Retirement IQ

FIXED TERM INCOME PLANS

GUARANTEED INCOME AND PENSION FLEXIBILITY FITS HAND IN GLOVE WITH PENSION FREEDOMS

primetime retirement

Contents

1 Introduction from Billy Burrows

Historically, the only way to convert a pension fund into income was by purchasing a lifetime annuity or investing in pension drawdown. One is totally secure but inflexible, the other completely flexible but has a number of risks. Then two things happened to change the retirement landscape and pave the way for new retirement income solutions.

The first was the launch of a fixed term income plan in 2007 and the second was the introduction of the new pension freedoms in 2015. Fixed term income plans now play an important role in retirement income planning because they are one of the few solutions which combine guaranteed income and pension flexibility.

In this guide, written for both financial advisers and retirees, I will explain how fixed term income plans work, look at the advantages and disadvantages and use some case studies to show how fixed term plans can be suitable for a wide range of circumstances.

ABOUT BILLY BURROWS

Billy Burrows has been involved with annuities and drawdown for over 20 years, advising clients on all aspects of retirement income options. He is a regulated financial adviser with Better Retirement and runs his own consultancy business, Retirement IQ, which publishes independent guides about pensions.

Foreword: Kim Lerche-Thomsen

Over 10 years ago I founded Living Time, the first company in the UK to offer fixed term income plans and the precursor to Primetime Retirement. At the time I could see there was a gap in the market for a retirement solution that provided guaranteed income in a different format to traditional annuities but without the risks associated with drawdown, so the concept of fixed term income was born.

I have always believed people entering and moving through retirement deserved far more from their pension savings; more choice, more flexibility and more transparency. This was the driving force and ethos behind the UK's first fixed term income plan, a concept that revolutionised the retirement income market.

Then in April 2015 pension freedoms were introduced and fixed term income plans became even more popular as they provide a solution that allowed retirees to access their pension funds to get a combination of guaranteed income and flexibility without taking undue risks.

The changes brought about by pension freedoms confirmed the findings of our own consumer research which found those approaching and entering retirement wanted security and surety of income above all else. But they also wanted more flexibility and control to help them maximise their 'living time' as one consumer put it. Attitudes to retirement and the very concept of "retiring" were changing and we were one of the first to respond to that shift in customer demand.

I believe there is an exciting future for fixed term income plans because now the dust has settled on the new pension freedoms it is clear the challenge for those facing one of the most important financial decisions of their life is how to work out how much income is cast iron for a period of time and how much flexibility is needed. Fixed term income plans provide both options within one single plan.

ABOUT PRIMETIME RETIREMENT

Primetime Retirement is a specialist product provider which has evolved and adapted to the retirement income market, bringing new solutions designed to offer flexibility in retirement.

An independent retirement guide

This guide has been written from a fully independent viewpoint and aims to explain the advantages and disadvantages in a fair and balanced way.

This guide is designed to be read by financial advisers, industry experts and individual customers.

2 What is a fixed term income plan?

A fixed term income plan, sometimes called a fixed term annuity, allows retires to access 25% tax free cash and, if needed, receive a guaranteed income for a selected number of years. At the end of the term there is a maturity amount which can be taken as cash, annuity or drawdown.

All fixed term income plans have two unique features:

- Guaranteed income payments for a set number of years and months
- A capital sum that is paid back into the pension plan at the end of the term, unless all the fund is used up to pay income.

OVERVIEW

A fixed term income plan is a retirement income solution that allows retirees to access their pension pot to get a guaranteed income for a set period of time and then to have a lump sum paid back into their pension pot. The money paid back into the pension pot at the end of the term can be used to arrange more guaranteed income or spent in another way in accordance with the pension rules at the time.

This means a fixed term plan can pay a guaranteed income just like an annuity, but instead of being locked in for life, the planholder is only committed for a set period of time after which they have the flexibility to spend their remaining pension pot in a way that is best suited to their circumstances.

Fixed term income plans can be taken out any time after age 55, the earliest age at which money can be taken out of a pension pot. Any type of money purchase personal pension or workplace pension can be invested in a fixed term plan. Technically it is a pension drawdown option and this is why it is possible to combine guaranteed income with flexibility and control.

Currently, three insurance companies and two specialist pension providers offer fixed term plans. Some companies, such as Primetime Retirement, provide additional flexibility because their fixed term plans are set up as Self Invested Personal Pensions (SIPPs).

