Martin Lewis'

MoneySavingExpert.com

GUIDE TO ANNUITIES

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ANNUITY DIRECT LIMITED

The Retirement Income Specialists

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THIS GUIDE IS OUT OF DATE.

Widespread changes to the way you can use your pension savings to fund your retirement were announced in the 2014 Budget, meaning that this PDF guide is out of date.

The information about what an annuity is and what it does is still correct, but information on who should get one and why you should get one is no longer relevant.

We're working to produce a guide on all the retirement income options open to you.

Independence and integrity

This guide is sponsored by Annuity Direct. That's why it's free. So let me make something very plain. This guide is written with absolute editorial independence. What's in it is purely dependent on our view of the best ways to save money, and the sponsor's view on that is irrelevant.

However, the reason we agreed to allow Annuity Direct to be the sponsor – which enables this printed guide to exist – is because, as explained above, we've always trumpeted on about how independent financial advice is important for most people when getting an annuity and Annuity Direct is one of the biggest specialist advice companies.

It's very important no one thinks this is the other way round, and that Annuity Direct is included because it sponsors the guide. Like everything with MoneySavingExpert.com, the editorial (what's written) is purely about what's the best deal. As you'll see, unlike most sponsored guides, its competitors' details are included, to give you a choice.

All information correct at time of going to press, June 2013.

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Martin's Intro

THE BIG MESSAGE

You do **NOT** need to buy an annuity from your pension fund provider.

The law says there's an 'open market option', which means you can look for the best deal around, which could increase your income by £1,000s every year.

Take time to get it right. It's the single biggest financial decision most people ever make, as once completed, it lasts the rest of your life, and can't be undone.

A short starter...

It's not rocket science. If you've spent decades saving into a pension, you want to get the biggest income you can from this pot of money.

Turning this into retirement cash is a massive one-off financial transaction. But you needn't worry, these days there's a great deal of flexibility out there, so you should be able to find the right solution.

So rather than me going off on why this guide's special, why don't we just get on with making sure you get the largest income stream you can?

1 What happens to a pension at retirement?

Most of us have paid into a private pension, whether a company or personal scheme, at some point during our lifetime. You may even have several pensions. This money has been put aside to help provide an income over perhaps 30 years in retirement, or more than half your working life.

You may think your pension will automatically start dishing out cash to provide for your retirement, without you having to do anything. After all, that's what it's there for, right?

In reality, a pension is simply a big pot of savings and investments you've built up over your lifetime which you can't touch until retirement age. At that point you can take 25% as a tax-free lump sum, but the rest needs to be transformed into a regular income stream for the rest of your life.

Turning your pension pot into an income

At some point you'll stop working. This could be when the state officially calls you a pensioner, a date of your choice, or you may even retire in stages. Whichever route you take, when your regular income stops... it's decision time.

Ideally, start preparing a few years beforehand for most of it. Planning the key decision about buying an annuity, which is a product you buy to get an income for life, should start at least six months in advance of retirement.

The only situation when you don't have to turn the pension into an income is if you are a member of a specific type of company pension called a 'final salary scheme' or 'defined benefit' scheme. Here, you're simply paid a proportion of your final salary depending on your length of service.

Must you buy an annuity?

Until April 2011, you had to buy an annuity by age 75.

Now, you can still buy an annuity or take what's called a 'flexible drawdown' or 'capped drawdown' product.

However, not buying an annuity can be risky, especially for those with pensions pots smaller than £200,000.

You'll find full details of those options in this guide and how to get more help if unsure.

Key Facts

What is an annuity? It is effectively a contract with an insurance company to pay you an income for the rest of your life in return for you handing over your pension savings.

How is it paid? It comes from the annuity provider (insurer) and can be monthly, quarterly or annually.

Do I need to use all my pension fund for it? No. You are allowed to take 25% of your fund as a tax-free lump sum.

Is the annuity income taxed? Yes, it's taxed just like any other form of income, so if you're over the basic rate threshold you'll pay 20% on it. To find out how much you'll pay, use www.incometaxchecker.com.

Do I have to buy one annuity? No, you can use your pension pot to buy one, two or several different annuities that can help generate the income required.

Can I change my mind if it's wrong? No. Once you've chosen, that's normally it and there's no going back. That's why it's vital you think carefully before deciding which product to choose.

