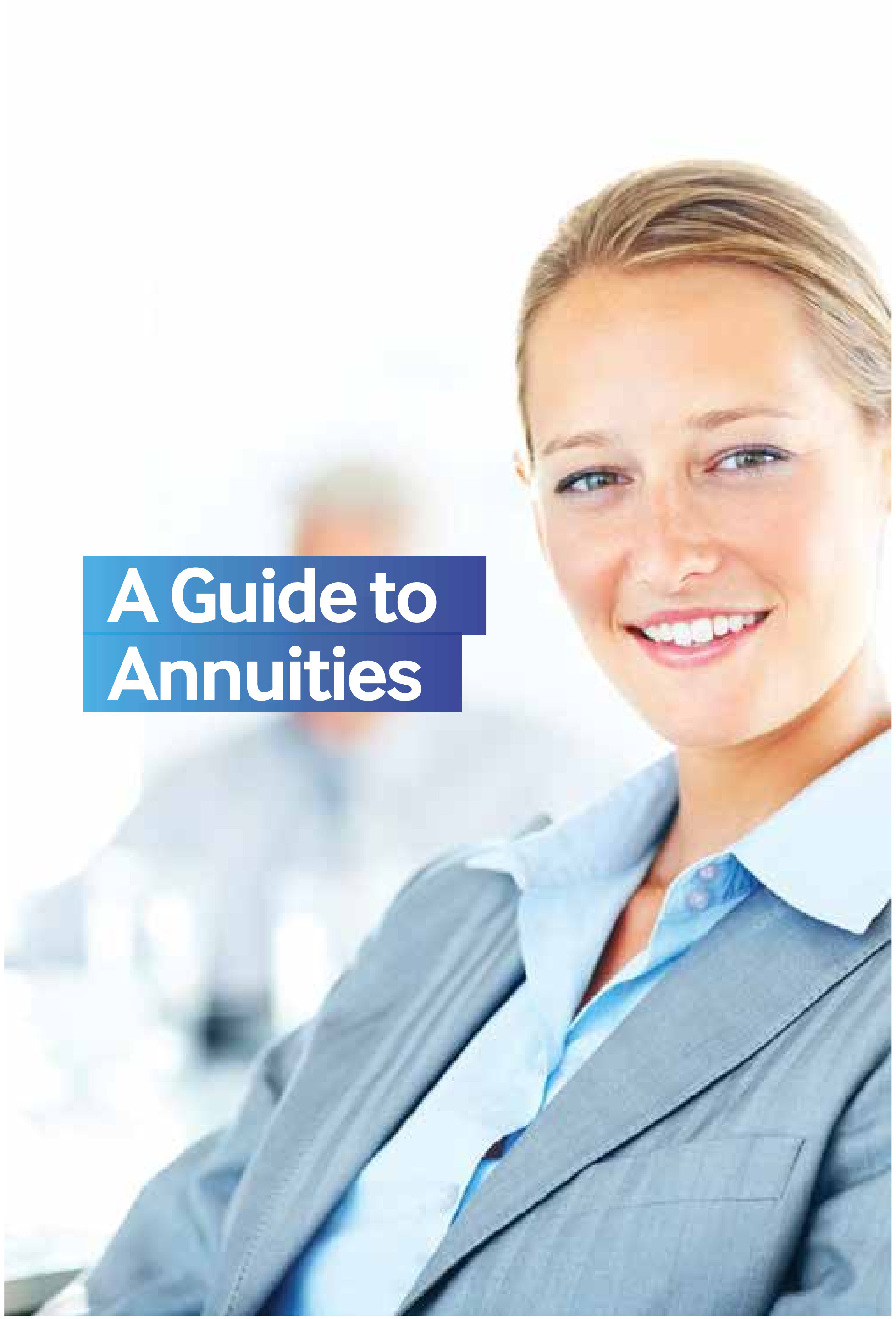
FINANCIAL BROKER
Financial Planning & Guidance

A Guide to Annuities

Creating your success through Financial Planning



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I’m approaching retirement, what are my financial options?

