

# Financial Planning and Insight

By Berkshire IFA



GUIDE TO

## COMBINING PENSION DRAWDOWN WITH AN ANNUITY

*Enjoy a comfortable and sustainable retirement  
income that gives you the best of both worlds*

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**Berkshire IFA**



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GUIDE TO

# COMBINING PENSION DRAWDOWN WITH AN ANNUITY

Enjoy a comfortable and sustainable retirement income that gives you the best of both worlds

Welcome to our *Guide to combining Pension Drawdown with an Annuity*.

If you're considering combining pension drawdown with an annuity, it's important to obtain professional financial advice to ensure you make the most of both options. Choosing the most suitable investment and calculating the amount of money you can realistically afford to withdraw from your pension each year is a complex matter, and it pays to be well-informed.



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58% of working adults do not know how to ensure their pension fund lasts throughout retirement, whilst 66% of UK adults dislike the idea of financial uncertainty.”

A recent study has shown that millions of people in the UK are concerned about stock market volatility and the possibility of running out of money during their retirement<sup>[1]</sup>. The study found that 58% of working adults do not know how to ensure their pension fund lasts throughout retirement, whilst 66% of UK adults dislike the idea of financial uncertainty.

#### **Flexible retirement**

Pension drawdown is an option for those seeking a flexible retirement income. With the ability to take up to 25% of your pension pot as a tax-free lump sum, it allows you to manage your finances on your own terms. By keeping the rest of your funds invested, you have the potential to grow your investment over time. Whether you choose to receive a regular income or take out varying amounts as and when you need it, pension drawdown offers a level of control and personalisation that traditional pension plans do not.

As with any investment, it's important to keep in mind that the value of your pension can fluctuate, meaning that your income is not guaranteed and could potentially run out. However, with careful planning and consideration, pension drawdown is a viable

option for those seeking more flexibility and control over their retirement income.

#### **Guaranteed income**

An annuity can be a reliable source of guaranteed income in retirement. By purchasing an annuity using some or all of your pension pot, you'll receive regular payments either for the rest of your life or for a set period of time. Additionally, when you use money from your pension pot to buy an annuity, you are eligible to take up to 25% of that amount as tax-free cash.

The remaining balance is used to purchase the annuity, with the income it generates taxed as earnings. This type of financial product is typically provided by insurance companies. An annuity provides peace of mind in retirement, as you can rely on a steady stream of income to cover your expenses. An annuity is an option for those looking for a predictable income stream in retirement.

#### **Pension fluctuates**

Of those with a defined contribution (DC) pension, 54% revealed that they get anxious when the value of their pension fluctuates. Meanwhile, 37% of workers expressed a preference for both a set income and a pot of money to draw from during their retirement.

According to the research, only 15% of retired people said they would take a medium or higher risk on their investment portfolios. Also, workers aged 55-64 were found to be particularly interested in the option of receiving both a set income and having a pot of money to draw from.

### Retirement portfolio

An effective solution to address the concerns of retirees regarding stock market volatility and their fear of running out of money in retirement is to opt for a blended retirement portfolio that combines a fixed term annuity with a smoothed investment fund.

With the right blend of annuity and drawdown products, you may be able to enjoy a comfortable and sustainable retirement income that gives you the best of both worlds. A fixed term annuity can provide a stable income that covers your basic needs and is guaranteed to last for a selected period of three to twenty-five years.

### Investment growth

The rest of the retirement fund can be invested in a smoothed investment fund, which offers the potential for lower-volatility growth over time. This strategy could be appropriate for retirees who are looking to secure their financial future and ensure they live comfortably in their golden years.

A blended annuity and drawdown portfolio is an effective way of achieving a balance between controlling a retirement portfolio to benefit from future investment growth and mitigating the potential impacts of market volatility.

### Concept of blending

While this concept of blending annuity and drawdown solutions is not novel, recent changes in interest rates and stock market performance have reinforced the importance of considering annuities to support a reliable retirement income.

However, constructing such a portfolio requires the expertise of a highly skilled professional financial adviser. With the right advice, retirees can rest assured that their blended portfolio will be tailored to meet

their individual investment goals and mitigate their concerns about market volatility. ■

### DO YOU WANT TO ENSURE A COMFORTABLE RETIREMENT THAT MEETS YOUR INDIVIDUAL NEEDS?

We'll work closely with you to create a fully customised retirement plan that is tailored to your unique situation and goals. Don't settle for uncertainty when it comes to your future – contact us today to start planning for the retirement of your dreams.

#### Source data:

[1] LV= surveyed 4,000 nationally representative UK adults via an online omnibus conducted by Opinium in Sept 2022 and December 2022. UK population stats from ONS. Total UK adult population is 53.2m UK adults (aged 18+).

