



# The Pensions Regulator

## Your retirement choices

defined contribution  
occupational pension schemes

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This leaflet is for you if:

- you are approaching retirement;
- you are in a defined contribution occupational pension scheme (also known as a money purchase scheme), set up by your employer;
- the scheme offers a choice of annuities or the ‘open-market option’ (see page 9); and
- you want to know what to do next.

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## About this leaflet

This leaflet gives you information about your options. It is not advice, either from the Pensions Regulator or from the person or firm who gave it to you. If you are not sure what action to take, we recommend that you get financial advice based on your own circumstances. You should consider your overall financial situation and your expected future financial needs, when making your pension choices.

If you are approaching retirement, your pension scheme will write to you with details about your pension fund. This will include information about using your fund to buy an annuity, which will provide you with a pension income for the rest of your life. Please read this information carefully and ask your pension scheme or financial adviser to explain anything you do not understand.

**You may not have to accept the annuity quoted by your current pension scheme. Your scheme may allow you to shop around to find the best deal.**

We explain the different types of annuity briefly here, but there are many different types. Choosing the best one can be complicated, so you may want to get financial advice to help you decide which one is best for you.

For more detailed information see the 'FSA guide to pensions 3 – Annuities and income withdrawal' which you can get free of charge. See 'Where to get more information' on page 14.

## What is an annuity?

An annuity converts your pension fund into pension income – the income you will be paid for the rest of your life. Insurance companies usually provide annuities.

You will have to pay tax on your pension income in the same way as you pay tax on your salary.

## What types of annuity are there?

There are different types of annuity to suit your needs and circumstances. The basic types are as follows.

- **A single-life annuity**

This is an annuity just for you, if you don't have anybody who relies on you for an income (they have their own pension arrangement).

- **A joint-life annuity**

This is an annuity that will pay out to your husband, wife, partner or dependant when you die. If you are not married, check that your partner is eligible to receive the annuity. Joint-life annuities pay out a lower income than single-life annuities. Some joint-life annuities will pay a reduced income to your husband, wife, partner or dependant, for example, half or two thirds.

The following types of annuity may also be available to you.

- **A level annuity**

The pension income you receive will stay the same throughout your life. You will get more money to start with than with an escalating annuity, but it will not increase.

- **An escalating annuity**

The pension income you receive will change each year, in line with inflation (in line with the Retail Price Index), or increase at a fixed rate. An escalating annuity pays an income that increases by, for example, 3% or 5% each year throughout your life. You will get less money to start than with a level annuity, but it will increase each year. If inflation stays low, it can take as long as 20 years or more for an escalating annuity to pay out as much as a level annuity. But if you don't have an escalating annuity, even low levels of inflation can, over time, radically reduce your standard of living.

- **A guaranteed annuity**

Your pension income can be guaranteed for a set number of years, usually five or 10 years, so that it will continue to pay the income (usually to your husband, wife, partner or estate) for the rest of the guaranteed period if you die before the period is up. If you do not include a guaranteed period, and your annuity is set up on a single-life basis, the income payments will stop when you die.

You may also be able to benefit from the following.

- An **enhanced annuity** which pays a higher income, if you are overweight, a smoker, or have done certain manual jobs or live in a particular part of the country.
- An **impaired-life annuity**, which pays a higher income, if you have a health problem that threatens to shorten your life.

## How is an annuity worked out?

These are the most important factors that affect the income you will get from your annuity.

- The amount of money in your pension fund when you retire.
- The amount of tax-free lump sum you decide to take as this will reduce the amount left in your fund to buy an annuity with. (You cannot usually take a lump sum from your additional voluntary contributions fund.)
- The annuity rate offered by the insurance company. (Annuity rates vary from company to company.)
- The type of annuity – joint or single life, level or increasing payments, guaranteed or not guaranteed and so on.
- Your age.
- Your sex – annuities for women cost more, as women are expected to live longer than men (but see also ‘What if I am contracted out of the additional state pension?’).
- Your health – some companies will pay higher annuities to people in poor health.
- Your lifestyle – some companies will pay higher rates to people with a certain lifestyle, for example, people who smoke or are overweight.

## The open-market option

Your pension scheme will offer you an annuity, but you can usually shop around to see what rates or arrangements other insurance companies offer – this is called the ‘open-market option’. (Check that your pension scheme allows this.) You may find it difficult to shop around if you have a small pension fund, say below £5,000.

## How can I shop around for the best deal?

Some people have found they have been able to increase their income by as much as a third by shopping around for their annuity. But this depends on the size of your pension fund and what your scheme is offering you.