The months leading up to your retirement are a busy time as you make plans to secure your financial future. One of the most important decisions you will make during this time is what to do with your retirement fund once you retire.

You have a number of options. You will usually be able to take part of your retirement fund as a lump sum; some, or all of this lump sum, may be taken tax-free with any balance liable to standard rate income tax. Then, provided you meet certain criteria, you can use the remainder of your retirement fund in the following ways:

- Buy an annuity – a regular guaranteed taxable income for the rest of your life
- Re-invest it in an Approved Retirement Fund (ARF) and/or an Approved Minimum Retirement Fund (AMRF) , from which you can take regular taxable withdrawals in retirement
- Take as a taxable cash lump sum subject to PAYE

Any decision you make at this time can have far-reaching implications on the quality of your retirement. It is advisable to seek out impartial advice from an expert, a Financial Broker, who can guide you on the best choice for you based on your personal circumstances, financial goals and your attitude to and capacity for investment risk.

What is a Financial Broker?

A Financial Broker is an expert in financial matters who works with you to understand your financial goals and helps you create a plan to meet those goals. In helping you to prepare for your retirement, your Financial Broker will research your options including annuities, ARFs and AMRFs that meet your needs from the range of companies they deal with, providing you with a "fair analysis" of the market.

Why would I need to use a Financial Broker?

Choosing the right option for your retirement can be a daunting task. Your Financial Broker will be able to explain the choices available to you in simple language allowing you to make an informed decision.

Your Financial Broker will get to know you, your personal and financial circumstances, retirement plans and your attitude to and capacity for risk. They will guide you through the process of setting up your annuity and choosing the type of annuity best suited to your circumstances.

The annuity market is extremely competitive with life companies competing with each other for annuity business. On any given day, you may be able get a higher annuity rate from life company A than from life company B, for the same lump sum. As you approach retirement, your pension provider will offer you an annuity based on the terms they are prepared to offer at that time. You are not obliged to accept this deal, you are free to shop around for the best rate and option for you.

This is something your Financial Broker will be able to help you with. Your Financial Broker will search the market for you to get the best annuity at that time, for your retirement lump sum. Ultimately, your Financial Broker will ensure you choose the product best suited to you.

What is an annuity?

An annuity is a contract between you and a life insurance company. In return for a lump sum, the life insurance company will guarantee to pay you a fixed income for life, no matter how long you live. On your retirement, you would typically buy an annuity with a lump sum you have built up over your working life through your pension arrangement.

You can typically choose from an annuity in your name only, whereby you receive a set income each year for as long as you live, or a joint-life annuity, which means your surviving spouse, civil partner, or partner will continue to be paid some or all of the agreed income after your death for as long as they live.

If you do decide to invest in an annuity there are a number of things to bear in mind:

- Building in future increases in your annuity payment in retirement will significantly reduce your initial annuity payment, compared to a level annuity. You get less now in return for more later on.
- Building in a continuation of part of your annuity to a surviving spouse, civil partner, or partner after your death reduces your annuity payment, compared to an annuity which stops on your death.
- Choosing an annuity which pays back a lump sum to your dependants on death, will significantly reduce your initial annuity payment compared to an annuity which makes no such payment on death.
- Under current Revenue rules it is not possible to stop an annuity that has started and trade in any balance for cash. In addition, you cannot make any changes to your annuity once it has been bought, e.g. you cannot switch the annuity from a single life to a joint life.

Remember: There is no flexibility with an annuity once bought; when you invest in an annuity, the annuity payment is fixed for life based on the terms offered by the life insurance company on the day the annuity is purchased. Talk with your Financial Broker to ensure you have made the best decision for your financial future before making your final decision.

What are the advantages and disadvantages of an annuity?

As with any financial product, an annuity has a number of pros and cons. Before you make any decision on buying an annuity it's important that you are aware of the advantages and disadvantages associated with this product.

