



**The Premier Partnership Limited**  
Your Family Office

Thank you!

**NEWS LETTER**

We would like to start the Autumn publication with a very big Thank You, to our hundreds of clients who responded to our annual client survey. The survey was to enable us to comply with the latest Consumer Duty regulations from our regulator The Financial Conduct Authority (FCA). We are delighted to report that we seem to be getting our service to you right. The responses were overwhelmingly positive in the views expressed, and we will strive to maintain your trust and provide the services you require going forward. Thank you again from all the team here at PPL.

**Now on to other news:**

The renaissance of the annuity market following 14 Bank of England interest rate rises over the last 12 months, has brought the humble annuity out from the shadows, and back into being a very viable retirement planning option for many. So this quarter we thought we would do a refresher course on annuities for you.

As always, if there is anything contained within this commentary that you would like to follow up on, then please do not hesitate to contact us.

# What is a Pension Annuity?

A pension annuity is a product, usually used and created by life assurance companies, that converts your pension pot(s) into a guaranteed regular income for life, no matter how long you live. Using a pension annuity, guarantees you will receive a regular income from the pension savings you have created. You can choose a fixed income that always stays the same, or set your income to increase every year to help you keep up with inflation. However, choosing options such as including a spouse's benefit after your demise, or including inflation linking to RPI, will cause the starting income to be considerably lower at the inception of the contract, to allow for rises in income through the inflation linking in later years.

## Enhanced Annuity

If you have any medical conditions or take regular medication, you could qualify for a higher starting income by completing a medical questionnaire and applying for an 'enhanced annuity'. Dependant upon your actual medical position, this could provide a considerable boost to initial incomes.

## Frequency

Income can usually be paid monthly or yearly, and some annuity providers can provide quarterly payments. You can select to have the income payments commence at the start of the month, or year, you have chosen (in advance), or at the end of that period (in arrears).

## Guarantees

Guaranteed minimum period

You can choose to guarantee to have your income paid for a certain period of time - say 25/30 years - once your annuity contract is complete. If you die during this time you can nominate for your income to continue to be paid to your chosen beneficiary until the end of the guaranteed period. This option again will create a lower initial income.

## Protection of Capital

When you die, and if correctly created at inception, you can protect the original capital used to create the annuity - or part of that capital should you choose. Upon death a capital value would then be paid to dependants, less any annuity income values already paid.

## Options To Support Dependants

Payment of the annuity income can continue to your nominated beneficiary after your death - dependant upon the options taken.

### Note:

The choices you make may affect your income for the rest of your life, and once chosen, those options and the annuity itself cannot be changed. All options added to an annuity can affect the starting income payment from the contract. Therefore each annuity is a bespoke product, built specifically for the individual and their circumstances and should be accompanied by Independent Financial Advice to ensure you receive the annuity you deserve.

## How Do Annuities Work?

When you take out an annuity contract, you are in reality making a contract with the provider on an offer and acceptance basis, just like all insurance contracts. You state your options and requirements on an application form, the relevant company assesses and underwrites the contract, and offers you the terms. You decide whether the terms are acceptable, with the help of your adviser, and accept or decline those terms accordingly. If you accept, the contract is set and cannot be changed.

The relevant company assesses your details and makes assumptions regarding your projected longevity of life expectancy. Using current standard mortality tables, a healthy 65 year old male will be expected to live to age 82-84. So 17 to 19 years. The annuitant company will work out the terms offered to you on that basis. They would then take the capital cost of the annuity - say £100,000, and using the mortality tables which say you will live 17 years - divide that age figure very broadly by the capital. So in this example a £100,000 annuity would produce £5,882 per annum on a single life annuity. If you die earlier than the assumption of longevity, and you have included no options for ongoing payment to beneficiaries, then the remaining capital is lost. However, if you live longer than the anticipated 17 years (ish), then because of the guaranteed nature of an annuity, you would continue to receive your income, even beyond the initial capital cost, for the rest of your life. You therefore win the bet against the assumption of an earlier death, and the annuity provides great value ongoing.