What happens when I die? Unless you've picked a special type of annuity, payments usually stop, even if you've only just taken it.

Is my annuity payout safe? UK regulated insurers are covered by the Financial Services Compensation Scheme. That usually guarantees if it went bust, you'd currently get at least 90% of the payout due.

Who's this guide for? Anyone who is building up a pot of money in a pension, called a 'money purchase pension scheme', whether it's a private or company plan.

Who is this guide not for? Anyone who only has a 'final salary pension scheme' (where you accrue 'years', not money) or doesn't have any pension savings (in which case, see www.moneysavingexpert.com/statepension).

Never simply accept your pension provider's offer

Like any industry, you pay for apathy. There are huge differences between the best-paying annuities and the worst. Just because you've been loyal to your pension company, don't think it will be loyal to you. Finding the best deal for your pension income can increase it by a whopping 20%.

Ivor Pension, a 65-year-old man with a pot worth £100,000, discovers he could buy an income of £5,341 a year with the best annuity, compared to £4,930 with the worst. That's a difference of £411 a year, or a chunky £10,275 more income if he lives for 25 years.

The open market option (OMO), means you have a legal right to source the best rate available. Yet, sadly, three-fifths of those wanting an annuity opt for their pension provider's offer.

Pension firms told to play fair

From March 2013, the Association of British Insurers introduced a code of practice for its pension provider members.

They now have to send you 'options packs' two years, six months and six weeks before you retire which'll detail the annuity you might be able to get with them, and whether you can increase this if you have health issues.

Vitally, it'll also highlight the benefits of shopping around on the open market to find the best deal available. They're no longer allowed to just send an annuity application form.

Yet this is a voluntary code which may not be adhered to. Crucially, don't accept your insurer's offer unless it is the best. And with rules changing to give you greater flexibility and choice at retirement, helping you stay ahead when it comes to making the most of your retirement savings, it's even more important to choose the right plan and rate.

Key Rule: You can take up to 25% tax-free

The typical route, and the best for many, is to first take part of your pension fund as a lump sum, and use the remainder to buy an annuity. You're allowed to take up to 25% tax-free cash from your pension any time from 55, even if you're not retired yet. Then you can use the balance to buy your annuity.

Factors affecting the income you receive

- The size of your pension fund.
- Whether you want the income to remain the same or increase each year.
- If you want it to pass it to your spouse or dependants after death.
- Your health.
- If you want any bells or whistles.

What if I don't want to hand over my pension?

You don't have to buy an annuity as soon as you retire, or at all. You can leave your pension savings to hopefully grow, or take an annuity in stages, but delaying turning your savings into a regular cash stream could have a big impact on your final income.

Key Rule: Don't dither too long

There is a risk that by delaying taking an annuity, you'll miss out on the income you would have received had you bought one earlier. Unless you are tactically delaying or looking to use a special type of delaying product, it's usually best to sort it sooner.

For example, a 60-year-old man with a pension fund of £100,000 could receive a monthly income of £400 before tax for the rest of his life. If that same man waited until his 65th birthday his monthly income would rise to £445, but during that period he would have missed out on a possible £24,000. And he risks annuity rates falling while biding his time.

For every month you delay buying your annuity, you'll lose a month's worth of income. As a very rough rule of thumb, it's estimated your pension fund may need to grow by 12% a year (after charges and taxes) for your eventual annuity to pay you the same overall income in retirement as one you could've bought today.

You may be tempted to delay if, for example, you have other assets to live on. Or because it can seem a big task choosing an annuity. However, it needn't be painful if you make the decision in stages.

The rate you get depends on the market

If you choose to delay simply in the hope annuity rates will rise, you could be in for a shock. Rate improvements over the long term are unlikely because we're all living longer, so providers have to cough up for longer, meaning rates are dropping.

Yet annuity rates are a marketplace, and in the short term (which can be measured in years) they move up and down, so time it right and holding off for a few years could be a big gain... or loss.

Want to know what'll happen to the annuity market next year? Me too. When you consult your crystal ball and find out, let us know. It's important to realise there simply isn't a way to predict the future.

Yet many people have regretted deferring an annuity purchase over the years because annuity rates have dropped and they have missed valuable income. In 1990, a 65-year-old with a £10,000 pension pot would have got an annuity of about 15%, compared to today at just over 6% – so rates have halved.

