



# Buying a Pension Annuity

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# What is a Pension Annuity?

Quite simply, an annuity pays you a regular income. Once in payment, it can't be changed and it's payable for the rest of your life, no matter how long you live.

When you come to take your benefits from your pension pot, you'll have some important decisions to make. Probably most important of all is how to secure enough income to live out the rest of your life in comfort.

One option is to convert the pension pot you've built up into a regular income. You can do this by buying what is called a 'pension annuity' or an 'annuity'.

The income you'll receive will be subject to income tax. The amount of tax will depend on your individual circumstances and may change over time.

 **This is an important decision. We want you to be confident that you have the information you need to make the right decision.**

## Where can I buy a pension annuity?

You don't have to buy your annuity from your current pension provider. We strongly recommend that you approach other annuity providers, as different providers offer different rates. You may get a higher income if you shop around. When you get quotes from other providers, you need to ask them for the same options so that you're comparing like with like.

If you've given us consent to share your information with other annuity providers, we'll tell you if the annual income we've quoted is the highest or if you could receive more by shopping around.

If you have a number of pension plans taken out with different providers, you may wish to combine or 'transfer' them into one. By doing so you may increase your buying power.

There are a number of different types of annuity available on the market, but not all providers offer the full range. You need to make sure that the one you buy is the one that best suits your circumstances.

# How much income will I receive from my annuity?

The income you'll receive will depend on a number of factors, the main ones being:

## Your age

The younger you are when you buy your annuity, the longer the income may have to be paid. This normally means that at any one point in time, the income paid to a younger person would be less than the income paid to an older person from an annuity bought with the same amount of money.

## Your state of health

The healthier you are, the longer you're likely to live. And the longer you live, the longer your income will have to be paid. But, for those in poor or serious ill health, enhanced annuity rates may be available, qualifying them for a higher income.

## The amount of money in your pension plan

The level of income we'll pay will depend on how much money you have in your pension pot and the annuity rate you are offered. Depending on how long you live, the total pension income paid from your annuity could be less than the amount used to buy it.

## Investment market conditions

Different annuity providers will have different ideas about future investment returns, which will affect the annuity rates they offer. It's always a good idea to shop around for the highest income.

## The options you choose

You'll have a number of options when you buy your annuity. These are explained in the section 'Your options' on page 9. Other options will be available if you apply through an adviser or intermediary.



# What types of annuity do you offer?

It's important you understand the differences between the various types of annuities and the options available. It's especially important as once your annuity has been set up you can't change your mind. Deciding what's best for you will depend on your overall needs and personal circumstances.

## Fixed income versus increasing income

Our Pension Annuity will pay you a regular income for the rest of your life. You can choose to receive either a fixed income, which will pay you a set amount each year, or one that increases year after year.

If you choose a fixed income, your income will never fall, but it will never go up either.

The effect of inflation could then mean that your money will not stretch as far in years to come. An example of the effect of inflation is provided on [page 6](#).

Alternatively, an increasing income may help protect against the possible effects of inflation. You can choose to have your income increase each year by a fixed percentage of either **1%**, **2%**, **3%**, **4%** or **5%**, or linked to increases in the Retail Prices Index (RPI).

It's important to note that the starting level of an increasing income will be lower than the starting level of a fixed income.

## Enhanced rate annuity

If you have a medical condition(s) or one or more qualifying lifestyle health risks, such as you smoke, are overweight, or have high blood pressure, you could qualify for an **Enhanced rate** annuity which may result in you receiving more income than our **Standard rate** could provide.

The more serious your medical condition(s) or lifestyle health risks, the more income we may be able to offer you. For an idea of how much more, take a look at the case studies on [page 8](#).

In order to be considered for an enhanced rate you will need to answer some questions about your health. The information you disclose will be assessed before we decide whether you're entitled to a higher income from our Pension Annuity. We may also contact your doctor to request a report about your medical condition(s).