Check whether you will lose any benefits (for example, the option to buy an annuity at a guaranteed rate of interest) if you don’t take up your pension scheme’s offer of an annuity.

Remember, once your annuity is in place, in most cases, you cannot switch to another annuity provider or a different type of annuity at a later date.

Your pension scheme will normally give you an estimate of the value of your fund before you retire. They will also tell you how much estimated income the annuity they offer you would provide. This will help you shop around and compare the income offered by insurance companies. (Please remember that you can only do this if your scheme offers the open-market option.) If you use your open-market option and decide to buy your annuity from an insurance company, your pension scheme might take charges from your fund. You need to get an estimate of the value of your fund (less any charges) before you can ask insurance companies for an annuity quote.

## How can I shop around for the best deal? continued

You can then ask insurance companies for a personalised annuity quote. But remember to compare similar annuities, and look at annuity quotes that fit your circumstances. Look at quotes for the type of annuity you want, and remember that annuity rates can change over time.

Annuity quotes are fixed for a limited number of days, usually between seven and 28 days. The insurance company will also tell you whether you have the right to cancel the contract if you decide not to go ahead with it and, if so, how long you have to do this.

Not all companies will deal with you direct. It may be better to ask a financial adviser to look at the annuity rates on offer. Some advisers specialise in annuities, and it may be worthwhile going to one that does.

If you use the open-market option, the adviser may be paid by commission. The insurance company will pay this, so this should not affect the amount you pay for the annuity. But ask the adviser if you will have to pay any other charges. If you take your annuity from your pension scheme, your scheme may not pay commission, so your adviser may ask you to pay a fee for the advice they have given you.

You can check on the 'open-market option' annuities available by going to the FSA's comparative tables on the internet at: **[www.fsa.gov.uk/tables](http://www.fsa.gov.uk/tables)**.

## **What else do I need to consider?**

### **Retiring**

As you are a member of an occupational pension scheme and you are retiring at normal retirement age, you will usually have to draw your pension benefits at that time and cannot delay taking your pension benefits.

### **What if I have more than one pension fund?**

If you have more than one pension fund, you may want to get financial advice about your options.

### **What if I am contracted out of the additional State Pension?**

If your employer elected to contract out of the additional State Pension (this was called SERPS, now the State Second Pension), you must use part of your pension fund to buy a 'protected rights annuity'. Your pension scheme will tell you if protected rights apply to you and what they mean in your circumstances.

With a protected rights pension, you can choose between taking a level or escalating annuity, if your scheme allows this choice. The annuity rates will be the same for both men and women. If you are married you will have to buy a joint-life annuity.

### **What if I have an individual pension policy?**

If you have an individual pension arrangement, for example, a personal pension or a free-standing additional voluntary contribution plan, please see the FSA factsheet 'Retiring soon – what you need to do about your pensions'.

## **Regulatory responsibilities**

We have produced this leaflet to explain the retirement choices available from occupational defined contribution pension schemes which we regulate. However, you will usually buy your annuity from an insurance company that the FSA regulates.

## **Pension rules are changing**

From April 2006, the Government is simplifying the rules on pension contributions and pension benefits. You may want to get financial advice about whether these changes could affect you.

## What other options are there?

If you don't want one of the annuities mentioned earlier, there are other options you could consider if your scheme allows the open-market option or allows you to transfer benefits. Some of these options may only be suitable if you have a large pension fund (over £100,000) and are comfortable taking some risk with your fund. Some of the options are set out below. If you are interested in any of these options, we strongly recommend that you get financial advice.

### Investment-linked annuities

This type of annuity involves some risk that your income could go down as well as up.

### Phased retirement

This is where you transfer your pension fund to a personal pension plan, if your scheme will allow you to transfer your benefits. You split your personal pension fund into two, three, four or more parts so that you can buy annuities at different ages.

### Income withdrawal or pension fund withdrawal

This is a way to draw an income from your pension fund and delay buying an annuity. See the 'FSA guide to pensions 3 – Annuities and income withdrawal'.

These are more complicated options, and you should get financial advice if you are considering one of these.

## Where to get more information

Insurance companies who are regulated by the FSA usually provide annuities. The Government set up the FSA as an independent watchdog to regulate financial services, including annuities, and to protect your rights.

