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Your guide to annuities and income drawdown

(Other things to consider when you choose your Lifecycle Strategy)

Lifecycle Strategies are an investment option for members who do not want to select their own investment funds.

Lifecycle Strategies:

- automatically invest in higher risk funds while you're younger to give your Personal Account the best chance to grow; and
- gradually move you to lower risk funds the closer you get to retirement to protect the value of your Personal Account.

There are two Lifecycle Strategies to choose from – the Drawdown Lifecycle Strategy and Annuity Lifecycle Strategy. Which you choose depends on the type of income you want when you retire.

What do I need to consider?

The key differences between an annuity and income drawdown are as follows:

	Annuity	Income drawdown
What is this option?	An insurance policy you can buy when you retire using the money in your Personal Account. It pays an income for the rest of your life.	Under income drawdown, each year you withdraw a retirement income from a pension arrangement and leave the rest invested. You have the flexibility to take out as much money as you like each year.
Can I take a 25% tax-free lump sum?	Yes.	Yes.
Do I have flexibility to take extra money if I need it?	No – you don't have any flexibility to take extra money if your situation changes. An annuity provides you with access to a set amount of money each year.	Yes – you can take as much money as you want, whenever you want. However, you will pay tax at your marginal rate of income tax.
Can I cancel this at any time?	Once you buy an annuity, you have a few months to cancel it. After that, it's a fixed contract for the rest of your life.	Yes – you can even buy an annuity in the future with your remaining pension savings.
Do I need to manage my pension investments when I retire?	No – there's no money to manage when you retire because you will have used the money to buy an annuity.	Yes – your money remains invested so you need to keep monitoring it.
Would the amount I receive increase with inflation?	It depends on the annuity choice you make. If you buy an inflation-linked annuity, it will keep up with the cost of living each year. If you don't buy an inflation-linked annuity it may not.	You have the potential to increase your pension savings by investing – but there's also a risk they could drop in value.
Is my income secure?	Yes – your annuity will be paid throughout your retirement.	No – you have to make sure you have enough money throughout your retirement.
What happens if I die?	It depends on the type of annuity you choose. If you buy a spouse's pension or have some sort of guarantee – then your spouse will continue to receive a pension or some type of lump sum benefit. If you don't your dependents won't be entitled to any annuity benefits.	If you die it may be possible for your remaining fund to be left as part of a lump sum inheritance (which could be taxed).

Anything else?

Yes, keep in mind, both Lifecycle Strategies invest very differently when you're close to retirement.

If your Personal Account is invested in the Drawdown Lifecycle Strategy…

And you later decide you would actually like to buy an annuity when you retire…

…Your Personal Account won't be invested in the right mix of funds for someone who plans to buy an annuity.

You can transfer to the Annuity Lifecycle Strategy (or any other Freechoice funds) by visiting **www.blackrock.co.uk/targetplan** – you'll need your login details.

If your Personal Account is invested in the Annuity Lifecycle Strategy…

And you later decide you would actually like to take some form of income drawdown…

…Your Personal Account won't be invested in the right mix of funds for someone who plans to take income drawdown.

You can transfer to the Income Drawdown Lifecycle Strategy (or any other Freechoice funds) by visiting **www.blackrock.co.uk/targetplan** – you'll need your login details.

Note: You can still buy an annuity or take income drawdown regardless of which Lifecycle Strategy you invest in. But as noted above:

- The Drawdown Lifecycle Strategy may be better suited to someone who wishes to take income drawdown.
- The Annuity Lifecycle Strategy may be better suited to someone who wishes to take an annuity when they retire.

I'm still not sure which option is right for me – where I can I get more information?

There are many online resources available to you:

www.axa-employeebenefits.co.uk
More support around retirement and investment options is also available on our dedicated pension website.

www.unbiased.co.uk
If you're still unclear which option is best for you, consider seeking financial advice. It's a big decision. You can find a list of financial advisers in your area on this website.

www.pensionwise.gov.uk
Pension Wise is another free and impartial service provided by the Government to help you understand what your retirement choices are.

www.moneyadviceservice.org
This money advice website provided by the Government offers impartial information on pensions.

www.pensionsadvisoryservice.org.uk
The Pensions Advisory Service offers free independent guidance on your retirement options. You'll find a range of resources on their website. You can also call them on 0845 601 2923.

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