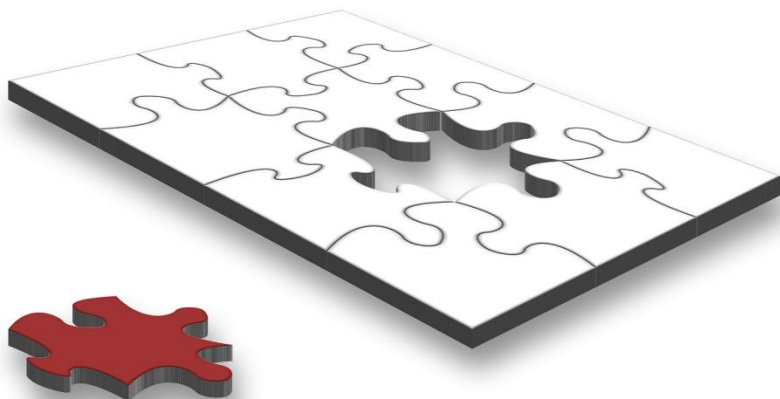


“MAKING THE PIECES FIT”



A Guide to Retirement Income

From Annuity Direct Ltd



annuitydirect ltd.

The
Retirement
Income
Specialists



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***Look out for the special focus tips
throughout this booklet.***

ABOUT THIS BOOKLET



This booklet is written by Annuity Direct Ltd – one of the best known names in retirement income. We are Chartered Financial Planners – one of the highest accolades that can be awarded to an advisory firm. We have been advising clients since 1992 and have many testimonials from highly satisfied clients. Our views are often sought by the media and we regularly contribute to articles in consumer and professional publications.

The first and possibly most important point to make is that our advice is totally independent of any product provider and we operate across the whole market. This is becoming a highly relevant feature for two reasons:

The market is becoming more complex and an independent view of all products offered by all product providers is vital if you are to get to the right solution for your retirement income provision.

A number of firms, including product providers, will only use a limited number of annuity providers. If you use one of these firms there is a very real possibility that you will not get the highest income and will therefore lose income each year for the rest of your life.



Ask any adviser you speak to if they operate on a whole of market basis for all sizes of fund – some will restrict choice for smaller funds in exchange for larger commission.

Annuity Direct operates in the whole of the market for all funds above £10,000 which is the minimum fund size we will advise on (after payment of tax free cash).

YOUR PENSION SCHEME



In a booklet that is all about taking income from a pension scheme it may seem strange that our first section is about the policy (or policies) that you may have started many years ago to build up a retirement fund. It is our fundamental belief that this has to be the starting point as very often old pension schemes have clauses that can either benefit or disadvantage you. It is vital therefore that a full forensic investigation of your existing scheme is undertaken and this is all part of our service. Simply give us authority to talk to your pension provider about your arrangement and once we have all of the information we need we will report our findings to you, pointing out any issues that you need be aware of.



Ask any firm you are speaking to if they investigate your existing arrangements and if so, what is the list of items they look at. If the list is not comprehensive or if they do not carry out investigations then consider if you wish to continue without this investigation, or how confident you feel about conducting your own investigation.

THE ISSUES WE INVESTIGATE INCLUDE:



The availability of guaranteed annuity rates. These are often unbeatable in today's market and if you have such a clause we will often recommend that you use it, depending upon your individual circumstances.



Whether there are any financial penalties. Penalties may be incurred by taking the income or making changes to your policy. We will also enquire at what date in the future any penalties are removed.



Whether any final bonus becomes payable at a future date. This may mean that it is in your interest to wait until that date. Funds can sometimes increase significantly on pre-set dates.



Attached Life Cover. Some policies have life assurance or premium waiver benefit attaching to them. This will almost certainly be cancelled if you buy an annuity. We can sometimes arrange for the life cover to be continued if it is important – for example if it covers a mortgage.



Tax Free Cash Entitlement. The Revenue rules around pensions are complex. Some old policies may have a tax free cash entitlement that is greater than 25%. If available many clients find this attractive.



Contracted Out Status. Some older policies can include benefits accrued from a period of contracting-out via an employer's occupational pension scheme. The value of the fund is not always sufficient to support payment of these valuable benefits if they are transferred elsewhere.

TAX FREE CASH



You are normally entitled to take up to 25% of the value of your fund as a tax free cash sum to invest or spend as you wish. Even if you have no need for the cash we would discuss the tax implications of taking a higher pension – there are arrangements such as purchased life annuities that may improve your net income – and we will compare these for you. You might also consider investing in an ISA which allows you to take income without incurring tax.

RISK AND YOUR RETIREMENT INCOME



The first and most important question for you to answer is how much risk do you want to take with your pension? If the answer is none – you want an absolute guarantee that your income will not fall then the only option is to purchase an annuity.

However if you are prepared to accept some risk that your income may fall, or rise, dependent upon the performance of an investment fund then there are options ranging from annuities that link to the stock market or with profit funds through to unsecured pension arrangements.

