

## Retirement income bulletin

- **Should you buy an inflation-linked annuity?**
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Tom McPhail, Head of Pensions Research: ‘Shopping around for your retirement income means considering all your options, including alternatives to annuities such as Trivial Commutation or drawdown. Inflation is a particular hazard for the retired generation, who often have less scope to adjust their income and expenditure, however as this research shows, buying inflation proofing in the form of an increasing annuity is a gamble. You have to live beyond average life expectancy for it to pay off. For many pension investors the best solution may be to combine a level annuity with a drawdown plan, using the drawdown plan to provide a rising income.’

### Spotlight on inflation proofing

How much does it cost to protect your annuity income from the effects of inflation?

Take the example of a 65 year old, retiring with a fund of £100,000. As the table below shows, opting for an increasing income means a much lower starting level of income. With an annuity increasing at 3% or 5%, it takes 13 to 14 years for the level of annual income to catch up with a level annuity and the total pay-out won't catch up with the total income payments from a level annuity until age 89.

Average life expectancy for a 65 year old man in 2013 is 84 and for a woman it is 87.

With an RPI linked annuity it is impossible to know with certainty in advance whether it is a good deal, because you don't know what rate of inflation we will experience over the next 20 years or so. For this example we have used the average rate of all years going back to 1983, which works out at 3.52% a year.

Using this inflation rate and assuming a typical retirement of 20 years, the purchasing power of a level income would roughly halve over the course of retirement, so it is vital not to ignore the impact that inflation can have on your long term finances.

|  | Level         | 3%            | 5%            | RPI           |
|--|---------------|---------------|---------------|---------------|
| <b>Starting Income</b>                   | <b>£6,025</b> | <b>£4,226</b> | <b>£3,214</b> | <b>£3,638</b> |
| <b>Age when annual income catches up</b> | <b>N/A</b>    | <b>78</b>     | <b>79</b>     | <b>81</b>     |
| <b>Age when total pay-out catches up</b> | <b>N/A</b>    | <b>89</b>     | <b>89</b>     | <b>94</b>     |

*Unisex annuity rates, based on £100,000 purchase price, guaranteed 5 years, paid monthly in arrears, rates as at 09/12/2013*

## Top 10 annuity enhancements in November

Every month we track the best uplifts we manage to achieve for annuity investors, comparing the live enhanced rate quoted with the lowest rate available on the open market (source [www.hl.co.uk](http://www.hl.co.uk), 1043 clients analysed, November 2013).

The top ten quotes from November are shown below. Mr B from Surrey added 117% more income to his annuity quote by declaring his health conditions.

| client | % more income per annum, for life | £ more income per annum, for life |
|--------|-----------------------------------|-----------------------------------|
| Mr B   | ↑ 117%                            | £1,916.16                         |
| Mr J   | ↑ 105%                            | £561.36                           |
| Mr B   | ↑ 95%                             | £3,183.84                         |
| Mr P   | ↑ 93%                             | £2,438.40                         |
| Mr M   | ↑ 93%                             | £14,907.48                        |
| Mr G   | ↑ 91%                             | £4,392.12                         |
| Mr P   | ↑ 86%                             | £5,950.80                         |
| Mr B   | ↑ 86%                             | £12,213.48                        |
| Mr B   | ↑ 84%                             | £5,290.56                         |
| Mr D   | ↑ 83%                             | £1,055.64                         |

More details on enhanced annuities are available at [www.hl.co.uk/pensions/annuities/enhanced-annuities](http://www.hl.co.uk/pensions/annuities/enhanced-annuities)

## Current best buy rates for annuities

The following table shows the best standard annuity rates on offer. These rates do not take any health or lifestyle into account.

| age | Income        | Provider                   |
|-----|---------------|----------------------------|
| 60  | <b>£5,478</b> | <b>Legal &amp; General</b> |
| 65  | <b>£6,081</b> | <b>Legal &amp; General</b> |
| 70  | <b>£6,803</b> | <b>Canada Life</b>         |

*£100K purchase price, mid postcode, single life, 5 year guarantee, level, paid monthly in advance, unisex rates, as at 5 December 2013*

The latest annuity rates tables are available at [www.hl.co.uk/pensions/annuities/annuity-best-buy-rates](http://www.hl.co.uk/pensions/annuities/annuity-best-buy-rates)

## Current drawdown maximum incomes available

The following table shows the incomes that can be taken for new investors from 1 December 2013 (unchanged from November).

| October limits for income drawdown |                     |         |                   |
|------------------------------------|---------------------|---------|-------------------|
| age                                | Max capped drawdown | Minimum | Flexible drawdown |
| 60                                 | <b>£6360</b>        | nil     | <b>unlimited</b>  |
| 65                                 | <b>£7080</b>        | nil     | <b>unlimited</b>  |
| 70                                 | <b>£8280</b>        | nil     | <b>unlimited</b>  |