## How Are Annuities Taxed?

Annuity income is taxable, just like any other pension income receivable, including State Pension benefits, and drawdown from existing pension arrangements. This income is subject to usual personal income tax allowances. The amount of tax you would pay would depend upon your personal circumstances. It must be remembered that although the State Pension is paid gross, without the immediate deduction of tax at source, it is still part of your overall income, and therefore income in excess of your personal allowance from all sources, will be subject to taxation.

## History Of Annuities

Like many words we use regularly, the derivation of the word annuity is the Latin word Annua, which was used as the term for payment to loyal soldiers in the Roman Empire, who received an Annua payment yearly for their services. The modern concept of the annuity as a financial product, where an amount of capital provides a stream of income, dates back to the 17th century and were largely provided to the clergy. Until very recently (2015), annuities were the backbone of retirement planning, but in the 2014 Budget the then Chancellor George Osborne, turned the retirement income market on its head when he announced that Pension Freedom would apply from 6 April 2015.

You may recall his flippant, 'Now everyone can buy a Lamborghini' quote. These new rules were driven by the fallout from the Global Financial Crisis of 2008, which saw interest rates fall to virtually nil, and annuity rates followed. This created a very unbalanced retirement income market, as annuity rates are very closely linked to interest rates, and so for 7 years between 2008 and 2015, people retiring had no option but to accept pitifully low annuity rates. So pension freedoms were created to allow access to pension pots, irrespective of interest rates, and this has been the dominant planning factor in creating retirement income until 2022. In that year, following the war in Ukraine, inflation took off, and so did interest rates. Now with interest rates at a 15 year high, and given the link between annuity rates and interest rates, annuities are very much back in fashion. Consequently they are once again on the planning menu for income in retirement.

## Summary

Annuities are simple, but at the same time complex products that are bespoke to an individual as to the options utilised, and that needs guidance, advice and a qualified adviser to create. Do not be tempted to just take an annuity as offered by your (any) current pension provider. Seek advice and get the best scheme for you, which may well be from a different provider. We can help, so contact us before making any lasting decisions on your retirement income planning. Annuities are back - with a bang!



# UK Pension Rules



**In April 2023, The Government legislated for the changes to UK pension rules, first announced by Chancellor Jeremy Hunt, in his 2022 Autumn Budget. The changes stated that with effect from April 2023, no one will now face a Lifetime Allowance Charge; the Annual Contribution Allowance will increase; as will the Money Purchase Allowance; and finally changes to the Tapered Annual Allowance and the adjusted income rules for the Tapered Annual Allowance. All very pension jargon I hear you say, but what does it mean?**

To put numbers on the above, the rule changes apply to all members of all registered pension schemes. The removal of the Lifetime Allowance charge, means that effectively the cap on a maximum pension value (£1,073,100) has been removed, meaning pensions can now be at, and grow beyond that previous limit on value, without attracting penal taxation on any amount above that value. This rule was amended directly because of lobbying from the medical profession, to assist in retaining staff who were retiring early due to taxation considerations. The new rules however apply to everyone, not just the medical fraternity.

The amount of money you can put into a pension scheme in any one year has also increased, from £40,000 to £60,000. This is known as the Pension

Annual Allowance. The Money Purchase Annual Allowance is an adjusted version of the Pension Annual Allowance – where the amount of allowance is now £10,000 – up from £4,000. Previously, if you had accessed your scheme and taken benefits from a pension pot, the amount you were allowed to put back in was limited to £4,000, to prevent ‘recycling’ of accessed pension funds, and thus obtain further tax relief.

The total allowance available is still dictated by your total earnings, so if in any one tax year your income was say £50,000 – with an input allowance of £60,000 – you would be limited to the total value of 100% of your earnings and not the full allowance.

The final change is to the Tapered Annual Allowance. If you are a higher earner your allowance for pension contribution tapers down, until you reach the new £10,000 Money Purchase Allowance limit.

The above is a very brief overview of the actual rule changes, but as we always say, the actual application of those rules to an individual’s circumstance can be vastly different in outcome. So, as always, give us a call to discuss if you think the new rules will affect your financial planning.

Until next time.....

Please remember that past performance is not a guide to future performance. The value of investments and the income from them can go down as well as up and investors may not get back any of the amount originally invested. Exchange rate changes may cause the value of overseas investments to rise or fall.

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