Fixed term income plans were first invented by Kim Lerche-Thomsen at Living Time, the precursor to Primetime Retirement, in 2007. They solved the problem of how to get a guaranteed income without losing control by purchasing a lifetime annuity and retaining flexibility and control without taking the risks associated with pension drawdown.

All income payments are subject to tax at the recipients marginal rate. Some plans provide extra flexibility by allowing some income to remain inside the pension which means it is sheltered from tax until it is actually paid out.

TAX FREE CASH

As with most retirement income solutions, a tax-free cash sum equal to 25% of the pension pot can be paid at the outset.

GUARANTEED INCOME

Most people need a certain amount of guaranteed income to pay their everyday living expenses and fixed term plans are one of the few retirement solutions that provide guaranteed income for a set period of time without any complications or catches.

The amount of guaranteed income can be anything from zero upwards. The income cannot be changed during the term of the plan unless certain options are chosen.

The amount of income payable during the term of the plan will affect the size of the maturity amount. For example, the higher the guaranteed income, the less payable at the end of the term.

The income can be paid monthly or at other frequencies and can be level or increasing.

FIXED TERM

There are advantages to having income guaranteed for a fixed term rather than for life. For instance, there is flexibility to review income options at the end of the term taking account of any changes in health, circumstances or annuity rates. However, when options are reviewed it may not be possible to secure the same amount of income, especially if interest rates are lower.

The fixed term period can be from 3 years to 25 years depending on the provider's terms.

MATURITY AMOUNT

Fixed term income plans provide flexibility because the money left in the plan at the end of the term can be converted into cash or income in a number of different ways. For instance, to pay a cash sum, to provide a regular income or simply remaining invested in the pension pot. Tax is payable on any income or cash taken.

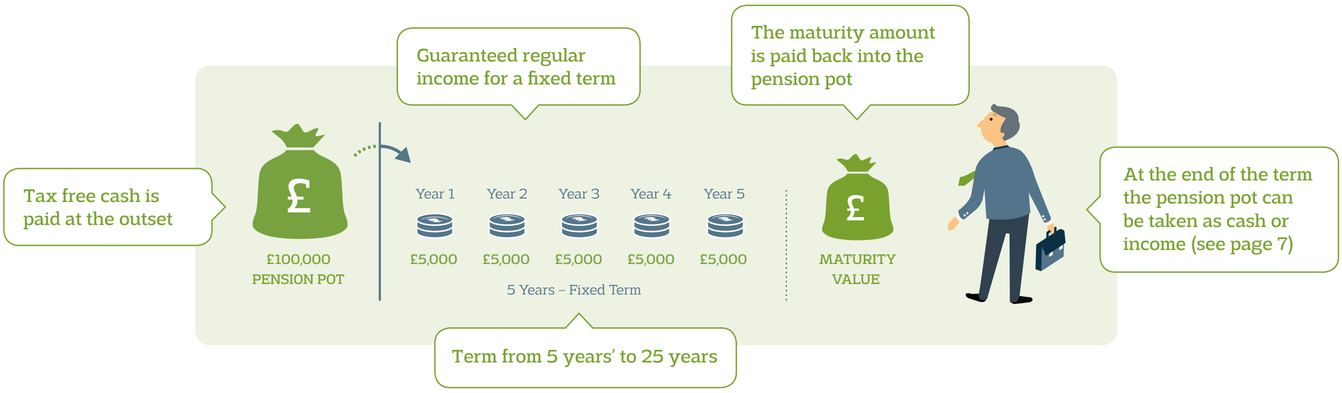
The maturity amount is the money that will be left in the plan at the end of the term after all the income and charges have been paid plus any interest added.

DEATH BENEFITS

One of the big worries with retirement income solutions such as annuities is that income payments may stop when the policyholder dies. One of the many advantages of pension freedoms is that retirees can leave their pension pots to their family, or other beneficiaries after their death and fixed term plans can facilitate this.

If the planholder dies before the end of the term and they are under the age of 75 any money left in the pension can be paid-out tax free to chosen beneficiaries. After the age of 75 any money paid out is taxed at the beneficiary's marginal rate.

This is called the value protection option. It is the difference between the original sum invested and the amount paid out, or the value of the fund on death if greater The purpose of this option is to make sure that any remaining money in the pension pot can be paid out to beneficiaries after the planholder's death.



