



SUCCESSION WEALTH



A Guide to Creating a
Retirement Income using Annuities



SUCCESSION WEALTH

Welcome to Succession Wealth

Our Wealth Planners are here to help you take control of your finances and provide you with the confidence you need to go after the things that matter to you.

Succession Wealth Management Limited is a large national UK financial advice firm. Our teams of Wealth Planners deliver high quality independent advice to thousands of clients across the UK, and we're committed to helping people achieve more with their money.

Our clients are at the heart of everything we do and looking after their wealth journey is a privilege to us. The relationships we build last longer than a lifetime, and we are proud to provide advice across generations. When you choose to work with us, we promise to provide an exceptional personal service tailored to your unique financial aspirations.

If you are approaching or already in retirement, you may be considering how you'd like to access your pension savings to create a stable income.

One of the options available to you for this is an annuity. Annuities can be a helpful way to ensure you receive a consistent income for the rest of your life.

Despite this, many people admit to a lack of understanding about how annuities work. This means that millions could be overlooking annuities and the benefits they can bring to your retirement income.

In this guide, you'll learn more about annuities and discover some important considerations that could help you decide whether one may be right for you.

You'll find useful information about:

- What an annuity is and how it works
- The different types of annuities that are available
- The benefits and drawbacks of an annuity
- The key considerations that may influence whether an annuity is right for you

If you require more help planning your retirement income, our experienced team here at Succession Wealth can provide support.

Email us at hello@successionwealth.co.uk or call us on 0800 051 4659 and we will arrange for someone to contact you.



An annuity can provide a guaranteed regular income for the rest of your life

An annuity is an insurance product that you buy, usually (but not always) with a lump sum from your pension. It then provides you with a guaranteed income.

This can be particularly helpful if you have a defined contribution (DC) pension, and you want to generate a reliable, regular income.

The level of income you receive will depend on several factors, including:

- Your age
- The type of annuity you choose
- The rate that your provider offers
- Any underlying health conditions you have

Depending on your personal circumstances, you may need to pay Income Tax on the income you receive from your annuity.



Rising gilt yields have meant that annuity rates have soared in recent years

The rate that your provider offers on your annuity will have a significant influence on the amount of income you can expect to receive from it.

Annuity rates have risen in recent years, partly driven by the higher interest rates and gilt yields we've been experiencing. Higher rates mean that you may be able to secure a higher income.

The graph below demonstrates how the annual income available for a single-life level annuity with a five-year guarantee has increased in recent years.

Did you know?

[Legal & General](#) reports that annuity rates rose by 34% between March 2022 and March 2024.

Mind the Gap

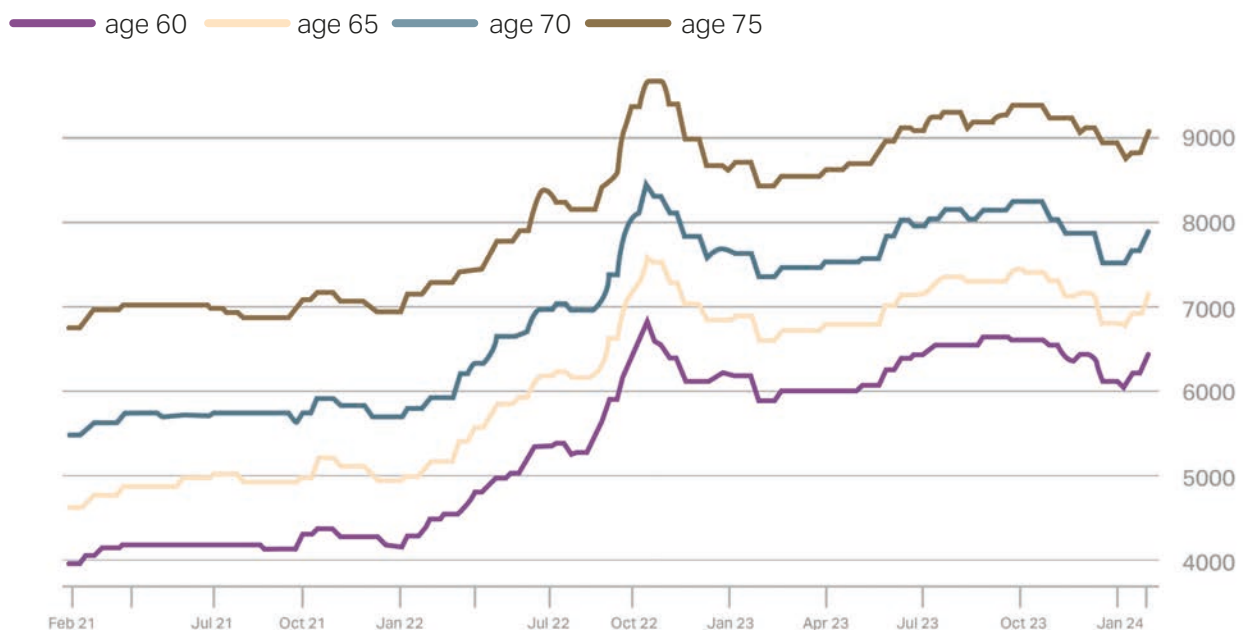
Even though rates have risen, not all providers offer the same value on their annuity products.