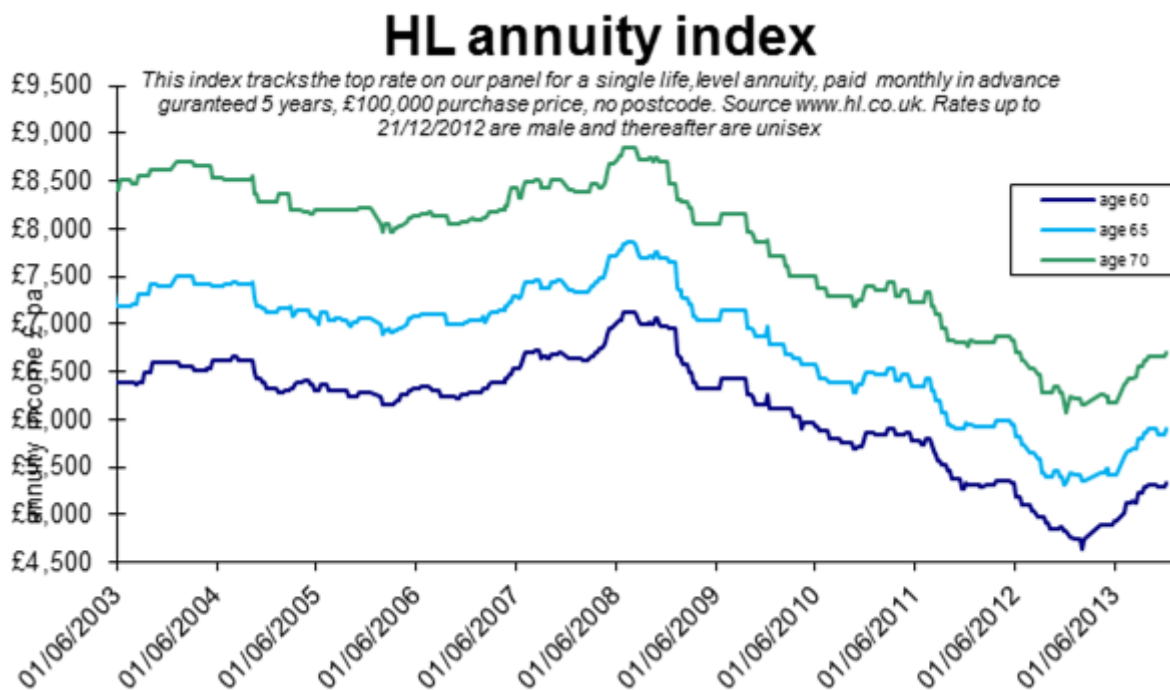
*£100K purchase price, unisex rates for December 2013*

## What time of day do people shop around?

The following analysis shows the open market option is a 24 hour activity. We have clients using our website all through the night. The blue figures are quotes we've run for clients, over the phone or by post. The yellow figures show the clients who are using our website.



### Most recent annuity index



## Most recent annuity rate changes

| Annuity provider  | Date of change   | Change  |
|---|------------------|---------|
|    | 3 December 2013  | ↔ Mixed |
|   | 21 November 2013 | ↔ Mixed |
|   | 5 November 2013  | ↔ Mixed |
|    | 28 November 2013 | ↑ Up    |
|   | 15 November 2013 | ↑ Up    |
|   | 1 November 2013  | ↔ Mixed |
|    | 22 October 2013  | ↓ Down  |
|   | 23 July 2013     | ↑ Up    |
|   | 12 July 2013     | ↑ Up    |
|    | 26 November 2013 | ↓ Down  |
|   | 9 November 2013  | ↑ Up    |
|   | 19 October 2013  | ↑ Up    |
|    | 4 December 2013  | ↑ Up    |
|   | 28 November 2013 | ↔ Mixed |
|   | 11 November 2013 | ↑ Up    |
|   | 5 December 2013  | ↔ Mixed |
|   | 4 November 2013  | ↑ Up    |
|   | 16 October 2013  | ↑ Up    |
|  | 27 August 2013   | ↑ Up    |
|   | 4 July 2013      | ↑ Up    |
|   | 26 June 2013     | ↑ Up    |
|  | 28 November 2013 | ↓ Down  |
|   | 21 June 2013     | ↑ Up    |
|   | 17 May 2013      | ↑ Up    |
|  | 29 November 2013 | ↑ Up    |
|   | 13 November 2013 | ↑ Up    |
|   | 25 October 2013  | ↔ Mixed |
|  | 5 November 2013  | ↓ Down  |
|   | 23 October 2013  | ↓ Down  |
|   | 2 October 2013   | ↓ Down  |

The latest changes can be found at <http://www.hl.co.uk/pensions/annuities/annuity-providers-income-history>

## **NOTES TO EDITORS**

Hargreaves Lansdown is a leading provider of investment management products and services to private investors in the UK. Hargreaves Lansdown pays all its taxes in the UK – one of only two FTSE 100 companies which do so (source: ActionAid.org May 2013).

Hargreaves Lansdown is the UK's largest annuity broker.

Hargreaves Lansdown is a diversified business with an established reputation for providing the best information, service and value for money investments and products to private and corporate investors. 96% of clients rate our service as good, very good or excellent.

The HL Vantage Service is the largest direct to consumer investment and pension service in the UK. Hargreaves Lansdown administers over £34.2 billion of client assets through the Vantage platform directly on behalf of over 507,000 investors. In total, Hargreaves Lansdown has £36.4 billion of assets under administration and management (30<sup>th</sup> June 2013).

Founded in 1981 by Peter Hargreaves and Stephen Lansdown, Hargreaves Lansdown floated on the UK stock market in May 2007 and is currently listed in the FTSE 100. Around 37% of the business is still owned by employees.

For more information [www.hl.co.uk/about-us](http://www.hl.co.uk/about-us)