Summary

Fixed term income plans can pay guaranteed income without losing control of the pension pot as is the case with lifetime annuities. They also provide flexibility without many of the risks associated with drawdown. These plans can be used in a number different ways including:

INCOME AND MONEY BACK	INCOME ONLY	NO INCOME BUT ALL MONEY BACK
Instead of purchasing a lifetime annuity which has no flexibility, a guaranteed income can be paid with money paid back into the pension at the end of the term which can be used to arrange another income solution.	If the maximum income is needed over a given time period, for instance to bridge the gap between retirement and start of the state pension, all the money in the pension pot can be paid as regular income so there is nothing left at the end of the term.	Sometimes people only want to access the 25% tax free cash sum and delay taking an income for several years without taking any risks. If no income is taken the pension pot remains invested in guaranteed deposits so will increase in value with peace of mind.

3 How much income can be taken?

There is no minimum or maximum income limit so any amount of income can be taken depending on individual circumstances. It is important to choose the right level of income at the outset because it determines the amount of the maturity amount and cannot normally be changed until the end of the term. If a high level of income is taken the maturity amount will be relatively small and vice versa.

As there are no limits or restrictions on the amount of income that can be taken some advisers and retirees may find it difficult to calculate how much income to take out, but there are some helpful guidelines to help work out the right level of income payments.

INCOME GUIDELINES
✓ Income equivalent to a lifetime annuity (level)
✓ Provider default
✓ A fixed amount of income
✓ Income that will increase each year e.g. 3% p.a.

Annuity equivalent – Even though a fixed term income plan is very different from an annuity, the income from an annuity is a useful benchmark because it reflects the amount of income that can be guaranteed for life with current interest rates and life expectancy.

Don't forget, with lifetime annuities there are winners and losers. Some people will get back more than they paid in because they lived longer than expected but some will lose out because they will not live long enough to get their money back. With fixed term plans there are no losers because everyone is guaranteed to get their money back.

Providers default – This is calculated to pay a maturity amount which should be sufficient to purchase a lifetime annuity paying the same level of income assuming no changes to the underlying annuity rate.

This may be a helpful benchmark for those who want their income to last for the rest of their life but don't want to lock into an annuity at the outset.

Fixed amount – Some people have a specific income requirement each year. With a fixed term plan the planholder can decide how much regular income is paid each year.

Increasing income – It is possible to have a guaranteed income that increases by a fixed amount each year. This can help offset the effect of inflation which reduces the spending power of money.

The table below shows the income for a range of 5-year fixed term income plans, plus maturity value, where the starting income is equivalent to a lifetime annuity.

AGE	PURCHASE	INCOME*	MATURITY	PURCHASE	INCOME*	MATURITY
60	£ 50,000	£2,436	£40,913	£75,000	£3,584	£61,812
65	£ 50,000	£2,758	£39,211	£75,000	£4,126	£58,947
70	£ 50,000	£3,167	£37,049	£75,000	£4,587	£56,510

* Gross annual income before tax. Annuity- single life, 5 year guarantee, level payments paid monthly.
Fixed Term – single life, 100% value protection, level payments paid monthly. Source: Retirement IQ June 2018.

Income tax

All income payments are taxed at the planholder's marginal rate of tax as confirmed by HMRC. Normally income is paid after deduction of basic rate tax by the fixed term provider.

If the income from the fixed term plan added to other sources of income, less the personal allowance, is over than the threshold for basic rate tax, higher rate tax will be payable.

4 What is the 'Maturity Amount'?

The maturity amount is simply the amount of money left in the fixed term pension pot at the end of the term after the income has been paid, charges deducted and any interest added. The maturity value can be invested in another fixed term plan or in another retirement solution such as a drawdown or an annuity.

The maturity value is the unique feature that sets fixed term plans apart from other solutions and makes them so flexible. At the end of the term retirees have complete freedom to spend or invest their pension pot in any way permitted by the pension rules.

This includes:

- ✓ Investing in another fixed term
- ✓ Transferring to a new drawdown plan
- ✓ Purchasing a lifetime annuity
- ✓ Taking the whole amount as a cash sum (less tax at their marginal rate)

Top Tip

When shopping around for a fixed term income plan, assuming a like for like income comparison, the plan with the highest maturity value may be the best deal.

INVESTING IN ANOTHER FIXED TERM PLAN

This is a popular option as income can be guaranteed for another set period of time to suit individual circumstances. If another fixed term income plan is taken out it does not have to be with the same provider as it is possible to shop around for the best plan.

