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Drawdown, annuities or both?

Make sure your retirement strategy meets your needs and goals

It's important to make a well-informed decision when it comes to deciding what to do with your pension pot: drawdown, annuity or a combination of both. Making the right choice will affect your retirement for many years.

Drawdown gives you freedom and flexibility, allowing you to choose your annual income, whereas annuities provide steady income and security. For those who want both, they can purchase an annuity with part of their pension whilst keeping the rest in a drawdown agreement – giving them the best of both worlds.

The decision of whether to use drawdown or annuities can be a complex one, and professional advice is essential. Depending on your circumstances, either option may be suitable, with some preferring the security of knowing their income will remain stable for life, while others find the greater flexibility of drawdown more conducive to their retirement plans.

ANNUITIES

Annuities provide guaranteed lifetime income, but they also carry risk; if you die shortly after taking out an annuity it means that you won't benefit from the full value that you paid for upfront. This can make them unsuitable for those with shorter life expectancies compared to those who are expected to live longer. The current rates available on annuities may be attractive when compared to those in the recent past, and this can be an incentive for those previously deterred by low returns.

The benefits of an annuity include long-term security, since the income is guaranteed for life and cannot be affected by fluctuations in investment returns or other market factors. Plus, some policies guarantee indexation which means that the pension will rise with inflation over time. This helps to ensure that retirees have sufficient funds to maintain their lifestyle going forward

However, there are also downsides to consider when deciding whether an annuity is right for you. Annuity rates tend to be lower when interest rates fall, so you may get less than you had hoped for when taking your pension. Plus, the income is fixed and cannot be adjusted, so if your circumstances change in retirement and you require more funds it may not be possible to increase the amount you are receiving.

Ultimately, professional advice should always be sought with an annuity purchase as there can be a number of factors that need to be taken into consideration before making a decision. It is important to fully understand the terms of the policy and make sure that it is suitable for your individual situation before committing to anything long-term.

DRAWDOWN

In contrast to annuities, drawdown can provide more flexibility and control over how your money is managed in retirement. Drawdown is an increasingly popular option for retirees to receive an income during their retirement. This method of taking an income allows individuals to access their pension fund in a tax-efficient way, as withdrawals are only taxable when they exceed the Personal Allowance

The main advantage of drawdown for retirees is that it offers more flexibility than other options such as annuities or lump sum payments. Retirees can take out whatever amount they require, when they need it and don't have to commit to fixed payments over time, allowing them the freedom to make their own decisions on how they wish to use their pension savings

Another benefit is that any money left in the drawdown pot will not be liable for Inheritance Tax. This is beneficial for those who wish to leave a legacy for their beneficiaries, as the remaining investment can pass directly to them without being taxed.

On the other hand, choosing drawdown does come with some risks. Retirees should consider that markets can potentially be volatile and there may be no guaranteed income from investments. Withdrawing too much capital can also leave you exposed should you live longer than anticipated.

It's important that individuals have an understanding of how they plan to invest their pension savings and how any losses or gains might affect them in future years. Additionally, if retirees take too much out of their drawdown pot then they could face hefty tax bills.

Overall, it's important that professional advice is taken before deciding upon a retirement strategy. While drawdown can offer more flexibility than other options, it's important to weigh up all the pros and cons before making a decision. Ultimately, the right strategy should be tailored to the individual's needs and circumstances.

COMBINATION OF DRAWDOWN AND ANNUITIES

For some people, a combination of drawdown and annuities may provide the best balance between

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security of income and control over withdrawals – we can help to determine which option is most suitable for you. Ultimately, it's important to understand all aspects of both drawdown and annuities, including the pros and cons of each, before making a decision.

Making sound financial decisions requires due diligence and taking into account all relevant factors so that your retirement goals are met in the most efficient way possible. Therefore it is important to consider both drawdown and annuities when planning for retirement, and professional advice is key to making an informed decision. With the right knowledge and professional advice, you will be able to make a decision as to which option is most suitable for your particular circumstances.

By taking into account all relevant factors, you can make sure your retirement strategy meets your needs and goals. ■

ARE YOU CONFIDENT OF MAINTAINING A GOOD STANDARD OF LIVING IN RETIREMENT?

As we all live longer and enjoy unprecedented freedom to decide our own retirement options, it has never been more important to have clarity over what you want to do and how much money you'll need to achieve that.

Through our retirement financial planning services, we can help you position your finances so that you are confident of maintaining a good standard of living and have the income to realise your life goals, whatever they may be. For more information, please contact us.

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

YOUR PENSION INCOME COULD ALSO BE AFFECTED BY THE INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS.

THE VALUE OF YOUR INVESTMENTS CAN GO DOWN AS WELL AS UP AND YOU MAY GET BACK LESS THAN YOU INVESTED.