

**CAPITAL
TOWER**

Guide to **Understanding Pension Annuities**

Deciding how to take an income in
retirement or semi-retirement

September 2025



Capital Tower Ltd, 85 Yarmouth Road, Norwich, NR7 0HF
Tel: 01603 701420 • Email: admin@capitaltower.co.uk • Website: www.capitaltower.co.uk

Authorise and Regulated by The Financial Conduct Authority - FCA No. 547717

Understanding Pension Annuities

Deciding how to take an income in retirement or semi-retirement

Using your pension fund to buy an annuity for retirement or semi-retirement is a major financial decision.

Annuities can offer a steady, guaranteed income for a fixed period or for life, helping to secure your financial stability. Because this choice is often irreversible, it's vital to fully understand your options, choose the most suitable type of annuity for your situation and seek professional financial advice.

When purchasing an annuity, numerous features and options are available, allowing you to personalise your retirement income to suit your individual needs and preferences, and those of your loved ones. Taking time to explore these options means you can decide when and how you will be paid, what kind of income security you will have and what level of support you can provide to a partner or dependent after you pass away.

Deciding between single and joint life cover

One of the initial and most crucial decisions is whether your annuity will cover a single life or be a joint life policy. A single life annuity provides a steady income for your lifetime only and terminates upon your death. This type generally offers a higher income and may be most suitable if you do not have a partner or dependants relying on your financial support.

By contrast, a joint life annuity continues to pay out after your death to a spouse, registered civil partner or another nominated dependant. The ongoing income is typically set at a chosen percentage — often 50% or 25% — of your initial income. This arrangement helps provide financial security for those you

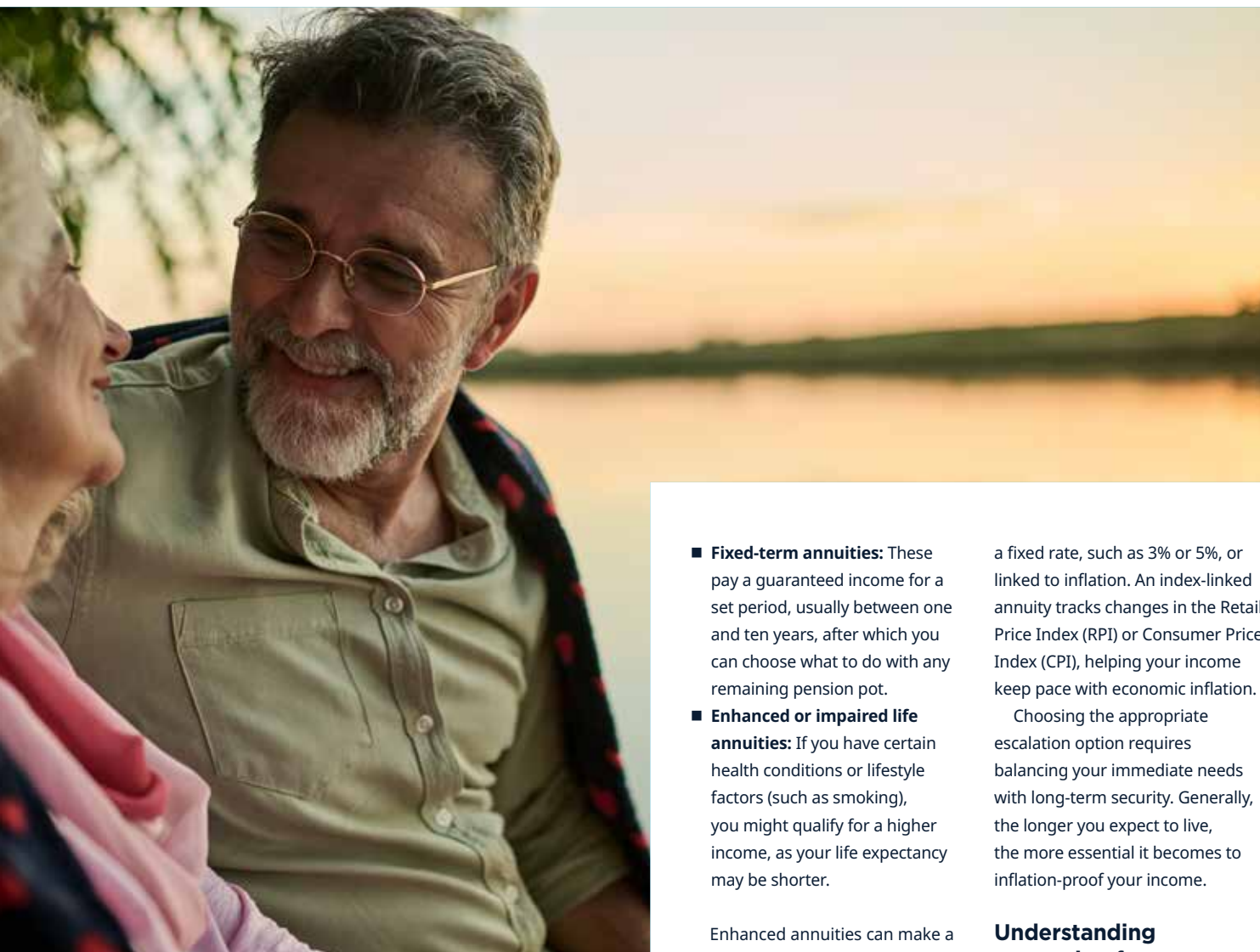
leave behind, although it usually pays out less initially due to the extended period it may need to cover. When considering a joint life annuity, discuss with your partner the level of income they might need if you are no longer there.