TRANSFER TO A NEW DRAWDOWN PLAN

If even more flexibility than a fixed term income is required a transfer can be made to a new pension drawdown plan. It is important the retiree can accept the risks associated with drawdown because normally the income or fund value will not be guaranteed.

PURCHASE A LIFETIME ANNUITY

This may be a good option for those who want to have the peace of mind and security of a guaranteed lifetime income. If health has deteriorated it may be possible to benefit from an enhanced annuity which pays a higher income for those who smoke, are taking prescription medication or have a medical condition.

PAYABLE AS A CASH LUMP SUM

Don't forget all cash and income payments will be taxed at the recipient's marginal rate of tax. If this means paying higher rate tax it might be better to transfer to a new drawdown plan or fixed term plan and take payments over several years to avoid paying too much tax.

The most important thing to remember about the maturity value is that it is paid back into the fixed term income plan and then it can be transferred to a new retirement income solution, including another fixed term plan, or paid as a cash sum which is taxed at the recipient's marginal rate.

5 What are the advantages and disadvantages?

Fixed term income plans have many advantages compared to other retirement income plans as they can be used for a wide range of purposes. Annuities and drawdown offer either guaranteed income or flexibility, but fixed term income plans offer both options together.

Fixed term income plans allow retirees to benefit from the new flexibilities while at the same time securing some guaranteed income.

This means that people do not have to lock into lifetime annuities in order to receive a guaranteed income and they are not exposed to all the risks of drawdown in order to maintain flexibility and control over some of their pension pot.

There are few disadvantages because both income and the final value are guaranteed but there is risk that at the end of the term the same amount of guaranteed income may not be secured.

The advantages of fixed term income plans include:

- ✓ Guaranteed income without locking into a lifetime annuity
- ✓ Flexibility and control without the risks associated with drawdown
- ✓ Higher returns than investing in cash
- ✓ Potentially better death benefits

GUARANTEED INCOME WITHOUT LOCKING INTO A LIFETIME ANNUITY

Everyone needs income to pay the essential bills and to have an enjoyable lifestyle and so most financial experts agree that it makes sense to have some of this income guaranteed. This means that no matter what happens in the financial markets, the regular bills can be paid and holidays taken. However, one of the consequences of low interest rates is that income guarantees are expensive, especially if the guarantee is for a long time. Therefore it makes sense to look at other cost-efficient ways of obtaining a guaranteed income. This combined with increased need for more flexibility and control over pension income options means that fixed term income plans are a useful alternative to traditional annuities.

An annuity pays a guaranteed income for life but if circumstances change the terms of the annuity cannot be changed. For example, personal circumstances such as health may change or interest rates may increase in the future. With a fixed term income plan the income is only guaranteed for a specific time so if circumstances change new options can be chosen at the end of the fixed term.

FLEXIBILITY AND CONTROL WITHOUT THE RISKS ASSOCIATED WITH DRAWDOWN

Pension drawdown may be the most flexible retirement income solution, but it is also potentially the most risky because it is normally invested in equities. Not only will the value of the pension pot fall in value if investment returns are lower than expected, but there is a risk of running out of income in the future.

Fixed income plans ensure that income is guaranteed as well as the maturity amount. This means that at the end of the term all the benefits and flexibility of drawdown are available but there will have been no risk to income or the value of the pension fund during the term.

IT'S NOT ALL PLAIN SAILING!

Fixed term income plans have many advantages, but it is important to point out some of the disadvantages including:

- ✓ The options cannot normally be changed until the end of the term
- ✓ At the end of the term it might not be possible to secure income on the same terms
- ✓ Inflation will reduce the spending power of a fixed income

HIGHER RETURNS THAN INVESTING IN CASH

Some people may be tempted to take advantage of the flexibility of pension drawdown and eliminate the investment risk by investing in a cash drawdown plan. The problem with this strategy is that interest rates on deposits in drawdown plans can be very low, and after charges have been taken out the overall effect may be a negative return.

Fixed term plans are invested in fixed securities which may have a higher return than cash drawdown plans. This means, after charges, the return from fixed term plans may be better than cash based drawdown plans.

POTENTIALLY BETTER DEATH BENEFITS

One of the biggest criticisms of annuities was echoed by Lord Grantley in his famous 1997 House of Lords speech in which he said:

"Investing in annuities is contrary to the interests of a family. Annuities are virtually unique among all forms of investment in that they are worth nothing when the investor dies."

Although this is not strictly true because some annuities continue to pay income to the surviving spouse or partner, it makes an important point.