[Investors' Chronicle](#) reports that, in August 2023, the gap between the best and worst annuity rates for a healthy 65-year-old paying £50,000 was equivalent to £400 of income a year. This rises to £500 for a 70-year-old, and £650 for a 75-year-old.

So, be sure to shop around for the most competitive rate before you commit.

ANNUITY RATE JUMPED IN THE PAST THREE YEARS

Income from a £100,000 single-life level annuity with a 5-year guarantee (£)



Source: [Investor's Chronicle](#)

There are a few different types of annuities to choose from that cater to varying needs

As you've read above, there are different types of annuities to choose from, each offering slightly different benefits. You can also choose how often payments are made, how payments may increase in future and what happens after you die. Some of the choices available include the following:

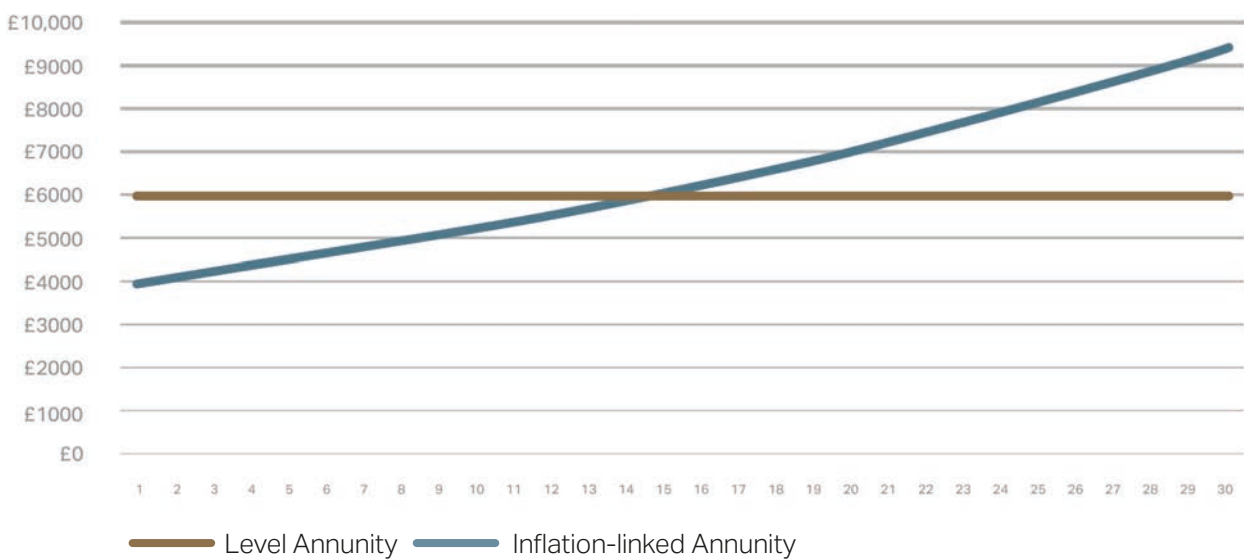
Level versus inflation-linked annuity

When you take out an annuity, you can choose between a level or an inflation-linked annuity. The former will offer you a consistent income throughout the term of your annuity, whereas the latter will offer you an annual income that rises with inflation.

As the cost of living rises, you may find that your expenses increase throughout your retirement, even if your lifestyle remains the same. So, it might be sensible to consider whether you'd like your income to rise so that you can maintain your preferred standard of living.

