT-TERM:
As a general rule of thumb everyone should hold around 3-6 months' worth of expenditure as cash to cover essential and emergency spending. This should be held in your current account and/or an easy access savings account. You might not get the highest interest rate, but you'll be able to access your money straight away.

When you've finished work and are retired, it might be a good idea to increase the cash you hold to perhaps 1 to 3 years' worth of expenditure. You could use some of your tax-free cash to achieve this.

For any planned expenses in the next 5 or so years, that can't be covered by secure income, you might consider holding more cash. For example, to cover vehicle maintenance, travel and holidays. Your tax-free cash could help to meet these needs.

MEDIUM-TERM:
Depending on how much of your pension you use to buy an annuity and how much tax-free cash you take, once you've got all of the cash you need for planned spending, you might consider fixed term savings for anything left. This is where you tie your money up for a set period in exchange for a higher rate of interest than easy access accounts.

You won't normally be able to withdraw the money until the term is up. But you might decide to set up a number of fixed term savings products so they mature at different times. For example, one that pays out after 6 months, another after 3 years and a third after 5 years. This gives you more flexibility and means you don't tie up all your money for longer than you need to.

HL Active Savings can help
The Active Savings service offers easy access and fixed term savings accounts from a range of UK banks and building societies. Through one simple to use online account, you can move your money between banks with just a few clicks, with no paperwork and no hassle. Please note, for fixed term products you will only be able to move funds at maturity.

To find out more visit **www.hl.co.uk/savings**

COMPARING YOUR OPTIONS

<table>
<tr><th>ANNUITY</th><th>DRAWDOWN</th><th>UFPLS (LUMP SUMS)</th></tr>
<tr><td colspan="3">Which option might be right for you</td></tr>
<tr><td colspan="2">You'd like to receive your tax-free cash in one payment (although you don't have to use all your pension in one go).</td><td>You'd like to receive your tax-free cash in stages, or to withdraw your entire pension in one go.</td></tr>
<tr><td>You want or need to secure yourself an income for the rest of your life.</td><td colspan="2">You'd like to decide your income level, and change it as and when you like.</td></tr>
<tr><td>You don't want to keep your pension invested.</td><td colspan="2">You want the potential to increase your pension by investing.</td></tr>
<tr><td colspan="3">Things to consider</td></tr>
<tr><td rowspan="2">Once your annuity is set up, you usually can't change or cancel it, even if your circumstances change.</td><td colspan="2">Your income won't be secure and it could run out. So these options might not be best for you unless you have other income to rely on.</td></tr>
<tr><td>As soon as you take income (but not if you just take tax-free cash), your pension contributions will be restricted.</td><td>As soon as you take your lump sum, pension contributions will be restricted.</td></tr>
<tr><td colspan="3">Do you have to use your entire pension?</td></tr>
<tr><td>No – you can choose how much you use to buy an annuity.</td><td>No – you can move money into drawdown in stages.</td><td>No – you can take cash lump sums as and when you need to.</td></tr>
<tr><td colspan="3">What decisions do you need to make at the start?</td></tr>
<tr><td>How much of your pension you want to use for an annuity (usually up to 25% of this amount can be taken as a tax-free lump sum).</td><td rowspan="2">How much of your pension you want to move into drawdown (usually up to 25% of this amount can be taken as a tax-free lump sum).</td><td rowspan="2">How much you'd like to withdraw. Usually 25% of each withdrawal is tax free, and the rest is taxable.</td></tr>
<tr><td>Which options you want to include (e.g. a guaranteed income for your partner if they outlive you).</td></tr>
</table>

<table>
<tr><th>ANNUITY</th><th>DRAWDOWN</th><th>UFPLS (LUMP SUMS)</th></tr>
<tr><td colspan="3">What ongoing decisions do you need to make?</td></tr>
<tr><td>None – you know you'll receive the income for the rest of your life.</td><td>Where to invest your pension, and how much (if any) taxable income you'd like to take.</td><td>Where to invest any remaining pension funds.</td></tr>
<tr><td colspan="3">How much income will I receive?</td></tr>
<tr><td>It depends on the size of your pension, the options you choose and the annuity rates available (which could go up or down in the future).</td><td colspan="2" rowspan="2">You can take out as much or as little as you like for as long as your pension size and investment performance allows.</td></tr>
<tr><td>Shopping around and confirming health details before you apply could mean you get more income.</td></tr>
<tr><td colspan="3">What happens to my pension when I die?</td></tr>
<tr><td>Payments will stop unless you've chosen for them to continue after you die, they could be tax-free if you die before 75 and will be taxed as income if after.</td><td colspan="2">If you die before 75, your pension can be passed to your beneficiaries, tax-free in most cases.
If you die at or after 75, any withdrawals your beneficiaries make from your pension will be taxed as their income.</td></tr>
</table>

SPEAK TO AN EXPERT

Call us on **0117 980 9940**
Our Helpdesk can answer your questions and explain how each option works.