Those with larger pension pots can buy into more complex options known as flexible or capped drawdown, which give a regular income without tying up your fund and allow you to take the tax-free cash.

Annuity Angst: Martin's Tips

How long will your retirement last?

Frankly, that's the polite way of putting it, the blunt way is: "when will you die?" And this question is crucial – if you knew the exact answer you could plan accordingly.

That's because with most annuities, once you die, the annuity stops. So if you've just traded in a £200,000 pension pot for £10,000 a year and you die one year in, it's been a very bad deal as your family won't see any of that cash.

Sadly, though, there's no sale on crystal balls. Instead, to give some guidance, in the UK, a typical man who reaches 65 lives to 83 and woman to 85. Modern health improvements mean life expectancy is getting even longer. Yet, of course, to be an average it means many people go sooner, and many last longer.

Do factor in family history, though. If you come from a family who've lived into their nineties then it's probably worth exchanging your pension for a normal annuity. Alternatively, if you suffer poor health or are on death's doorstep, you may want to hang onto your pension savings for a bit longer, or go down the unsecured pension/ income drawdown route, or another system which would allow money to go to your family.

If you have a small pension pot

If the total of your funds is less than £18,000, you can take your fund as a cash lump sum instead of income, with 25% of it tax-free. You must be at least 60 but not yet 75, and you have to convert all your pension funds to cash within a 12-month period.

What if I can't remember what pensions I have paid into?

If you've lost track of a pension you had, contact the Pension Tracing Service on 0845 600 2537 or visit www.gov.uk/find-lost-pension. This is a database with over 200,000 occupational and personal pension schemes.

If you contracted-out of the State Second Pension (formerly known as Serps), you will probably have a personal or stakeholder pension into which some of your National Insurance has been paid.

If you're not sure whether you contracted out, contact your pension provider or call the HM Revenue and Customs Contracted Out helpline to find out on 0845 9150150.

2 Types of annuities

There's a whole range of annuities you can buy. Once you've bought an annuity, you usually can't change your mind. So make sure you find the right one for you.

Taking steps to decide on the right annuity is like finding the right shade of blue for your bedroom. It's a series of close choices based on the same theme, which should help identify what you want.

Think carefully if there're any particular bells and whistles you need. This may be making sure your retirement income is paid to your spouse on your death, for example, or wanting your income to rise with inflation. Chances are, you can tailor an annuity to suit you.

You don't have to buy one annuity – you can buy one, two or several different types that can help generate the income you will need.

As you approach retirement

Six months before you retire, you'll be sent information from your pension company about your options. It will illustrate how much you could get in annuity income, and also say you may get more shopping around.

The only reason to opt for a provider's default rate is laziness. Although it may seem to offer a good deal, you'll probably get a better return for your money by scouring the market. And with the annuity sector growing, you stand to lose even more by simply going for your pension provider's offer.

Which annuity you choose depends on whether you want a set income, one linked to inflation or want to push growth by taking some risk. If none of those options fit, don't worry, there are some more specialist options.

Tax matters

Annuity income is taxed just like any other. That means you have a personal allowance which you can earn tax-free, above that you pay 20% tax, and the next band is 40%. Some additional rate taxpayers pay 50% (45% from April 2013).

Your personal tax allowance (the initial part of your earnings that is not taxed) increases at age 65, and again at 75.

Check you are getting the correct allowance and that you have the right tax code. This tells the pension company how much tax to deduct. There's no guarantee it'll be right, particularly if you have more than one pension. If you have overpaid tax, you can reclaim the overpayment within six years.

For more info, see www.incometaxcalculator.com. Specialised help for older people is available from www.taxvol.org.uk.

The two annuity types... conventional or investment-linked

Most annuities fall into one of two main categories:

Conventional / level annuities

In a nutshell, you get a fixed income for life (whether at one level or varying, eg, linked to inflation). This is the simplest and most straightforward annuity you can get. Around 85% choose this option.

These annuities have the benefit of certainty, but you no longer gain from the investment of your pension fund, so think before you rush for the secure route.

They're not the flexible option, and if you die, even after one payment, the fund is lost. If you're the type of person who has always sought security and you reckon you've always taken a low risk route with your money, this could be for you.

PROS

Simple, secure option. You know what your income will be for the rest of your life, no matter how long you live.

CONS

You're locking into the annuity rates available at the time, and if these are low your retirement income will be smaller than potentially possible.

