

## Unsecured Pensions

If you do not want to buy an annuity, because you feel that the rate being offered is too low and you'd prefer to wait to see if it improves or your life expectancy is such that you feel you are unlikely to get best benefit from an annuity, there is another option.

You can leave your pension fund invested, either with your current provider, or an alternative if there is an advantage in doing so and simply draw an income from the fund. There are limits on the level of income that you are able to draw, but as a maximum, they are generally better than the annuity rate.

The advantages of this are that; the fund does not die if you die, it can be left to a spouse or other beneficiary, it is not a once and for all decision, if annuity rates improve, you can move over to that option, you have flexibility on your income, so you can alter your income as other circumstances change. This last option can be particularly useful if you do not fully retire but reduce your work commitment so you start off with a low income and gradually increase it.

The major disadvantage or risk associated with Unsecured Pension is that of investment risk. In order to maintain your fund, you need it to grow each year at least as much as you have drawn out of it, plus a bit more to allow for inflation. This means that you need to take at least some investment risk, which in turn means that your fund could fall if the markets drop. We can take you through a full risk assessment questionnaire to help you with your decision making.

## The 'Third Way'

For the past 10 years and more, annuity rates have reduced dramatically. In the 1990s, a £100,000 fund would have bought a male aged 65 an annuity of around £13,000 pa; this year, that has fallen to below £7,000 pa.

As is often the case when choices are stark and the possible disadvantages are unpalatable, whichever way you choose, the industry involved tends to come up with a third way. This is usually some form of hybrid that tries to address the major downsides of each option. The pensions industry is no different and there are a number of different types of hybrid options, generally centering around the idea of a temporary annuity.

Third Way Annuities are a halfway house between conventional annuities which offer retirees the chance of a guaranteed income for as little as 3 but more typically 5 years. Fixed-term annuities offer a guaranteed income followed by a return of a capital element which can be used to buy another income product that suits your circumstances at that time. In most cases, there are no ongoing charges such as annual management charges or explicit set-up charges and, uniquely, income and capital are guaranteed at the outset.

## Summary

For clients with larger pension funds, it may be advisable to use a combination of options to achieve the right balance of risk and reward. Blending the options to produce the right plan is a solution we use regularly.