GUIDANCE FROM PENSION WISE

The government's Pension Wise service offers free, impartial guidance to help you make sense of your options. It's not personal advice.

You'll find lots of information on their website and can book a face to face or telephone consultation with one of their pension specialists. To find out more go to **www.pensionwise.gov.uk**

MIX AND MATCH TO SUIT YOUR NEEDS

You don't have to choose just one option. For example, you could exchange part of your pension for an annuity (giving you a secure income to cover essential expenses) and leave the rest invested in drawdown to hopefully continue growing.

IMPORTANT NOTES

Some final thoughts.

APPLYING FOR AN ANNUITY
Annuity quotes are guaranteed for a limited time (up to 14 days). This is shown on the quotation. The pension money and paperwork must be with the annuity company by the date the quote expires to secure the rate. Annuity rates change regularly and may go up or down.

Although you have the right to cancel, you only have a limited time to do so. Once set up an annuity cannot normally be altered so it is important to consider your options carefully.

Enhanced annuities can only take into consideration health and lifestyle at the time of applying. Should your health change in the future your annuity and rate cannot be altered. Annuities are covered by the Financial Services Compensation Scheme. This could act as a safety net if an annuity company is unable to meet its annuity obligations.

Remember, once you have made the decision to purchase an annuity, every month you delay means a month's lost income – this can be hard to make up again.

TRANSFERRING PENSIONS
Before transferring a pension you should find out if you have to pay any penalties or exit charges, or if you'll lose out on any valuable benefits. You should carefully consider whether it's in your interest to go ahead and you need to be sure that benefits will be at least as good as those you're giving up (for example make sure you won't be sacrificing defined benefits or guaranteed annuity rates).

3 NEW ALLOWANCES
There used to be a limit to the total value of pension benefits you could build up throughout your lifetime and generally receive up to 25% tax free. This limit was known as the lifetime allowance and was set at £1,073,100 for most people. However, from 6 April 2024, the lifetime allowance was abolished and replaced with three new allowances. These are the lump sum allowance, the lump sum and death benefit allowance, and the overseas transfer allowance.

The lump sum allowance normally provides an upper limit to the tax-free amount of certain lump sums that can be taken across an individual's pensions. This allowance is £268,275 for most people. Payments that use up this allowance include pension commencement lump sums (PCLS) and the tax-free element of uncrystallised funds pension lump sums (UFPLS)

The lump sum and death benefit allowance applies to payments that use up the lump sum allowance as well as the tax-free element of serious ill health lump sums and certain non-taxable lump sum death benefits. For most people, this allowance will be £1,073,100.

The overseas transfer allowance provides a limit on transfers to Qualified Recognised Overseas Pension Schemes (QROPS). This allowance is £1,073,100 for most people. Any value that exceeds this allowance will normally be subject to the Overseas Transfer Charge (OTC).

To find out more about the new allowances, including how you may be affected if you used lifetime allowance or took benefits under the previous rules, visit **www.hl.co.uk/new-lump-sum-allowance**

ADVICE

We offer our service without personal advice as standard and have published this guide to help you make your own investment decisions. If you have any doubts about whether an investment is suitable for your circumstances you should seek personal advice.

TAX-FREE CASH RECYCLING

If you significantly increase pension contributions in the year you take tax-free cash from a pension or in the two years before or after, this may be seen as **'recycling'** tax-free cash. You may have to pay a tax charge of up to 70%.

ABOUT US

We're Hargreaves Lansdown – a financially secure FTSE-listed company, trusted by over 1.8 million clients. We take account security seriously and have over 40 years experience in empowering people to save and invest for a brighter future.

EXPLORE MORE
Go online to compare annuity rates:
www.hl.co.uk/retirement/annuities

Find out more about your annuity options:
www.hl.co.uk/retirement/annuities/your-options

Visit our best buy table to view the best annuity rates from the UK's leading providers: **www.hl.co.uk/retirement/annuities/best-buy-rates**

GET IN TOUCH
Call us on **0117 980 9940**
Monday to Friday 8am-5pm
and Saturday 9:30am-12:30pm

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