Advantages	Disadvantages
Lower risk than other retirement products.	Once you've bought it you can't cash it in, swap it for something else or change your annuity options.
Will pay you an income no matter how long you live.	The level of your pension income is not flexible.
If you are in bad health or a smoker, you may qualify for a higher level of pension income.	Depending on when you die, you may get back less than you paid in.
You can choose an option that will enable you to provide for your spouse, civil partner or partner when you die.	Unless you choose otherwise your spouse or partner will not be provided for and your payments will not be protected against inflation.
You can choose an option that protects your pension income from inflation.	The options you choose affect the level of pension income you receive, e.g. the more options you add, the more it will cost and the lower your pension income will be.

Is an annuity right for me?

For some, investing in an annuity at retirement may be the most suitable and practical way to secure a pension income. An annuity may suit you if:

- You require a guaranteed fixed income every year after you retire, until you die
- You do not have any other significant savings or investments to fall back on, in retirement
- You do not want to, or may be unable to due to Revenue reasons, invest the balance of your pension fund in an Approved Retirement Fund (ARF)

What are some of the different annuity options?

There are a number of different annuities available on the market and there are also a range of optional add-ons that cover different circumstances.

- The standard annuity is a "level annuity", which means the payment amount is set from when you purchase your annuity and you will continue to be paid this same amount until you die. These types of annuities pay a higher starting pension income than other types of annuity but your income will always stay the same, so the buying power of your pension income will reduce each year because of inflation.

- A "single life" annuity provides a pension income for you until you die.

- A "joint life" annuity allows you to buy an annuity for yourself where part or all of your income continues to be paid to a nominated survivor, such as your spouse, civil partner or partner. You can decide how much pension income you can afford to continue (as a percentage of your own income). The higher this % is, the lower your income will be.

- You could choose an annuity that guarantees an income for a set number of years, regardless how long you live. Typically, you could choose a 5 or 10 year guaranteed payment period, which means that if you die in the second year of a 10 year guaranteed payment period, your dependants would continue to receive the pension income for the next eight years, or the insurance company may offer an immediate lump sum payment.

- You could choose an annuity which pays back on death the amount you invested in the annuity, less all pension income payments received by you. This is called a 'capital protected' annuity.

- If you are in bad health or a smoker at the time of retirement, you may qualify for an increased pension income payment, higher than would be paid to someone similar in good health and a non smoker.

- Some insurance companies offer annuities that protect, in whole or part, your pension income from future inflation These type of annuities are typically called "escalating annuities" and mean your pension income can rise each year. Typically you will be offered a fixed rate of increase e.g. 3% per year. However, choosing this type of annuity means your initial pension income will be lower than a "level annuity".

Remember: Some of the optional extras will affect the level of pension income you receive: the more add-ons you choose, the more it will cost you and the lower your pension income will be. Make sure to talk to your Financial Broker about what you want to achieve with your annuity and they will guide you through the range of options.

How much will a life insurance company guarantee to pay me for a lump sum of €100,000?

The income a life insurance company will pay you will depend on a number of factors:

- **Your age when you buy the annuity:** The older you are at that time, the higher the level of annuity the life company will promise to pay you for life. This is because the life insurance company estimates it will have to pay the annuity for a shorter period than if you were younger.
- **The type of annuity you want:** You could choose a fixed income which will never increase or you could choose a lower initial income that would increase each year e.g. at 2% pa. You can choose an annuity which dies with you or an annuity which continues (usually at a lower level) for your spouse, civil partner or partner, on your death. You can choose an annuity which provides a lump sum for your dependants on death, or not.
- **The state of your health and smoking status at that time.** Some insurance companies may be prepared to offer you a higher fixed income if you have a reduced expectation of life due to bad health or being a smoker.
- **Interest rate levels at that time:** The life company 'lays off' the risk of guaranteeing to pay you an income for life by in turn investing your lump sum in long-term investments, which provide the life company with a guaranteed fixed return. For example, if interest rates are high, life companies can offer you a higher annuity for a given lump sum; however, if interest rates fall, the annuity they can offer for a given lump sum will also fall.