If you choose to provide a spouse's, registered civil partner's or financially dependant partner's income, we may be able to offer you more income based on their health.

Different annuity providers have different qualifying criteria for their enhanced annuities, so you should get quotes from as many providers as possible. If one provider doesn't offer you an enhancement you shouldn't assume that will be the case for all providers. Some providers may ignore lifestyle and medical factors that other providers will take into account.

# What do I need to consider?

## What is my attitude to risk?

Your attitude to risk may go some way to determining the sort of annuity you buy.

For example, do you want the certainty of a regular income that, although secure, provides no real opportunity for growth?

- Or, do you want an income that carries a higher degree of risk but at the same time allows you the potential to benefit from possible future investment returns?

If your attitude is to take a more cautious approach, then you're more likely to want to consider our Pension Annuity.

- If, on the other hand, you would like to adopt a more adventurous approach, and you understand the possible risks to your income, then you could consider an investment-linked annuity.

Our Pension Annuity will provide you with an income, payable for the rest of your life, which won't go down.

- An investment-linked annuity will also provide you with an income, payable for the rest of your life. The income payable could go down as well as up.

We don't offer an investment-linked annuity. If you think you might be interested in this type of annuity, please speak to a financial adviser.

## How long will I need my income?

You may be surprised at how long you may need to rely on your income. On average, a man aged 60 today could reasonably expect to live a further 27 years; and a woman of 60 for a further 29 years.\*

Therefore you need to consider the possible effects inflation may have on your income year after year.

For example, if inflation averaged 2% a year, after 10 years the value of £100 in today's money would only be £82. After 25 years it would be just £61.

### **When you buy an annuity you can help protect against the possible effects of inflation.**

With our Pension Annuity you can choose to have your income increase automatically each year.

Increases to income from our Pension Annuity can be:

- A fixed level of either **1%, 2%, 3%, 4% or 5%** a year, or
- Linked to the increase in the Retail Prices Index (RPI): an official measure of the general level of inflation as reflected in the retail price of a basket of goods or services in the UK.

\* Source: Legal & General, January 2025

## What happens to my income when I die?

An annuity will pay you an income for as long as you live and will normally cease being paid when you die. You may therefore want to consider how you can provide for those you might leave behind.

You may want to include:

- **An income for your dependant**

A spouse's, registered civil partner's or financially dependant partner's income, payable after your death.

The amount they'll receive can be set at **50%**, **67%**, or **100%** of your own income.

- **A guaranteed minimum payment period**

You can choose to guarantee that your income is paid for a minimum period from the date that your annuity starts. This means that your income will continue to be paid to the end of your chosen period even if you die.

In most circumstances you can normally choose a period of between one and 30 years (in whole years only). The maximum age at the end of the period is 100, so if you're above age 70, the period you can choose will need to be lower than 30.

- **Value protection**

This option allows you to protect all or part of the amount used to buy your annuity. When you die, we'll pay a lump sum for the amount you protected, minus any income payments already made.

You can choose to protect **25%**, **50%**, **75%**, or **100%** of the original amount used to buy your annuity.

You can't combine value protection with any of the other death benefits.

## What about my state of health?

Your state of health when you buy your annuity may have a bearing on how much income you'll receive. For example if you smoke, or you're in ill health then you could be entitled to a higher income.

In determining the amount of income you'll be paid, it may be that you're eligible for 'enhanced' rates on our Pension Annuity. This is because the life expectancy of someone who is suffering from poor health may be shorter than that of someone who has a healthy lifestyle and is in good health.

If you have one or more qualifying lifestyle health risks, like smoking or high blood pressure, or if you suffer from more serious health problems, you could qualify for enhanced rates on our Pension Annuity. This could increase your income quite substantially in some cases.

## Meet Jane and Bill

The case studies below are not real people and are for illustrative purposes only.

- Both Jane and Bill are 65 and have spouses aged 62.
- Their income is payable monthly in advance.
- A spouse's income of 50% will be paid on their deaths.