We can offer advice on all types of arrangements and our objective is to help you to understand the advantages and disadvantages of each. There is no perfect answer – only the one with which you are most comfortable. This sums up our approach to clients – to help you to understand what you are doing so you can make an informed buying decision – we will never try to sell you a product you are not completely comfortable with.



Be aware that not all firms are prepared to discuss the full product range and some are only interested in selling. You should aim to understand the issues and only agree to buy when you are totally comfortable. Remember – this may be your first and only excursion into the retirement market and it is important to get it right.

GUARANTEED INCOME



The first decision is whether you want to buy your income for life or for shorter periods. The following may help this decision:



Income for life (also known as guaranteed or lifetime annuity) –

Once bought an annuity is for life and cannot be changed, surrendered or transferred to another provider. It is vital that you obtain the best possible rate and that is why you should use a whole of market adviser.



Short term annuity – An income is secured for a period of years, normally five years as a minimum, and at the end of the chosen period a guaranteed maturity sum is returned that is used to either buy a lifetime annuity or another short term annuity. There is a risk that your income could fall (or rise) at the end of your chosen period, depending upon changes in annuity rates generally, your increased age, changes in legislation or if you have developed a health issue.

INCOME DESIGN



Your income can be designed to fit your exact needs. The following is a list of options available to you:



How often do you want to be paid? – You can choose annually, half yearly, quarterly or monthly. As a general rule of thumb, the longer you leave between payments the more you get, but you have to balance this with your own budgeting requirements. You can be paid at the start (known as ‘in advance’) or end (‘in arrears’) of the chosen period. Most people opt for monthly in arrears as this is how they received their salary payments. Again, you tend to get a slightly higher income if you choose to be paid in arrears instead of in advance.



Do you want a Guaranteed Period? – You can include a guaranteed period of up to ten years (maximum of five years for protected rights). This means if you (and your spouse/partner) were to die within the guaranteed period, either a continuing income or lump sum could be paid to your estate representing the balance of the guaranteed period. Please note that the lump sum is only available if you have a five year guarantee. Another option is to have the balance of your fund less income received so far (known as value protection) paid to your estate as a lump sum. Any payments made to the estate are taxable at differing rates.



How much income should be left to a spouse/partner if you die first? – This can be any percentage up to 100% of your income, but the most common options are 50% or 67%. You will need to talk this over with your spouse or partner, taking into account any pensions or other income available to you both. As a rule of thumb the more income you leave to your spouse, the lower your annuity, although this will depend of their age and health.



Do you want your income to rise each year? – You have the option to increase your income by a fixed amount (eg 3% or 5% per annum) or in line with inflation (RPI). Your starting income will be at a much lower amount than if you choose a level annuity. The rule of thumb is that you will benefit most from an increasing annuity if you live for a very long time. We can help you investigate this further.

The following table is illustrative only but shows you the impact on income of the above options. The highest possible income would be paid annually in arrears on a single life basis with no annual increases. If a 65 year old man were to receive an income on this basis of £10,000 per annum then changing the benefit structure would reduce the income by the following amounts:

Option	Income
Payments monthly in arrears	£9,688
Including a 100% spouse's pension for a 62-year old spouse	£8,029
Including a 10 Year guaranteed period	£9,692
Including 3% annual escalation	£7,359
Including annual increases linked to RPI	£6,330

This table is for illustration only and actual rates will vary. Please note these figures are standalone; only one variable is being altered each time, rather than each variable being added in cumulatively.



Discuss your income design with your partner. You need to work out how much income you both need depending upon who dies first. Take into account all income being received and any benefits either of you may be entitled to. Our advisers can go through all these options and discuss them with you. Remember you can find out about your State pension entitlement by visiting www.direct.gov.uk or calling 0845 3000 168 and asking for a State Pension Forecast.

YOUR HEALTH – COULD MEAN MORE PENSION



When a provider calculates an annuity they are making an assumption about how long they think you will live – your fund has to last until that point. An increasing number of providers will now take health and lifestyle conditions (for example smoking) into account and this can lead to a larger income. The process is quite simple – you only need to complete one medical questionnaire that we send that to all enhanced annuity providers by secure e-mail. These specialists offer you a rate based upon your answers and we will always recommend the highest rate.

You will never be asked to attend a medical examination although the provider may ask your Doctor to complete a questionnaire if your condition is particularly complex.



If you or someone you want to share your pension with smokes or is taking prescription medication please ask to complete the medical questionnaire. We always use secure encrypted e-mail to send this to the specialist providers so your confidential details are safe with us. Make sure your adviser will get quotes from all providers who underwrite enhanced annuities, and do not operate a restricted panel.

INVESTMENT LINKED ANNUITIES



It is possible to split these products into two:



Those that offer a guarantee that income will not fall below a fixed level which can be anything up to 50% of the income being received.



Those that offer no guarantee.