Investment-linked annuities

The concept here is simple: the amount you get for your annuity depends on the performance of one or more stock market-type investments. In other words, you're taking the risk you may get less for the hope you get more.

These annuities expose your pension funds to the rollercoaster ride of the stock market. While you may hope your annuity will grow over the years, you could see a drop in income if the underlying investments do not perform as hoped.

However, there will be a minimum limit below which your annuity income cannot fall. Investment-linked annuities for all but the very financially savvy should only be considered after taking independent financial advice (see page 24) and only by those who have other assets to live on, in case the annuity income drops.

PROS

Possibility of rising retirement income.

CONS

Income levels will fluctuate and reduce in poor investment conditions, and you will need other assets to live on.

Annuity Angst: Martin's Tips

Choosing between conventional and investment-linked

There is no right or wrong decision here. Again, the lack of a crystal ball means you won't know the outcome, which is why you need to pick based on what you do know: how secure you want to be and could you afford to live if the investment-type annuity performed poorly?

It depends on your circumstances and your priorities. Most people go down the conventional route.

Do you need certainty?

If you need security and fear your income falling, then go for the conventional choice. Someone with a small pension pot should not be gambling with this cash, as it's to last the duration of retirement.

Those willing to accept risk, however, and happy to see their income fluctuate, may want to gamble in the hope of a higher retirement income, but make sure this could never push you over the brink and make life unaffordable.

Have no regrets

Remember, whichever route you decide, there's no point looking back with hindsight and wishing you'd chosen a different path. If you need surety, remember you got it by going down the conventional path, even if in 10 years you realise the other option would've paid out much more.

Bells and whistles

Even within those brackets, there are variations on each theme and you can sometimes add bells and whistles to whichever option you choose:

Joint life annuities

These continue to pay out after one partner dies.

If you're married or in a civil partnership you should consider a joint life annuity. Some companies also allow unmarried couples access. These are particularly suitable for couples where one partner has no pension.

However, they come at a cost. With a pension of £100,000, a person aged 65 could buy a level annuity paying £5,634 a year. However, if he or she chose that, their spouse would receive 50% of the annuity income after death, and the annual income would fall to around £4,569 (spouse is assumed to be 62).

Joint-life annuities pay out as long as one of a couple is living. You can opt for various percentages for the survivor's pension, such as 100%, 50% and two-thirds, which are commonly offered.

Guaranteed annuity

These pay out for a set number of years, even if you die.

Annuities with guarantees offer payments for a fixed number of years (usually five or 10) whether you live long enough or not. These guarantees reduce the income, but not by much if you're younger. It's a reasonable bet you'll live from 65 to 70. If you die within the guarantee period, your partner (or someone else you nominate) will receive the balance of the guarantee as gradual income.

Escalating annuities

Income grows with inflation.

Inflation – the measure of the rise in the cost of living – can have a detrimental effect on your income after you retire. Even an inflation rate as low as 3% would lead to a pension being halved in real terms in 23 years from when you retire. This would mean someone retiring aged 60 would see their spending power sliced in two by the time they're 83.

So, whether you want your annuity to increase with the cost of living is another important consideration. Many suffered in the 1970s when inflation soared to 25% because while prices rocketed, their income remained fixed.

You can choose a conventional annuity that is linked to a measure of inflation like RPI or set it to rise by a set percentage each year – say 3% or 5%. These are inflation-linked or escalating annuities.

Alternatively, you can link your annuity to the stock market through an investment annuity and pray your pension income will increase in the long run.

Annuity Angst: Martin's Tips

Do you want more money now or in later life?

Don't automatically opt for an inflation-linked annuity without thinking through the outcome. Although inflation-linked annuities protect against inflation, they are expensive. How well they perform compared to conventional, level annuities depends on what happens to inflation and how long you live.

By choosing an escalating or inflation-linked annuity you could get an income that is 30% to 40% lower initially.

Of course, it all depends on the rate of inflation, but say it's 4%. It would take 15 years for a 60-year-old man's inflation-linked income to catch up with that from a conventional, level annuity. If he lives for 24 years, the protection from inflation gives him just five years on a higher income before he dies.

So the question is: do you want relatively less money today and more later in life, or vice versa? If you don't need all your annuity income now to live off, you could save some for later years.