(Source: Legal & General, January 2025)

### Jane Case study

Jane is regular smoker and smokes 20 cigarettes per day.

Instead of the **£10,000** she would have received each year from a standard pension annuity, she was paid **£10,705** – an additional income of **£705** each year.

### Bill Case study

Bill was diagnosed with Type II diabetes 10 years ago which he manages through his diet.

After providing detailed medical evidence of his condition, instead of the **£10,000** he would have received each year from a standard pension annuity, he was paid **£10,545** – an additional income of **£545** each year.



# Your options

## Payment frequency

You can choose how often and when you receive your income. The time between payments is called the 'payment period'.

We can make payments either:

- monthly, or
- yearly.

We can pay your income either:

- in advance (at the start of the payment period), or
- in arrears (at the end of the payment period).

Your payments will normally be made after income tax has been deducted.

An income payable yearly in arrears will be greater than one payable yearly in advance, but you'll have to wait a year before we pay you your first payment.

## Guaranteed minimum payment period

We will pay you your income for as long as you live. However, you can choose to guarantee that your income is paid for a minimum period from the date your annuity starts. This means that if you die during your chosen period we'll continue to pay your beneficiary or estate until the end of your chosen period.

Your beneficiary will be chosen by us but we'll always take into account any nomination you make. You can change your nomination at any time by contacting us.

## You can choose a guaranteed minimum payment period from:

One year up to 30 years.

There is a maximum age at the end of the period of 100, so if you're above age 70, the longest period you can choose will need to be lower than 30. If you choose this option, the cost of the guaranteed minimum payment period will reduce the amount of income you receive.

The longer the period you choose, the lower your income will be.

## An income for your dependant

Our annuity will pay you an income for as long as you live and will only stop being paid when you die. However, you can make arrangements for an income to continue to be paid after your death to a surviving spouse, registered civil partner or financially dependant partner.

If you choose this option, then your starting level of income will be lower.

If you are under age 75 when you die, your surviving dependant will normally not have to pay any tax on the income paid to them. If you die when you are 75 or older, your surviving dependant will pay tax at their relevant rate of income tax.

## Value protection

An alternative option to providing an income after you die is to protect all or part of the amount used to buy your annuity. When you die, we'll pay a lump sum for the amount you protected, minus any income payments already made.

If you've received income payments that exceed the amount protected, then no lump sum will be paid when you die. We use the gross income payment when calculating how much income you've received (the gross income payment is the amount before any tax is deducted).

Choosing this option will reduce the amount of income you receive. The higher the amount you choose to protect, the lower your income will be.

We will pay any lump sum due to your beneficiary or to your estate. Your beneficiary will be chosen by us but we'll always take into account any nomination you make. You can change your nomination at any time by contacting us.

**!** If you choose value protection, you won't be able to choose a guaranteed minimum payment period and/or an income for your dependant.

## Value protection Case study

Paul uses **£100,000** to buy a Pension Annuity that pays him an income of **£6,388** every year for the rest of his life.

He chooses value protection at **50%** (**£50,000**). If Paul dies after four years he'll have received total income payments of **£25,552** before tax.

His beneficiaries will receive a lump sum of **£24,448** (**£50,000 - £25,552**).

As Paul was under 75 when he died, the lump sum will usually not be taxed.

If Paul dies after **nine years** he'll have received total income payments of **£57,492** before tax.

No lump sum will be paid to his beneficiaries because he's already received more than the **£50,000** protected.

This case study is for illustrative purposes only and is based on a 65-year-old male with a £100,000 pot.

Source: Legal & General, January 2025.

## Tax on death benefit payments

If you die before age 75, any death benefit payment will normally be free of income tax provided the benefits paid under this annuity and any other pension you have do not exceed the Lump Sum and Death Benefit Allowance. This is the combined allowance for the total amount that can be paid as tax-free lump sums, both during your lifetime and when you die.

The allowance is normally £1,073,100 but you may have a protected higher amount.