It's important to note that, although the income from an inflation-linked annuity will rise over time, it usually offers a much lower initial rate than a level annuity. **We have created an illustration of this in the graph below.**

Change in income throughout retirement for an inflation-linked annuity paying an initial income of £4,000 with 3% annual growth compared to a level annuity paying an income of £6,000



Single-Life Versus Joint-Life Annuity

A single-life annuity means that the payouts will only ever be paid to you – after you pass away, the payments will usually stop.

If there is someone you would like to continue to provide for financially after you pass away, then a joint-life annuity can help. When you take out the annuity, you can choose for your payments to continue after you pass away to a surviving partner or dependant.

Joint-life annuities tend to offer a lower rate, since the insurer is likely to need to make payments for longer. However, it could provide valuable peace of mind that your partner or family member will continue to receive financial support after you have passed away.

Lifetime Versus Fixed-Term Annuity

Another option that you can consider when you take out an annuity is whether you would like to receive a guaranteed income for the rest of your life, or if you would prefer a fixed term.

A lifetime annuity is a popular choice, as it provides financial security for as long as you need it.

However, a fixed-term annuity may offer more flexibility if you would prefer to keep your options open as you progress through your retirement. In this case, you could choose an annuity that lasts 5, 10, or even 20 years.

You can buy more annuities later on if you would like to.

You also have the option of purchasing a “guarantee period” for your annuity, commonly 5 or 10 years.

This means that the annuity will pay out for at least this period of time, even if you pass away before the end of the guarantee period.

Another option is adding Value Protection. This means that on your death the annuity will guarantee to pay out a minimum amount in total, this is often the balance from the amount of your pension fund when you bought the annuity less all the payments made until you pass away.

If you have any underlying health conditions, you may have access to better rates

Many retirees believe that underlying health conditions might mean that they are offered lower rates on their annuities, but, in fact, the opposite is true.

You may be eligible for an “enhanced annuity” if you have certain health conditions.

It's important to disclose any health conditions you have. If you don't, you could miss out on higher rates.

An annuity can offer several great benefits in retirement

1. It provides financial security for as long as you need it

One of the most popular benefits of an annuity is that it provides a regular income for the rest of your life, or the term of the annuity.

This can be particularly helpful if you have a DC pension, because you won't need to calculate how much you can withdraw each year to cover immediate costs without running out of money later on. As a result, an annuity could create valuable peace of mind, especially if you are worried about outliving your pension savings.

A defined contribution (DC) pension is one that you contribute to throughout your career. When you retire, it is your choice how you choose to take an income from your pension.

A defined benefit (DB) pension, also known as a "final salary pension", offers you an annual income in retirement based on how long you have been a member of the scheme and the salary you earned while you were working.

2. Your pension savings are not exposed to market fluctuations

When you buy an annuity, you will usually pay for it using some or all of your pension savings.

If you leave your savings within a pension, for example if you choose to access them using flexi-access drawdown, they may remain at least partly invested in the stock market. This carries risk, as your savings are exposed to potential fluctuations in value, which might affect how much income you are able to draw from your pension.

By buying an annuity, you can lock in an income and, in doing so, you can shield your pension from potential market volatility.

3. Your retirement income could rise with inflation

If prices rise more quickly than your savings grow, the spending power of your money falls. This is especially challenging in retirement when you may be reliant on your savings for income.

[The Bank of England inflation calculator](#) shows that the average rate of inflation from 2013 to 2023 was 3%. So, if your annual expenses totalled £40,000 in 2013, you would need around £53,000 in 2023 to be able to afford the same lifestyle.

An inflation-linked annuity can be a helpful way to combat this. If you know that your income will rise with inflation, you can feel confident that your annuity will enable you to afford the lifestyle of your choice even if prices rise.



An annuity has some potential drawbacks that mean it may not be suitable for you

1. Your pension doesn't have an opportunity to grow any further

While you are contributing to your DC pension, it is likely that it will be at least partly invested in the stock market. This gives your savings the opportunity to generate positive returns, potentially growing your wealth over time.

By withdrawing the funds from these investments to purchase an annuity, while shielding them from market volatility, you also remove the opportunity for them to grow further.

Any pension savings that remain invested have the potential to fall in value as well as rise, so you will need to weigh up the risks of each approach to decide what is right for you.

2. There is very little flexibility in an annuity

Though the guarantee of a regular income can provide valuable peace of mind, it does come with a lack of flexibility.