Enhanced / impaired annuities

More cash for smokers / those with poor health.

Poor health can mean rich annuity because the insurance company calculates on average it won't need to pay out for as long as you're more likely to die earlier. If you have had certain illnesses or are a smoker, your pension income could receive a big boost. Impaired, or enhanced annuities, offer extra cash if your life is likely to be shorter than average.

Even if you don't feel ill or smoke, check this option out. In the past, you used to have to be seriously ill, but now you can qualify for one of these annuities on grounds such as blood pressure, high cholesterol or being overweight.

Around 40% of people should be buying an enhanced annuity, as it could make a huge difference to their income. However, less than 10% take this route.

Stats show how much annual income a 65-year-old man with a £50,000 pension pot could receive:

- Standard annuity – £2,670/year
- If slightly overweight, he would get an annual £2,800/year
- Suffering from angina pushes up the payment to £2,950/year
- Mild diabetes produces £3,000/year
- Smoking at least 20 a day – £2,937/year
- A past heart attack – £3,200/year
- Major kidney failure – £3,400/year

And if you, sadly, have more than one impairment, you can get higher rates.

The postcode factor

Your postcode could have an impact. If you've lived in a leafy suburb, statistics predict you're likely to have had a good diet and no manual job, and the result is you're likely to live longer than someone living in an area with high crime rates. This can make a big difference to your quote.

You don't have to put all your eggs in one basket

You can combine annuities. For example, you could split your pension pot and use half to buy a conventional, level annuity and the other to buy an escalating annuity. Or, you could use some to buy an investment-linked annuity and the rest to buy a conventional annuity. This way, you'll mix your levels of risk and perhaps provide a greater retirement income.

You're gambling against a number of risks when you buy an annuity. You might live to old age, or die the next day. Inflation could run away with itself, or your personal situation could change.

There's no one product that guards against all of the risks so, especially for those with large pension pots, thinking about having a combination of them may provide a solution. The normal rules of financial planning apply. Spread your risk.

Annuity Angst: Martin's Tips

Check if your policy has a guaranteed annuity rate

OK, so I've been banging on about scanning the market to get the best deal, and in most cases this is the right move. However, for a minority of people, it may not be.

Some older-style pensions have so-called guaranteed annuity rates (GARs), which give a far higher retirement income than can currently be bought elsewhere.

For instance, a 65-year-old man with a £100,000 pension pot would be able to buy an income of £6,867 from one provider. But some older pension policies from the same provider could have guaranteed annuities of £11,111 based on the same £100,000 pot.

Finding out if you have one of these golden annuities can be far from straightforward as they often have confusing names. They might also have strict conditions. GARs are most common for individual pensions started before July 1988, or before personal pensions were introduced, but they also appear on other types of pensions sold since then.

Some companies call them guaranteed annuity options or GAOs, while others refer to them as guaranteed minimum annuity rates, guaranteed rates, rates guaranteed in the policy or minimum annuity rates.

Check the wording

Phrases such as 'Annuity and Cash Equivalent Sums for ages 60 to 70' or 'Basic Annuity a year for each £100 of Basic Cash Accumulation' will tell you there is a GAR lurking in your plan. Some don't give them a name at all, but instead might have a table showing the minimum amount of income you will get for every £1,000 saved.

Beware of restrictions

One of the most common restrictions is for the pension to be paid to the policyholder only, with no widow or widower's pension. This can make it all but worthless to someone whose spouse has no separate pension.

Or, it might be on offer only on a set date such as your 60th or 70th birthday. For some, this might be too early or too late to fit in with their financial needs. You can still take the "open market option" if you have a GAR.

The third way – variable annuities

A few providers offer variable annuities – sometimes called guaranteed drawdown products. They are pitched as a halfway house between standard and investment annuities.

How they work

These provide a guaranteed lifetime income which is payable regardless of investment returns, but with the potential of a boost on top due to the investment. So you benefit from a guaranteed income for life without actually buying an annuity.

It also includes regular investment lock-ins, so if the fund increases in value, the level of income will increase, but if the fund value falls then the income remains at the level at the last lock-in. On death, the funds can be paid to beneficiaries.

The guarantee is underpinned by the financial strength and solvency of the insurance company. So, especially in light of recent troubles, investors should ask and read about how strong the guarantees might be if the firm ran into trouble.

The rules for drawdown allow for income flexibility, control over investments and choice of death benefits.