Financial Guidance &Choice

You are in control of your retirement fund

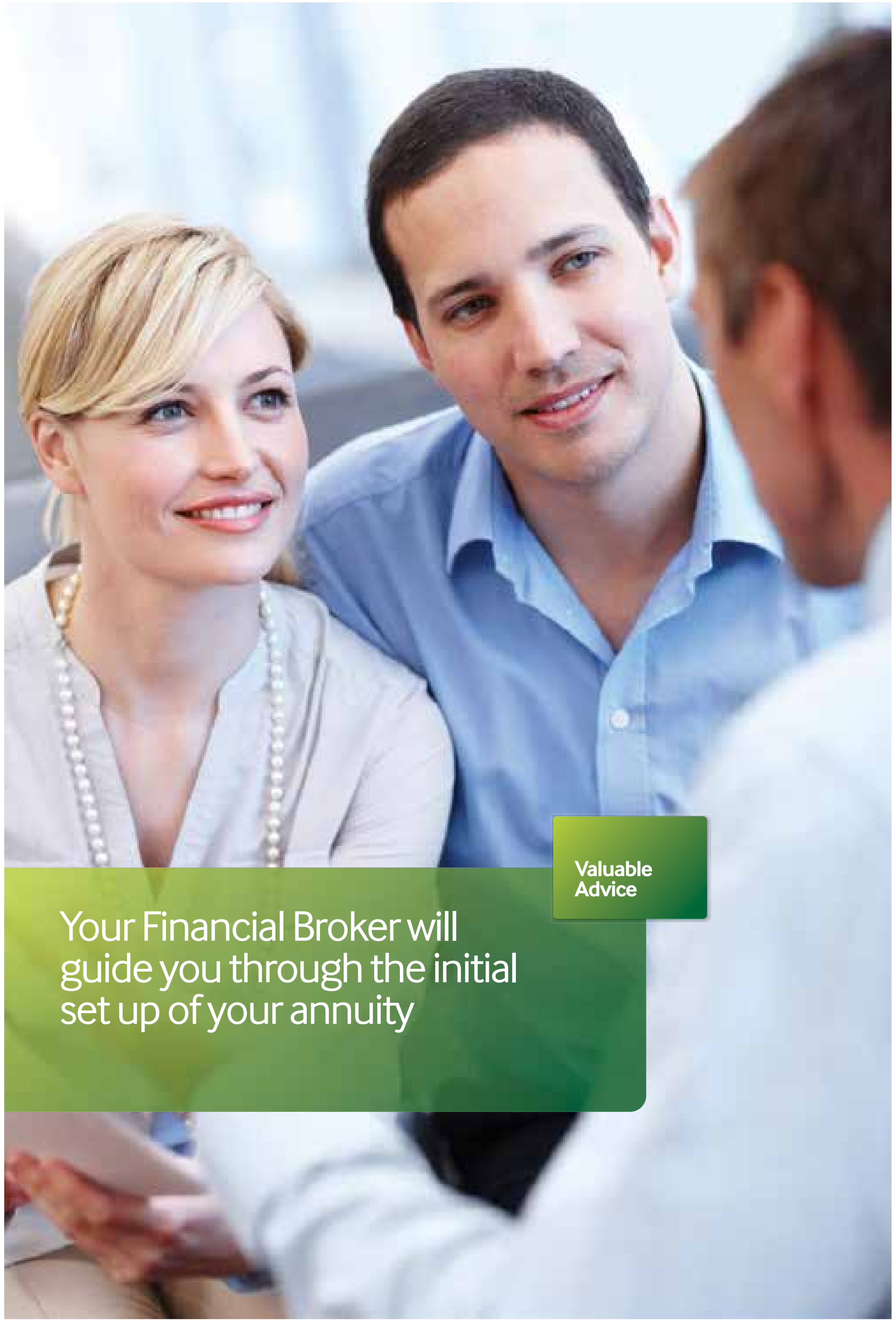
This table illustrates what one life company is currently offering as guaranteed annual annuity payments in return for a lump sum of €100,000:

	Age 60	Age 65	Age 70
Annuity dies with you			
Level annuity, no increases	€3,291	€3,890	€4,747
Annuity increasing @ 2% pa	€2,351	€ 2,930	€3,763
50% of your annuity continues after your death, if your spouse, civil partner or / partner survives you *			
Level annuity, no increases	€3,006	€3,523	€4,254
Annuity increasing @ 2% pa	€2,102	€ 2,601	€3,310

Warning: These figures are estimates only. They are not a reliable guide to the annuity income you might secure in the future with a similar lump sum

Please note: the annuities are quoted March 2015. Annuities rates are subject to change.

