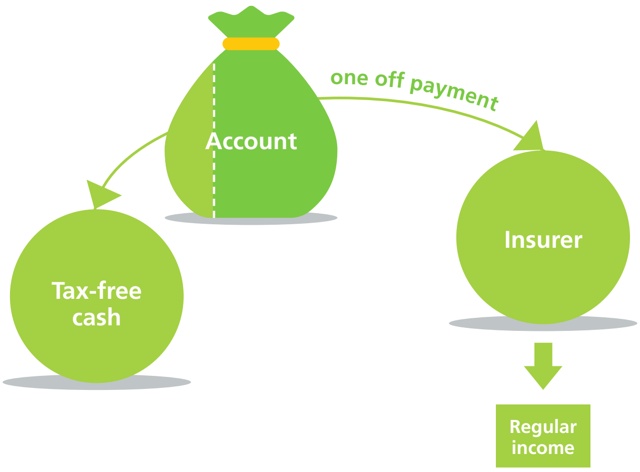
RETIREMENT FACTSHEET 4

THE CHEVIOT PENSION

ACCESSING YOUR SAVINGS: A SECURE INCOME (ANNUITY)

From the age of 55, you can use all or part of your fund to buy an annuity. An annuity is a type of insurance policy that guarantees you an income for life, in exchange for a lump sum payment to the annuity provider.

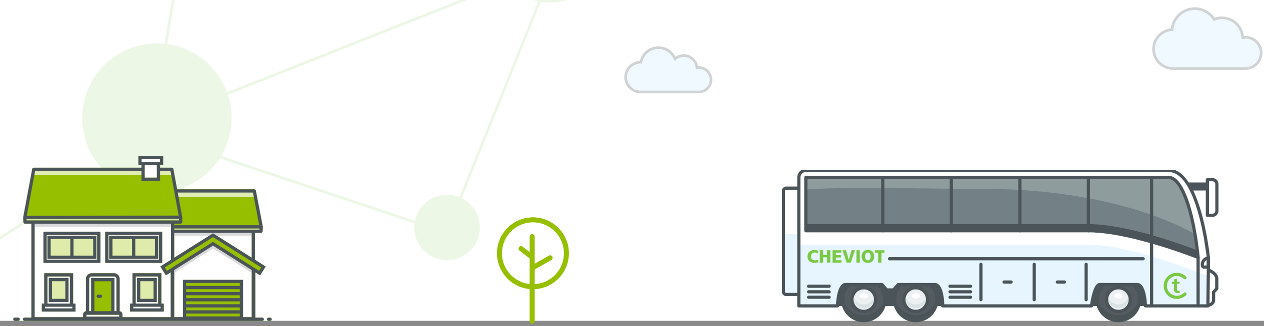


An annuity provides peace of mind because you know how much income you will receive. However, once you have paid the money to the annuity provider, you cannot change your mind later. Unless you pay to add extra features to your annuity – such as a pension for your spouse or a guaranteed period – the money will remain with the annuity provider even if you die prematurely. (The industry has been discussing options for 'buying back' annuities but this is currently still just an idea.)

You don't need to buy an annuity as soon as you retire – for example, you might decide to use a more flexible approach at first (see Factsheet 3) and then, once you reach a certain age, use whatever's left in your account to provide a more secure income.

Top 5 facts

- An annuity is a guaranteed secure income, paid by an insurance company in exchange for a one off payment.
- Different annuity providers have different rates, so it pays to shop around.
- You can choose a basic income or add features to it that will cost more such as future increases or a pension for your spouse after your death.
- People in poor health will often get better value resulting in a higher income because it is likely to be paid for a shorter period.
- If you want to buy a secure income later on when it may be better value, you can choose to leave your savings invested and use part or all to follow an investment strategy that tracks the cost of buying an annuity.



Cost

The cost of a secure income ('annuity rate') can vary across providers, so you should shop around for the best deal, much as you would with your car or home insurance. Remember that this is usually a one off financial decision so you can't change providers to get a better deal in the future. The lower the annuity rate, the less pension you will receive.

Annuity rates will vary depending on your age, where you live, your health and what extra features you want to add to your policy. For example:

- Do you want to provide a pension for your spouse or a dependant on your death?
- Do you want your pension to increase with inflation?
- Do you want the payment of your pension to be guaranteed for a period of time (even if you die prematurely)?

These features will cost the insurance company more to provide, so the annuity rate will be lower.

In addition, if you have a medical condition (including many common illnesses, not just life-threatening ones), are in poor health, smoke or are overweight, you may be able to get a significantly higher income. This is often referred to as an "enhanced annuity".

Tax

If you buy a secure income, tax is payable on the income you receive at your normal marginal rate. Depending on what other sources of income you have, your annuity payments could push you into a higher tax bracket, increasing your tax liability. If you think you have paid too much tax, you can reclaim it from HMRC at the end of the tax year.

Where to find out more

Your decision to buy a secure income can have a significant impact on your future income, so it is important that you understand the details fully.

Visit **Pension Wise**, the free guidance service provided by the Government for people with defined contribution/ money purchase retirement savings.

If you feel you need financial advice, you can find a local independent financial adviser in your area on **www.unbiased.co.uk** or **www.vouchedfor.co.uk**