You can't have your cake and eat it

The cost of providing the lifetime income guarantee comes from taking annual fund management charge of between 0.75% and 1.5%. If you invest £100,000 with a 1% charge, in reality you only have £99,000 invested.

It's also worth noting that commissions paid to pension advisers on these new-style products can be high, so they're often recommended. There are also likely to be early surrender charges if, after a few years, you decide the product is not for you. The provider will want to get back any commission payments made upfront to the adviser.

Advisers are only just getting to grips with these products and, so far, they have been met with suspicion. Many admit they are expensive and in many circumstances people will be better off with an annuity or an unsecured pension (see overleaf).

Problems in their past

A decade after variable annuities took off in the US, the industry fell under a dark cloud of mis-selling accusations. The main complaint is that they were too complex and costly. So tread carefully before even considering going down this route – and take specialist advice (see page 24).

Alternatives to annuities

Capped and flexible drawdown

These products came into force in April 2011, replacing an unsecured pension or an alternatively secured pension, at the same time the Government removed the requirement to buy an annuity by age 75.

However, proceed very carefully with drawdown. It is relatively high risk, and is generally not recommended for those with pension funds worth less than £200,000. For all but the very financially savvy it's worth getting independent financial advice (see page 24).

You can first take the 25% of your pension pot as a lump sum. By taking capped or flexible drawdown you are keeping hold of the rest of your pension and drawing money from it when required rather than trading it in for an annuity.

This immediately means the value of your pot is at risk from plunging investment returns, though it can also grow.

Those who think their health will deteriorate and could be entitled to an enhanced annuity can take a calculated risk to wait using one of these plans.

Flexible drawdown

The difference between capped and flexible drawdown is that under flexible drawdown you can take as much of your pension pot whenever you like. It is taxed as earned income.

But you don't have a choice between the two. Only those with a guaranteed pension income of at least £20,000 a year from an annuity or pension scheme (including state pension) qualify for flexible drawdown.

These can be good for those who have other cash available to live on into retirement and don't feel the need for income from an annuity.

Capped drawdown

If you have less than £20,000 a year in guaranteed income from an annuity or pension scheme, you are only allowed to take an amount similar to what you would have got with an annuity. This is to prevent you running out of money and relying on the state in your old age.

If your pot is less than £200,000 and you have no other assets, or you are risk-averse, you should seriously consider the annuity route for generating retirement income.

Tax on drawdown

The taxation of death benefits for drawdown also changed in April 2011. A dependant will get a tax-free lump sum on death if their relative dies before 75 without having taken any pension benefits. Once they have taken some of their pension benefits (at any age) or they are over 75 but have not yet taken pension benefits, any lump sum will be taxed at 55%.

PROS

The value of your pot could continue to rise and it could pass to the remainder of your family.

CONS

They are high risk so the value may also drop. In addition, you may run out of cash before you die.

Fixed-term annuities

A similar product is a fixed-term annuity. Here, you invest in a plan which provides guaranteed income payments for a set number of years or until you reach 75. At the end of the period you get a guaranteed maturity sum and are free to go back into the market to buy another type of annuity.

They are a useful way to postpone your final annuity purchase if you think your circumstances will change. So you have the flexibility to change your income, but you have no guarantee that your maturity amount will buy a replacement annuity at the same level.

They allow you to choose from a range of income and death benefit options now, as well as deciding what maturity amount you wish to have returned at the end of the term.

PROS

Flexibility. Potentially, a higher income in the future if your health deteriorates.

CONS

You risk annuity rates falling by the time you buy one. No certainty of a fixed income for the rest of your life.

In all the above plans it is important to carefully consider the tax implications.

3 How to ensure you get the best rate

OK, so you've got an idea of the type of annuities that are available, yet at this point, you may still be unable to decide which one is right for you. It's also crucial to remember annuity rates change daily, there is no standard pricing, and if you're going to compare you need to ensure that it's a fair comparison and things haven't changed.

Yet before going onto exactly how to pick, it's worth considering some basic facts to enable you to benchmark the rate you're getting.

1. Find out what your pension provider pays

See what rate it'll give you. If nothing else, you should end up with a satisfactory glow later when you realise how much more you have earned by not going with it.