* assumed spouse is the same age as the retiree



Is my pension income taxed?

Your pension income is considered earned income and will be taxed accordingly.

Subject to your tax status and depending on your total taxable income and allowable tax credits and reliefs, you may have to pay income tax at your marginal rate, which is currently (March 2015) either 20% or 40%. Your pension income is also liable to the Universal Social Charge (USC), which will vary by the level of your income and your age.

If you are in receipt of a State Pension, this is also liable to income tax but not to USC. This State Pension, your annuity and any other income is added to get your assessable income for income tax purposes. Currently those over 65 are exempt from income tax if their total taxable income is less than €18,000 (single) or €36,000 (married or civil partners).

It is your responsibility to contact your local Inspector of Taxes in the Revenue Commissioners to ensure your annuity is taxed correctly before payments commence. The Revenue Commissioners will pass on the necessary information to the life insurance company who will then deduct tax and other payments from your pension income and send these deducted taxes directly to the Revenue on your behalf. You will receive the net payment from the insurance company.

Your Financial Broker will guide you through the initial set up of your annuity and will ensure that you have the necessary documentation to approach the Revenue Commissioners.

Do you have the ARF option? What are the main differences between an annuity and an ARF?

The key differences between an annuity and an ARF are flexibility and risk. An annuity converts the money in your retirement fund into a guaranteed taxable income payable for your lifetime, fixed on the date you buy the annuity. However on death, there may be little or no return for your dependants if you have not added a death benefit for your dependants to your annuity.

An ARF allows you to preserve, manage and control your retirement fund. You can invest your money into suitable assets and decide how much taxable income you want to withdraw each year, subject to the minimum withdrawal of 4 % pa once you are aged 61 or over, increasing to 5% pa if you are aged 71 or over. If the value of your ARFs (and vested PRSAs) exceeds €2m, the current minimum rate of withdrawal is 6% pa. Unlike an annuity, an ARF does not provide any guaranteed income but any balance in your ARF on death is payable to your dependants.

Annuity	ARF
An annuity offers an income guaranteed payable for life. There is no flexibility and no ability to make changes to your annual income, once you purchase the annuity. You are locked into a set annuity rate fixed on the date of investment, with no potential for future investment growth. Income stops when you and your surviving partner (if you have a joint life annuity) die; there is likely to be little or no payment to your dependants on death, if you have not added a death benefit to your annuity for your dependants.	Your fund could run out during your lifetime, leaving you with no regular income. Your ARF does not provide a guaranteed income for life unless it invests in an annuity. You can decide how much money you withdraw each year. (You must normally withdraw a minimum of 4% of your fund annually if you are aged 61 or more during the year, increasing to 5% pa when you reach age 71.) Your fund can be invested into suitable assets, which means you can benefit from potential investment growth on your ARF fund. However, it is also possible that the value of your fund could drop, depending on your investment options. On death you can, through your Will, leave any remaining funds in your ARF to an ARF in the name of your surviving spouse or civil partner. You can also make provision for your children, subject to a current 30% income tax deduction from any benefit taken by your adult children from your ARF after your death.

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Contact your Financial Broker for more information on the following products:

- A guide to Approved Retirement Funds
- A guide to Annuities
- A guide to Buy Out Bonds
- A guide to Personal Savings Plans
- A guide to Executive Pensions
- A guide to Personal Retirement Savings Accounts (PRSAs)
- A guide to Life Assurance
- A guide to Income Protection
- A guide to Serious Illness Cover
- A guide to Savings & Investments

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