

Is it worth the wait?

Pension funds have taken a hammering recently, along with every other form of savings and investments.

With annuity rates falling, the timing of the market crash really couldn't have come at a worse time for people facing retirement.

It has left people questioning whether they would be better off leaving their pension funds invested for a year or more to give them a chance to recover, or buying an annuity now while the rates are still relatively high.

We believe people might be surprised by how much income they could miss out on in the long-term if they decide to delay buying an annuity for just one year.

Factors to consider

- For every year that someone delays, they'll be missing out on the guaranteed annual income an annuity would provide
- Annuity rates are falling
- People are living longer and can reasonably expect to receive an annuity for 20 years
- To get a pension fund back on track within a year or two relies on high investment returns
- We are in unprecedented times – no-one knows how long the stock market will take to recover.

How it stacks up

Here are a few examples which illustrate the dilemma facing people approaching retirement - all based on a 65-year-old man with a pension pot of £100,000.

Example One

If he buys an annuity at today's rate (7.0%), he will receive a guaranteed annual income of £7,000 for the rest of his life.

Between the ages of 65 and 80, this adds up to **£105,000**.

$$\begin{aligned} \text{£}100,000 \times 7.0\% &= \text{£}7,000 \text{ per year} \\ \text{£}7,000 \times 15 \text{ years} &= \text{£}105,000 \text{ in total} \end{aligned}$$

Example Two

If he decides to wait one year and annuity rates don't change and his pension savings do grow by 6%, he'll have £106,000 in his pension pot this time next year, giving him an annual income of £7,420.

This sounds great, but because he missed out on £7,000 this year, he'll only receive £103,880 by the time he reaches 80 years old.

$$\begin{aligned} \text{£}106,000 (\text{£}100,000 \times 6\%) \times 7.0\% \text{ (annuity rate)} &= \text{£}7,420 \text{ per year} \\ \text{£}7,420 \times 14 \text{ years} &= \text{£}103,880 \text{ in total} \end{aligned}$$

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enquiries@pension-annuity-help.co.uk*

Example Three – just about worth the wait!

If he decides to wait one year and annuity rates don't change and his pension savings grow by 8%, he'll have £108,000 in his pension pot this time next year, giving him an annual income of £7,560.

If pension funds do increase by 8% in just one year, in this scenario it would be a wise decision to wait because by the time he reaches 80, he will have received £105,840 – more than if he had bought an annuity today.

$£108,000 (£100,000 \times 8\%) \times 7.0\% = \mathbf{£7,560 \text{ per year}}$

$£7,560 \times 14 \text{ years} = \mathbf{£105,840 \text{ in total}}$

Shop around!

If the decision is made to go ahead and annuitise, there is still more people can do to make sure they get the most for their retirement. Shopping around for the best annuity deals can make a huge difference to income and if someone has any medical conditions, a poor health history or happens to smoke, they may qualify for an enhanced annuity which can boost their annual income significantly, compared to a standard annuity.

Choosing the right annuity is one of the last major financial decisions someone will make and the decision is not reversible. That's why it is so important that people take financial advice and consider all the options available to them, such as which sort of annuity to take and when to take it.

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