### Financial Services Authority

Publications ‘Retiring soon – what you need to do about your pensions’  
‘FSA guide to pensions 3 – Annuities and income withdrawal’

You can order these free publications by calling the FSA Consumer Helpline on **0845 6061234**. You can also get these publications, and other independent information, on the FSA website at **[www.fsa.gov.uk/consumer](http://www.fsa.gov.uk/consumer)**. The website also has tables of different annuity rates so you can shop around for the best deal.

### Department for Work and Pensions

For advice on preparing for your retirement, see The Pension Service website at **[www.thepensionsservice.gov.uk](http://www.thepensionsservice.gov.uk)**. The Pension Service is part of the Department for Work and Pensions. If you live in Northern Ireland, see the Department for Social Development website at: **[www.dsdni.gov.uk](http://www.dsdni.gov.uk)**.

### The Pensions Advisory Service

If you have any questions about pensions, contact the Pensions Advisory Service. This is an independent organisation which can help with your pension and annuity enquiries.

Phone: **0845 6012923**

Minicom/textphone: **0845 7300204**

Email: **[enquiries@pensionsadvisoryservice.org.uk](mailto:enquiries@pensionsadvisoryservice.org.uk)**

Website: **[www.pensionsadvisoryservice.org.uk](http://www.pensionsadvisoryservice.org.uk)**

### **The Pension Tracing Service**

The Pension Tracing Service can help you track down pension schemes you have been a member of in the past. Their tracing service is free and you can phone them on **0845 6002537** (textphone: **0845 3000169**) and ask for a tracing request form. Or, you can write to them at:

Pension Tracing Service  
The Pension Service  
Whitley Road  
Newcastle upon Tyne  
NE98 1BA.

You can also use their online form at  
**[www.thepensionservice.gov.uk](http://www.thepensionservice.gov.uk)**.

For **financial advice**, you can contact one of the following organisations.

### **IFA Promotion**

Phone: **0800 0853250**  
Website: **[www.unbiased.co.uk](http://www.unbiased.co.uk)**

### **Personal Finance Society**

Phone: **020 85300852**  
Website: **[www.thepfs.org](http://www.thepfs.org)**

### **Institute of Financial Planning**

Phone: **0117 9452470**  
Website: **[www.financialplanning.org.uk](http://www.financialplanning.org.uk)**

## Checklist

If your scheme offers you a choice of annuity, the open-market option or both, use the checklist below to help you decide what annuity quote to accept.

- 1 Get an estimate of the value of your pension fund (less any charges for using the open-market option) from your pension scheme. Your pension scheme should send this to you before your retirement date, so you can start to shop around.

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Estimated pension fund value	£
Minus tax-free lump sum	£
Fund left to buy an annuity	£

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You may find it difficult to shop around if you have a small pension fund (less than £5,000). Some firms may not be interested in giving you advice on small amounts, or might have high charges for this service.

- 2 Tick the features you're interested in.  
(See pages 6 and 7 for what these terms mean.)

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Joint-life annuity  Single-life annuity   
100% survivor's pension or less – please give details.

Level annuity   
Escalating annuity which increases by a fixed rate  
(for example, 3% or 5%) or inflation – please give details.

3 If you think you might be eligible for an impaired-life or an enhanced annuity, some providers of these annuities are interested in pension funds smaller than £5,000, so shop around for the best deal. Do you want an: impaired-life annuity?  enhanced annuity?

4 If you want an annuity with a guaranteed period, how long do you want your pension income to be guaranteed for?  
Five years  10 years

5 Ask a range of providers for quotes for the gross monthly pension income you will receive for the options you're interested in. Annuity quotes are usually valid for seven to 28 days.

Also, if your scheme offers you a choice of annuity, you should still make sure you check out annuities with the features you're interested in – don't just accept the first annuity they offer you.

**There are many choices available. If you're not sure what to do, you may want to get financial advice. See 'Where to get more information' on page 15.**

## About the Pensions Regulator

The Pensions Regulator was set up under the Pensions Act 2004 and replaces the Occupational Pensions Regulatory Authority (Opra).

We are the regulator of work-based pension schemes. We work with trustees, scheme managers and employers to help protect scheme members' benefits.

We provide information, education and help to everyone involved in running work-based pensions. We aim to achieve the highest possible standards in the way pension schemes are run. This is the best way to prevent problems which could put your pension benefits at risk.

But if there is a problem with your pension scheme, we have a wide range of powers to help put matters right. In extreme cases, we can fine trustees or employers, and remove trustees from a scheme.



## How to get in touch with us

### The Pensions Regulator

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[www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk)

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Email: [customersupport@thepensionsregulator.gov.uk](mailto:customersupport@thepensionsregulator.gov.uk)



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