Flexible annuity

An example

Amanda, 65, had a pension pot of £70,000 and planned to carry on working part time for the next five years. She contacted her pension provider who offered her a level income of £2,675, guaranteed for five years.

Amanda was divorced with a daughter living in Australia. She needed some income to supplement her part-time earnings. Amanda's adviser spent time discussing and understanding her financial needs in retirement:

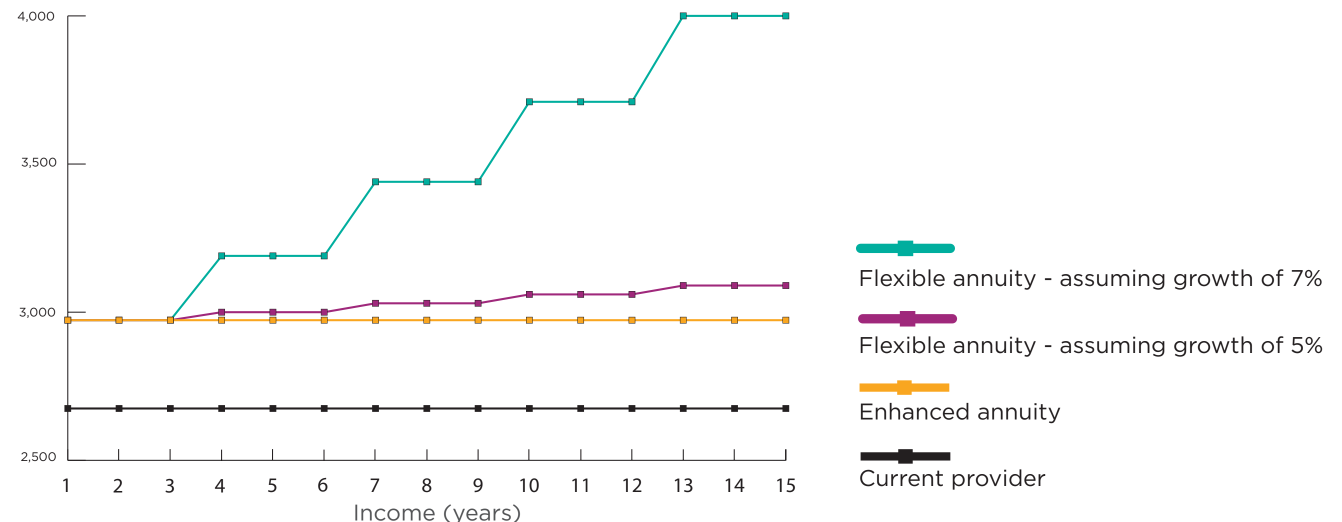
- Having completed a medical questionnaire, Amanda was surprised to learn that she qualified for an enhanced annuity due to her high blood pressure and cholesterol.
- The risks around inflation and longevity were explained, both of which Amanda hadn't considered – this did begin to raise some concerns.
- Investment-backed annuities were then discussed as providing an opportunity for growth and therefore a potential 'hedge' against the negative effect of inflation.

The recommendation:
Amanda's financial adviser recommended she took the tax-free cash available of £17,500, leaving £52,500 to buy an annuity.

An enhanced annuity would give Amanda an income of £2,973 – this would be £298 more than her provider had offered her. A flexible annuity would give Amanda the choice of receiving income at outset of between £1,486 up to a maximum of £3,567.

In the end, Amanda decided to take income from the flexible annuity at the same level as the enhanced annuity (£2,973). The future income will depend on how the underlying funds perform. The chart shows a comparison of future income using different products. As the flexible annuity income relies on how Amanda's selected funds perform, it's important to note that the income can go down as well as up. Amanda's adviser made her aware that despite the potential advantages, if the funds badly under performed, her income could be reduced to the minimum income guarantee which is set at outset (£1,486).

"I hadn't thought about my income in the future. This allows me more flexibility and potential for growth."



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