Exploring different types of annuities available

It's important to consider the various types of annuities available. The most common options include:

- **Lifetime annuities:** These provide a guaranteed income for the rest of your life.





One of the initial and most crucial decisions is whether your annuity will cover a single life or be a joint life policy.

■ **Fixed-term annuities:** These pay a guaranteed income for a set period, usually between one and ten years, after which you can choose what to do with any remaining pension pot.

■ **Enhanced or impaired life annuities:** If you have certain health conditions or lifestyle factors (such as smoking), you might qualify for a higher income, as your life expectancy may be shorter.

Enhanced annuities can make a substantial difference, so always be open and honest about your health and lifestyle during the application process.

Choosing between a level and increasing income

Another important decision is how your annuity income will be paid. You can select a fixed or level annuity, which provides the same amount each year. Although this often results in more income initially, your payments will decrease in real value over time as the cost of living increases.

Alternatively, an increasing (escalating) annuity begins with smaller payments that grow each year. The increases can be set at

a fixed rate, such as 3% or 5%, or linked to inflation. An index-linked annuity tracks changes in the Retail Price Index (RPI) or Consumer Price Index (CPI), helping your income keep pace with economic inflation.

Choosing the appropriate escalation option requires balancing your immediate needs with long-term security. Generally, the longer you expect to live, the more essential it becomes to inflation-proof your income.

Understanding protection features

Protection features are extra options that help protect your investment and give peace of mind. A guarantee period sets a minimum time during which payments will be made, even if you pass away. For example, with a ten-year guarantee, if you die after seven years, your payments will continue to your beneficiaries for the remaining three years.

Value protection offers a way to ensure that part of your original pension pot is passed on. If you die before recovering the full purchase price of the annuity, minus any income already paid, your beneficiary might receive a lump sum for the remaining amount. These features give



Remember to consider the impact of inflation, your health, and your retirement expectations. The best choice is often very personal, so take your time with your decision.

added reassurance but could result in slightly lower regular payments.

Some annuities also provide overlap and proportion options, which control how residual payments and dependants' income are managed if you pass away during a payment cycle or within a guarantee period.

How your annuity income is paid

You can usually choose how often you want to receive your payments – monthly, quarterly, half-yearly or annually. Payments can be made in advance (at the beginning of a period) or in arrears (at the end). It's worth considering how these payment timings fit with your spending or lifestyle needs.

All annuity income is taxable and will be subject to Income Tax at your usual rate. The provider uses your tax code to deduct tax before you receive your payment.

Your health, lifestyle and expected retirement plans can affect the rates you are offered. If you have medical conditions, smoke or are overweight, you might qualify for better terms; never assume that standard rates are the only options available.

Additional benefits and important considerations

Some annuities come with additional options. For example, you might be able to include benefits such as lump sum death payments or arrange your annuity to meet the needs of a disabled or vulnerable dependent.

