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## To Annuity...and Beyond

By Christopher J Sherliker

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Well, as we all know, pension savings are a pretty tax-efficient way of building up a fund for our retirement. They are tax free at the point of input (saving) but are taxed as income at the other end when we start to draw our pension.

In order to ensure that HM Revenue & Customs got their fair share of your hard earned cash, you were required to buy an annuity so that you had some income to tax. An annuity is essentially an insurance policy that promises to pay you an income for life in return for a large chunk of cash when you retire.

It's a bit of a lottery really. If you buy an annuity at age 65 and sadly get run over by a bus the next day, that's tough, the insurance company is laughing all the way to the bank, since they don't have to pay you anymore, and your family get nothing in return. Of course, if you are lucky to live until you're 100, it's the insurance company who maybe crying, since they've probably not gambled on you living so long and have underpriced the annuity. Swings and roundabouts though, and usually the insurers come out on top.

What the government is now saying is this. It recognises that tying up your pension pot until retirement could be difficult, as many people wish to access to their savings for good reasons, such as buying a house before they become too old to enjoy it. The government also recognises that many people wish to leave something for their families when they die and annuities do not allow that.

The Treasury still wants its tax take, however, and it doesn't want people to spend, spend, spend and then become dependent on the State in their old age. So people are going to be able to draw on their pension savings during their working life, but there will be strict conditions attached to prevent them blowing it all on wine, women (or men) and song.

But with this flexible approach to retirement savings will come added complexity. And the reality is that for Mr and Mrs Average, an annuity will still be the right way to go. For them, it will guarantee an income in retirement. It is really only the wealthy with other independent savings who are likely to be able to take full advantage of these new rules.

Reputable financial advisers will, I hope, steer away from selling unsuitable flexible lifestyle products to those who really should take the annuity option, although for heaven's sake, remember the open market option for annuity purchase too.

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