The important point about these arrangements is that income can fall as well as rise as they are linked to the performance of funds invested in the stock market. If you cannot afford to take that risk then they are best avoided.

As a general rule a fund needs to achieve at least 7% per annum growth after deduction of charges for the income to be sufficiently high to beat a guaranteed annuity. Charges can add up to 2% pa to the performance requirement.

These arrangements are most suitable for clients who have sufficient guaranteed income already and wish to take some risk with a smaller pension pot (for example the proceeds of a free standing additional voluntary contribution scheme) because they can afford the risk of a fall in income.

UNSECURED PENSION



Here an annuity is not purchased. Instead you can withdraw 25% of the value of the fund as a tax-free lump sum and leave the remainder invested. You take an income each year directly from your fund within levels laid down by Her Majesty's Revenue and Customs (HMRC). If the underlying investments in your pension fund do well then you can take an increasing income (within HMRC limits) but if they do not perform sufficiently your fund may reduce, forcing you to reduce your income.

If you die then either your spouse or partner can continue to draw an income directly from the fund, purchase a guaranteed annuity or the fund can be returned less tax. The options available will depend upon your age and your spouse/partner's age at date of death.

There are two big decisions about unsecured pension:



Is it right for you? To help you decide we calculate what annual return (yield) you need to obtain on the fund to be able to continue to draw an income that is equal to the guaranteed annuity you could take at outset. We calculate this by finding the best annuity rate that would be available to you – taking account of your medical history if appropriate and then calculating the yield required to match it. The higher the annuity the higher the required yield.



Does the investment profile needed to meet this yield fit with your own attitude towards investment risk?

Having established that this is right for you and that the yield required is achievable we can recommend you to a firm that specializes in managing investment funds for unsecured pension. It is your decision as to who you use to manage your fund but our view is that this is a highly specialized area and our expertise is in the technical aspects of USP – not investment management.



Do not rely on standard insurance company quotes for the required yield. Insist on having your yield based on your medical history. Beware those who claim to be experts in everything – make sure they have specialist pension and investment departments.

WHAT NEXT?



We hope that this booklet has helped you to understand the issues that need decisions. To proceed further please:



Send the letter(s) of authority back to your Retirement Income Specialist. This will enable them to ask your pension provider the important questions to establish if your arrangements have clauses that may affect your retirement plans.



If you and/or your spouse/partner smoke and/or are taking prescription medication complete the medical questionnaire and send it back to us. There should be a pre-paid envelope in your pack. Think about which product is most suitable – to guarantee your income or not.



Work out how you want your income to be paid, or the options you wish to examine and discuss this with your Retirement Income Specialist. We are happy to provide quotes on more than one basis. Remember, we want to put you into a position where you can make a comfortable buying decision.

WHAT WE DO



On the day we receive your letters of authority we send our questionnaire to your pension providers asking about your arrangements. Each provider operates a different service standard and it can take up to 15 working days for us to get the information we need. However, whilst we are waiting for the information we send any medical questionnaire to all specialist providers and ask them to quote for your annuity. Once we have your provider information and the best annuity rate for you we write to you letting you know the results of our investigations and recommending a course of action. If you have not decided on your annuity options at this point, we will write an “options” letter to you instead, giving you a choice of figures to choose from.

We will let you have all the documentation you need to put our recommendation into force. If you are happy to sign and send these back to us (together with proof of age, marriage (where applicable) and identification) we will arrange to set up your annuity which includes chasing your pension providers to transfer your money to the new arrangement as soon as possible. We are not authorised to hold client money in any way.

Our service ends with the issue of your policy documents at which point we invite you to comment on our service. We pride ourselves on the quality of our customer feedback, and use real customer comments anonymously on our website.

OUR CHARGES



When insurance companies calculate your annuity they include an allowance to pay for financial advice. This is typically 1.5% of the value of your pension fund(s) after tax free cash has been taken. If a case is subject to medical underwriting it can be up to 3% of the fund (after tax-free cash) to reflect the extra work we do for such cases. This allowance is reflected in the annuity rate you are offered and is not seen as a direct charge from your fund.

Because we are wholly independent advisers you can opt to pay us by cheque for our services, in which case we will take nothing from the insurer which will result in you receiving a slightly higher income. Our fees will be the lower of the commission we could have received, or our time/cost charge for advising on and arranging your annuity for you.

Most clients prefer us to be paid by the insurer as the reduction in taxable pension income is only small, and the fee is effectively being paid from a pension fund that has received tax-relief, whilst a fee would normally be paid from taxable income.

Funds in excess of £200,000 are subject to special terms that reflect the work involved. In most cases we are able to take less from the annuity provider and improve the annuity as a result.

We always discuss charges in an open manner and the amount we will be paid will be included in your letter of recommendation.



Avoid any firm who is not prepared to be totally transparent about their charges.

Annuity Direct Limited – Chartered Financial Planners

The Retirement Income Specialists

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