THIS GUIDE DOES NOT CONSTITUTE TAX OR LEGAL ADVICE AND SHOULD NOT BE RELIED UPON AS SUCH. TAX TREATMENT DEPENDS ON THE INDIVIDUAL CIRCUMSTANCES OF EACH CLIENT AND MAY BE SUBJECT TO CHANGE IN THE FUTURE. FOR GUIDANCE, SEEK PROFESSIONAL ADVICE.

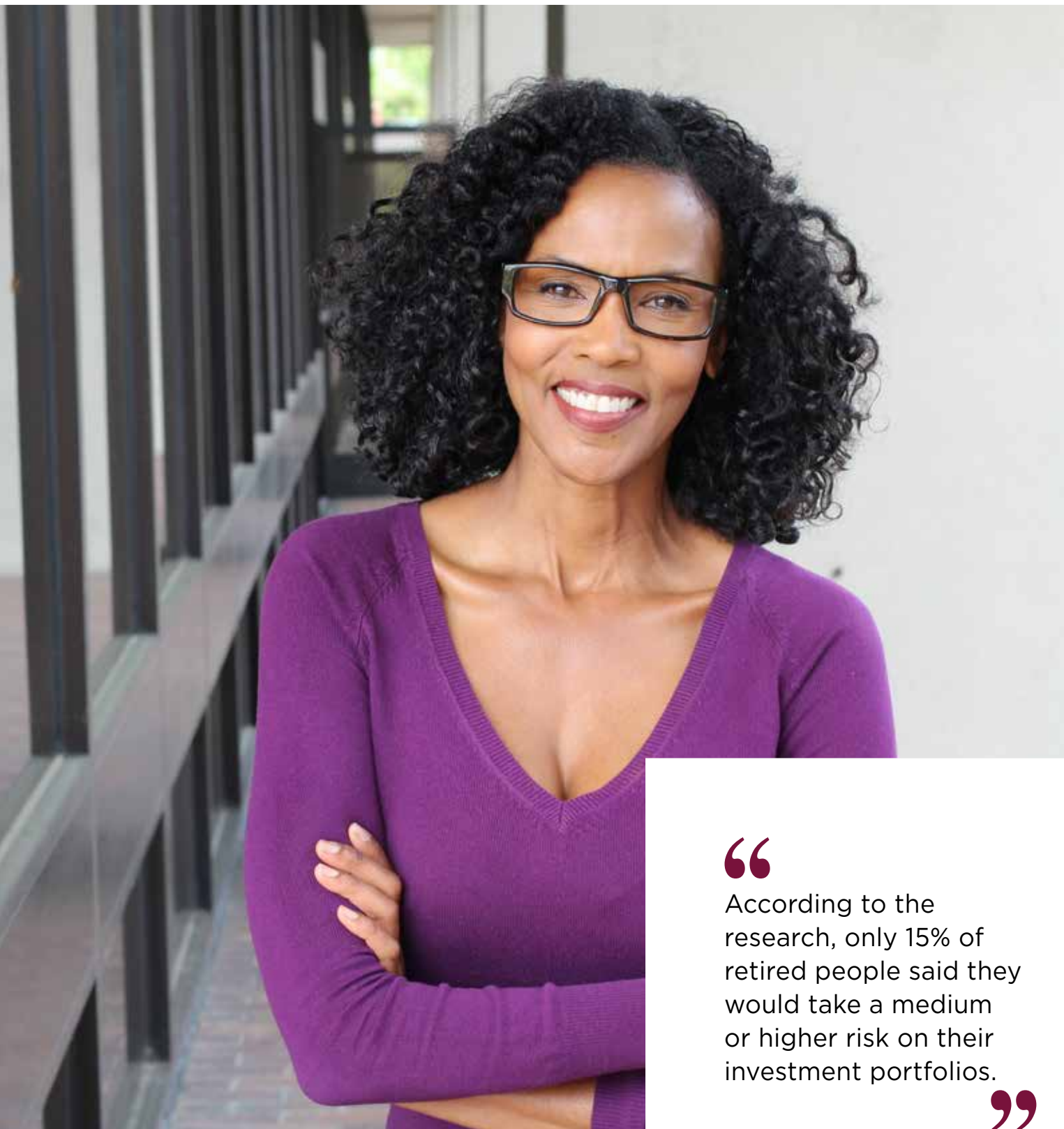
A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL AGE 55 (57 FROM APRIL 2028 UNLESS PLAN HAS A PROTECTED PENSION AGE).

THE VALUE OF YOUR INVESTMENTS (AND ANY INCOME FROM THEM) CAN GO DOWN AS WELL AS UP, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

YOUR PENSION INCOME COULD ALSO BE AFFECTED BY THE INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS.







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# IT ALL BEGINS WITH A CONVERSATION - READY TO TALK?

Today's families can be complex. That's why we help our clients plan and structure their financial affairs so that they can pass on wealth from one generation to the next in the most beneficial and tax-efficient way.

**To review your current situation or to discuss the options available, please contact us for further information – we look forward to hearing from you.**

**Call 0118 334 3500**

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