Once you have bought an annuity, you usually can't change your mind. So, it's vital to be absolutely sure of your decision before proceeding.

In comparison, using flexi-access drawdown means that you can choose how much income you take from your pension each year.

If you find that your expenses have fallen, you can withdraw a smaller amount in a given year. Equally, if you have a home renovation project, dream holiday, or something else to fund, you can withdraw more to cover these costs.

If you would prefer flexibility in how much of your pension fund you withdraw each year or if your income needs are likely to fluctuate, an annuity may not be the right option for you.

The average life expectancy for a 65-year-old man retiring today is 85, and he has a 1 in 4 chance of reaching his 92nd birthday.

A 65-year-old woman retiring today can expect to live, on average, to age 87, and she has a 1 in 4 chance of living to age 94.

Understanding average life expectancy can help you to estimate how many years of retirement you may need to fund.

Source: [Office for National Statistics](#)

Four important considerations before buying an annuity

1. Which do you value more: flexibility or security?

An annuity can help to boost your financial security because you can rely on an annual income, which may even rise with inflation. However, when you buy an annuity, you sacrifice an element of flexibility, because you cannot change the terms of your annuity after you have bought it.

There is no right or wrong answer here, only the answer that feels right for you.

You could achieve both flexibility and security by buying an annuity with part of your pension and accessing your remaining savings using flexi-access drawdown.

2. Are you willing to sacrifice a higher initial rate to secure an income that rises with inflation?

Inflation-linked annuities could help your income to keep pace with inflation, maintaining your ability to cover your expenses throughout retirement.

But to achieve this, you may need to accept a lower initial rate.

One of the factors that might influence your decision is how long you would like your annuity to provide an income for. If you would like to buy a lifetime annuity, inflation-proofing your income might be helpful, as you may need to fund 20+ years in retirement. Prices can rise considerably in this time.

3. How much do you have in your pension fund to spend on an annuity?

The amount that you have available to spend can affect how much income you can receive from your annuity. Usually, the more you can spend on the annuity, the higher the income you can expect to receive.

It can be helpful to start by calculating how much your preferred lifestyle in retirement might cost, as this can provide a guideline of the income you'll need to achieve.

Additionally, do you have any retirement goals that might require you to withdraw a lump sum from your pension, for example a dream holiday? This might influence your decision about how much of your pension fund you'd like to spend on an annuity.

Remember to include any State Pension that you may be eligible for when calculating how much income your savings might equate to in retirement.

To be eligible for the new State Pension, you need to have a minimum of 10 years' worth of National Insurance credits. For a full State Pension, you'll usually need 35 years' worth of credits on your record.

You can use the [government website](#) to find out how much State Pension you could receive, and discover if you could increase the amount that you could receive by buying additional National Insurance credits.

4. Do you want your retirement income to provide financial security for a partner or financial dependant after you pass away?

When setting up an annuity, you can choose for your partner or another person who is financially dependent on you to continue to receive payments from it after you pass away. This is known as a joint-life annuity.

However, this isn't the only way that you can provide financial security for your loved ones after your death. It may be sensible to consult a certified Wealth Planner to discuss your circumstances and goals to discover what is most suitable for you.

Seeking advice

There are many complex decisions to make to help you achieve your retirement goals. If you are unsure about any aspect of your retirement planning, always seek guidance before taking action.

We Can Support You On Your Retirement Planning Journey

If you are approaching retirement and want to get your finances in order, we are here to support you.

We can also help you to understand whether an annuity may be the right choice for you.

Alternatively, email or call us and we will arrange for someone to contact you.



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Please Note

This guide is for general information only and does not constitute advice. The information is aimed at retail clients only.

The content was accurate at the time of writing, changes in circumstances, regulation, and legislation after the time of publication may impact on the accuracy of the article.

The Financial Conduct Authority does not regulate tax planning.

A pension is a long-term investment. The value can go down as well as up which could impact the level of pension benefits available.

The minimum pension age is due to increase from 55 to 57 by 2028.

Your pension income could also be affected by interest rates at the time you secure an annuity.

Accessing pension benefits early may impact on levels of retirement income and your entitlement to certain means-tested benefits and is not suitable for everyone. You should seek advice to understand your options at retirement.

Past performance is not a reliable indicator of future performance. The value of your investment (s) and the income derived from it, can go down as well as up and you may not get back the full amount you invested.

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