2. Check out the standard MAS rates

There are comparison tables on the Money Advice Service's website (http://pluto.moneyadviceservice.org.uk/annuities) where you can input your details and see what rates are available. In addition, there are many other comparison sites like www.annuitydirect.co.uk or www.h-l.co.uk/pensions/annuities.

Annuity Angst: Martin's Tips

Should I get advice?

I'm not usually a big fan of advice. Often, doing a bit of research and going DIY is the right way to do it. However, for years, whenever I've listed the areas I think most people should seek advice on, annuities have been top of my list (it's one of the reasons I allowed the guide to be sponsored).

This isn't just because it can be very complex with a bewildering array of options, or that some annuities can't be got direct. More integral is the fact it's a one-off. If you get it wrong you can't change your mind.

For this reason, I think annuity-choosing is the single-biggest financial decision most people make. Bearing that in mind, the cost of advice is usually relatively small compared to the risk of error, so for peace of mind, a good advisor is critical. And when I say a good adviser, that specifically means an independent financial adviser, who can compare across the entire market for you. For this reason the remainder of this 'ensuring you get a good deal' section focuses on getting the right advice.

Of course, if you're very savvy you can go the DIY route, in which case you can go direct and get commission rebated and save on the advice fees. However, for most people, the info itself is more valuable.

3. Get the right independent financial advice

We're talking here about independent financial advisers (IFAs), and you should check that's what they are. Ask them directly; it's a regulated term so they need to tell you whether they are or aren't independent (see www.moneysavingexpert.com/financialadvice for more info).

Pensions companies will have their own advisers but they are tied to that pension company so they can only talk about their company's offer, not the wide range of other deals out there.

A specialist IFA will talk you through the options, get rates from the entire annuity market and will arrange the transfer of your pension fund or funds to the annuity company. In short, you have nothing to lose by at least talking to one.

The local IFA option

You may already have an IFA of your own, know a good one through a friend, or you can simply go to www.unbiased.co.uk to find one. It should certainly enable you to get face-to-face advice, and can deal with other issues while there.

These types of advisers tend to cover a broad range of subjects from mortgages, to investments, to pensions so it's very important to ensure they know what they're talking about when it comes to annuities by checking their qualifications and knowing what questions to ask (see below).

The annuity specialist option

The annuity market is large and expanding rapidly, as such a number of specialist financial planners that only deal with annuities have sprung up. The advantage here is they have more focused resources and research as they're only commenting on one specific sector and may have access to some specialist deals.

The disadvantage is because they're national, you only get phone-based advice rather than in person, and they're less likely to be knowledgeable if you're combining other issues too.

Specialists in annuity advice are:

Annuity Direct*: www.annuitydirect.co.uk	0800 255 0215
Annuity Bureau: www.annuity-bureau.co.uk	0845 850 8550
Hargreaves Lansdown: www.h-l.co.uk/pensions	0117 980 9940
Origen Annuities: www.origenfsannuities.co.uk	0844 209 3925
William Burrows: www.williamburrows.com	020 7484 5366

**Annuity Direct is the sponsor of this guide.*

How to pay for advice

You need to decide how you want to pay the adviser. There are two choices – you either pay an upfront fee for their time or you pay from the pension pot you're looking to turn into an annuity when you buy a product from it. This involves no upfront cost, as it's money already paid, but will act to very slightly reduce the pension pot available to buy the annuity.

How much does the advice cost?

Advisers earn their money from commission from providers, but if you went direct you'd pay the same price, as then the insurers just keep that cash themselves.

However, you are usually offered a choice between paying through commission or a fee.

Annuity rates have a level of commission built in, yet rules changed at the end of 2012. Your adviser will now need to agree a fee with you, whether that's upfront or from the pension pot. Because of this, he or she may rebate some of the commission back into the pot, increasing its value. Go to a non-advised provider and he or she will keep the commission cash for themselves – unless you can negotiate.

What qualifications should annuities advisers have?

As well as the basic certificate in Financial Planning, it's worth asking if they have the Pension Income Options J05 diploma or the old G60 advanced pension exam. A good measure of their professional qualifications is whether they are a member of the Chartered Insurance Institute.

What questions should you ask an adviser?

Check they are asking about you in detail – so not just your money concerns but your overall retirement intentions. Ask if they regularly advise people who are retiring on their options, and how many they've dealt with in the past month.