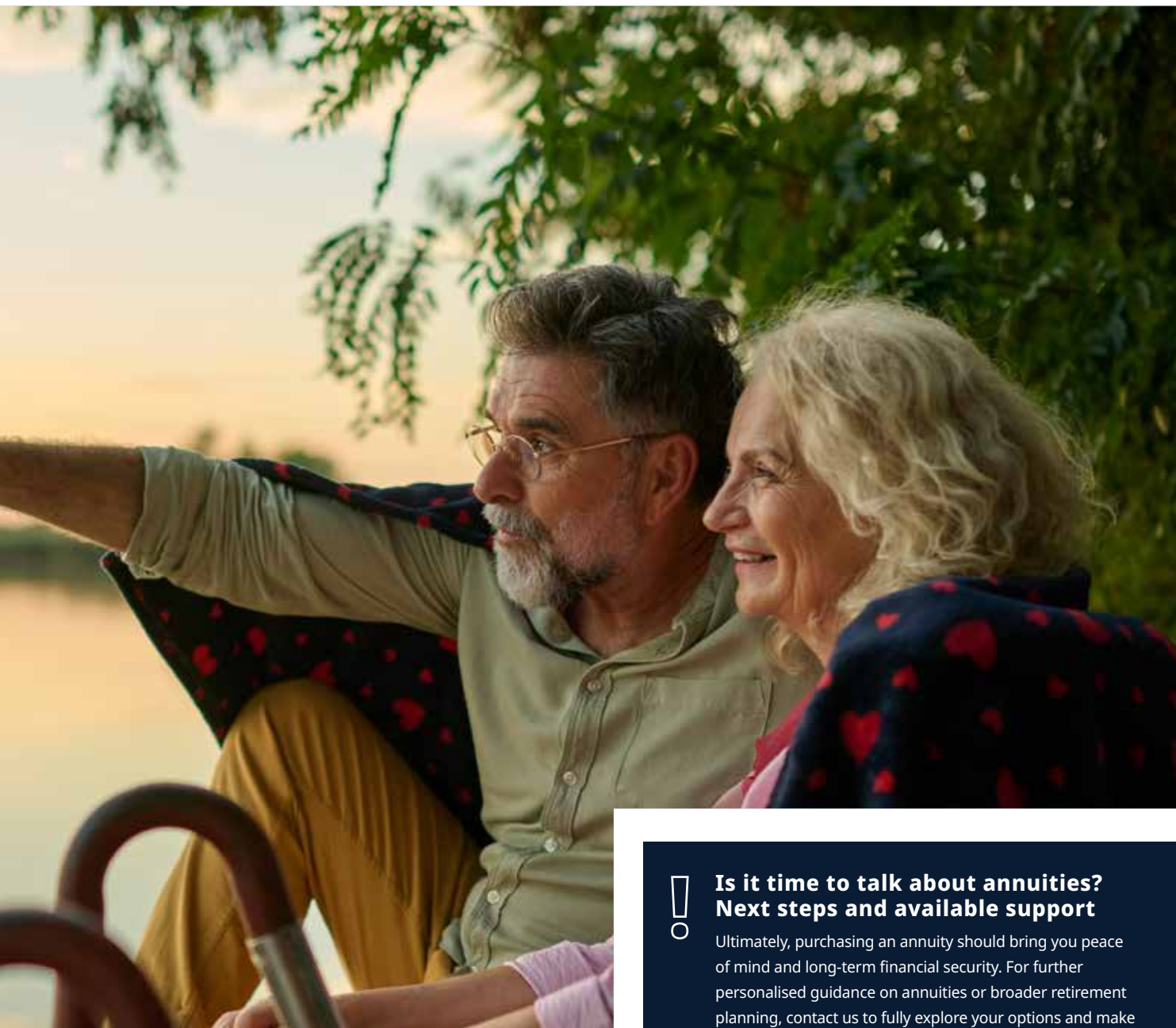
Remember to consider the impact of inflation, your health and your retirement expectations. The best choice is often very personal, so take your time with your decision.

If you have several pension pots or are considering combining them, assess if it makes sense to use multiple providers or consolidate into a single annuity. There is no 'one size fits all' in retirement planning.

Finding the right annuity for you

As you near retirement age, your current pension provider will present your annuity options. However, you are not obliged to select their offer. Comparing options from alternative providers can bring considerable advantages – rates, charges and product features vary greatly, and even a





Is it time to talk about annuities? Next steps and available support

Ultimately, purchasing an annuity should bring you peace of mind and long-term financial security. For further personalised guidance on annuities or broader retirement planning, contact us to fully explore your options and make the right decision with confidence. We look forward to hearing from you.

Source data;

[1] Prepared for the Financial Conduct Authority by Oxera and the Nuffield Centre for Experimental Social Sciences - June 2016.

THIS ARTICLE DOES NOT CONSTITUTE TAX, LEGAL OR FINANCIAL 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. THE VALUE OF YOUR INVESTMENTS CAN GO DOWN AS WELL AS UP, AND YOU MAY GET BACK LESS THAN YOU INVESTED. PAST PERFORMANCE IS NOT A GUARANTEE OF FUTURE RESULTS. TAX PLANNING IS NOT REGULATED BY THE FINANCIAL CONDUCT AUTHORITY.

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

small difference could amount to thousands of pounds over your retirement. Research suggests that shopping around could increase your retirement income by up to 20%, making it essential to obtain advice to compare options^[1].

Professional financial advice can be invaluable, especially given the one-off and irreversible nature of buying an annuity. We will explain your choices to match options to your needs, and if appropriate, may access deals not available from your pension provider.

Importance of reviewing your personal circumstances

Review your complete retirement plan before selecting an annuity. Consider your partner's needs, any debts or other income sources, and your future goals. Create a list of questions, such as: Will I need my income to keep pace with inflation? Am I likely to require care in later years? Will my spouse or dependants need financial protection if I pass away? ■

Are you ready to secure your financial future with confidence?

Schedule your personalised consultation today to explore how annuities could provide stability, guaranteed income and peace of mind for your retirement or semi-retirement.

**Your long-term success is our priority.
Let us help you build a strategy that
ensures financial security and growth.**

This guide is for your general information and use only and is not intended to address your particular requirements. The content should not be relied upon in its entirety and shall not be deemed to be or constitute advice. Although endeavours have been made to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough examination of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions taken in respect of the content. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts. Levels and bases of, and reliefs from, taxation are subject to change, and their value depends on the individual circumstances of the investor. The value of your investments can go down as well as up, and you may get back less than you invested. Unless otherwise stated, all figures relate to the 2025/26 tax year.