Any benefits paid which exceed this allowance will normally be taxed at your dependent or beneficiary's highest rate of income tax.

If you die age 75 or over, this payment will normally be taxed at your dependant or beneficiary's highest rate of income tax. As announced in the 2024 Autumn Budget the Government are intending to include most pension death benefits in the value of an individual's estate for inheritance tax purposes with effect from April 2027.

## How the options you choose can affect your income

There is a cost attached to each option, which will directly affect the starting level of your income.

The more options you add, the greater the effect. You can ask us for as many illustrations as you like so that you can see what effect choosing different options would have on your income.

The table below gives an indication of how adding a yearly increase, guaranteed minimum payment period, an income for your dependant or value protection could affect the income we pay from our Pension Annuity. The figures are based on a 65-year-old.

### Examples:

- If they choose a fixed income with no guaranteed minimum payment period or dependant's income on death, they would get a yearly income of **£3,433.08**, payable monthly in advance.
- But if they were to add a five-year guaranteed minimum payment period, their starting level of income would be **£3,426.72** a year. If they also choose a **3%** yearly increase in payment and add a **50%** dependant's income on death, their starting level of income would be **£2,116.32**.
- If value protection is chosen at **50%** with no yearly increase, then their starting level of income would be **£3,417.84**.

Yearly increase	Guaranteed minimum payment period (years)	Dependant's income (%)	Value protection (%)	Starting level of income (£)
None	0	0	n/a	£3,433.08
None	5	0	n/a	£3,426.72
None	15	0	n/a	£3,366.60
None	30	0	n/a	£3,061.20
3%	5	0	n/a	£2,395.80
5%	5	0	n/a	£1,881.96
None	5	50	n/a	£3,171.36
None	5	100	n/a	£3,025.20
3%	5	50	n/a	£2,116.32
3%	5	100	n/a	£1,978.80
RPI	5	50	n/a	£1,802.16
RPI	5	100	n/a	£1,678.56
None	n/a	n/a	50	£3,417.84
None	n/a	n/a	100	£3,353.88
3%	n/a	n/a	50	£2,383.80
3%	n/a	n/a	100	£2,322.00

This is not an exhaustive list of the possible combinations of options. It's just intended to give you an idea of the possible effects different combinations could have on your income.

# Further information

## Guidance and advice

You should seek guidance or financial advice to help you understand your options and decide what's best for you.

### Pension Wise from MoneyHelper

Pension Wise is a free and impartial government service from MoneyHelper that offers you:

- Tailored guidance (online, over the telephone or face to face) to explain what options you have and help you think how to make the best of your pension savings.
- Information about the tax implications of different options.
- Tips on getting the best deal, including how to shop around.

Visit [moneyhelper.org.uk/pensionwise](https://moneyhelper.org.uk/pensionwise) for more details.

If you'd prefer to speak to someone over the phone or book a face-to-face appointment you can call 0800 138 3944.

### Financial advice

A financial adviser will be able to help you understand your options and decide what is best for you.

If you don't have a financial adviser you can find one in your area by visiting [unbiased.co.uk](https://unbiased.co.uk) and entering your details. An adviser may charge for their services.

## Who regulates us?

We're authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. We're entered on the Financial Services Register under number 117659.

You can check this at [register.fca.org.uk](https://register.fca.org.uk), or you can call 0800 111 6768.

Alternatively, you can write to The Financial Conduct Authority, 12 Endeavour Square, London E20 1JN.

## About Legal & General

Established in 1836, we're one of the UK's leading financial services groups and a major global investor, with international businesses in the US, Europe, Middle East and Asia.

As at January 2025 we had more than 842,000 annuity customers. In the 12 months to January 2025 we paid our customers over £3.6 billion in pension annuity income.

## Additional support and alternative formats

Please contact us if you have any special circumstances you'd like to tell us about. We may be able to provide some extra support.

You can also request this document in Braille, large print or audio.

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