If this number is 10 or more, then they are likely to have experienced the full range of clients. If you're dealing with a financial adviser rather than a specific specialist, ask what their particular specialism is, as they may not be experienced in this area.

Annuity Angst: Martin's Tips

A note about independence and integrity

This guide is sponsored by Annuity Direct, that's the reason it is free. So let me make something very plain. This guide is written with absolute editorial independence. What's in it is purely dependent on our view of the best ways to save money, and the sponsor's view is irrelevant.

However, the reason we agreed to allow Annuity Direct to be the sponsor, which enables this printed guide to exist, is because, as explained above, we've always trumpeted on about how independent financial advice is important for most people when getting an annuity and Annuity Direct is one of the biggest specialist advice companies.

It's very important that no one thinks this is the other way round, ie, it is included because it sponsors the guide. Like everything with MoneySavingExpert.com, the editorial (what's written) is purely about what's the best deal. And as you'll see, unlike most sponsored guides, the sponsor's competitors are included, to give choice.

4 Other retirement income

Look at all your other potential sources of income, such as the state pension, savings, investments, insurance policies and benefits that could be used to boost your income.

State pension

If you've worked, you've probably built up the right to get a basic State pension, and if you've been employed, rather than self-employed, possibly an additional State pension. There are many ways to boost your state pension by delaying it or buying extra years. Full details and a special calculator at www.moneysavingexpert.com/statepension.

Claim benefits

As your income will usually be less than when you're working, you may be entitled to certain benefits. Make sure you claim anything you're entitled to, as around £5 billion of benefits go unclaimed by people over 60 every year, according to Age UK. Some benefits you may be entitled to are income-tested, which means you'll have your income assessed. Full details on what you're entitled to and how to do a five minute entitlement check up at www.moneysavingexpert.com/benefits.

Pension credit

Nearly half of all pensioners are entitled to this. It tops up income to a minimum level if you're over 60. You could get extra credit if you have modest savings and are over 65. Sadly, it is ferociously underclaimed. For more information, or to get a copy of the booklet A guide to Pension Credit (PC10S), call the Pension Credit line on 0800 99 1234.

From 2016, all pensioners will be entitled to one flat-rate state pension.

Other benefits to take advantage of:

- Travel concessions if 60 or over.
- Free TV licence if 75 or over.
- Free passport if 80 or over.

For information about these and other benefits, go to the DWP (www.dwp.gov.uk) or Gov.uk (www.gov.uk) websites or see Age UK's website (www.ageuk.org.uk).

Heating grants

There are some heating grants available for householders who are 60 or over who get means-tested and/or disability benefits. Call the Home Heat helpline on 0800 33 66 99 for more information about heating grants.

Winter fuel payments

Winter Fuel Payments are paid to most people 60 or over and can be worth hundreds of pounds. Contact the Winter Fuel Payment helpline on 0845 915 15 15 for more details.

Help with council tax

Lots of older people are entitled to money off council tax but don't claim it, so check to see if you qualify. You can claim this rebate whether you own your own home or rent it.

There are also council tax discounts, for example 25% off if you live alone. If you have a disabled person living in your home you may also be able to claim a disability reduction. This would lower your council tax band so that you would pay less.

Plus, check you are in the right band at www.moneysavingexpert.com/council.

Help with your rent

If you pay rent you may be able to get some help from housing benefit, which is paid by the local authority. Housing benefit can also help towards some service charges.

Help with health costs

Everyone 60 or over gets free prescriptions and eye tests. If you have less than £16,000 in savings you may be able to get some help towards dental treatment, glasses and travel costs to hospital if you fill in an HC1 form.

Give yourself a full money makeover

As you retire it's likely you'll have less cash to live off than you had before. As such, it's crucial to ensure you're budgeting correctly and not overpaying for anything. So first use the free budget planner tool at www.moneysavingexpert.com/budgetting then go to www.moneysavingexpert.com/moneymakeover which will take you through everything you can cut costs on – some people end up £1,000s better off after just a day.

Happy retirement!

Your Notes

This guide is sponsored by Annuity Direct,
a firm of independent Chartered Financial Planners.

If you would like to know more about what
Annuity Direct can do to help you to get the
very best deal on your pension, give us a call.

With our help you could get a significantly
bigger pension income every year.
If you smoke, or are in poor health you may
get considerably more.

0800 255 0215

or take a look at our website **www.annuitydirect.co.uk**