Most fixed term income plans have a money back guarantee which means that when the retiree dies any unspent money is paid back. It is also possible to have other death benefits such as joint life income.

THE ADVANTAGES

The many advantages of fixed term plans can be put to good use in a number of retirement planning situations including:

- ✓ To help bridge an income gap. For instance if extra income is needed between the start of retirement and the start of the state pension or company pension
- ✓ In the expectation that annuity rates might increase or the retiree will qualify for an enhanced annuity some time in the future. (Don't forget annuity rates could go down and there may be no medical enhancement)
- ✓ Reducing the risk of drawdown. If part of a drawdown plan is invested in a fixed term plan, the overall risk will be reduced but so will the overall flexibility and opportunity for fund growth
- ✓ Avoiding putting all eggs in one basket by having a combination of solutions. This is called a blended or hybrid solution where the pension pot can be invested in a combination of annuities, fixed term or drawdown in one single plan
- ✓ Reducing tax on large cash withdrawals. There are 'Cash out plans – where the whole of the pension pot can be paid as cash over a set number of years. By spreading the payments over several years it might be possible to avoid higher rate income tax
- ✓ To provide peace of mind and financial security for a fixed period of time.

ADVANTAGES	DISADVANTAGES
Guaranteed income for a fixed term	There is no long-term income security
Flexibility at the end of the term	Financial conditions, e.g. annuity rates may be worse in the future
On death, there may be a lump sum that can be paid to their partner or family	Some people prefer continued lifetime income for their partner rather than a lump sum
Allows people to secure some guaranteed income without locking into a lifetime annuity	The guaranteed income is only for a set period of time so there is no lifetime income guarantee
Enables retirees to have flexibility over how they eventually spend their pension pot	Used unwisely, flexibility can result in poor income outcomes

6 What are the death benefits?

All fixed term plans have an option to take a money back guarantee if the plan holder dies before the end of the term. This means the value of the plan, less any income and charges, is paid out as a lump sum to a surviving spouse, partner or other beneficiary. This is also called value protection or capital protection.

One of the things holding back financial advisers and individuals from considering guaranteed income solutions is the fear that on death, the income will stop and there will be no money left for the family. The money back option takes away this fear because on death, any money remaining in the plan can be paid out as a lump sum to a surviving spouse, partner or other beneficiary.

This is an automatic option on some plans but it must be specifically selected on others. The easiest way to explain this option is with an example (see below).

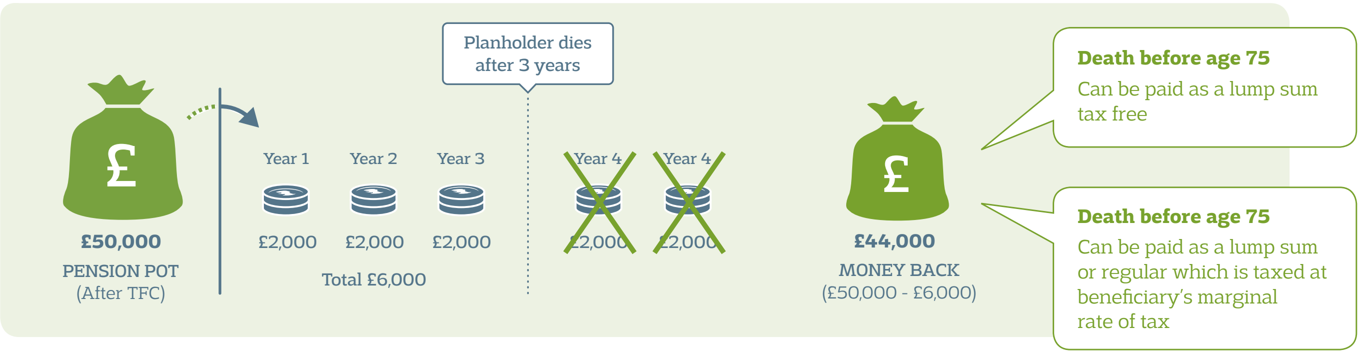
Although the money back is the simplest and most popular option, some plans offer a joint life income option and a minimum guarantee period. For example, if a 50% joint life option is chosen and the person dies before the end of the fixed term, the beneficiary will receive 50% of the income and 50% of the maturity amount.

Money Back Guarantee

If the plan holder dies before the end of the term any remaining money is paid out as a lump sum.

Some companies calculate the amount paid as simply the difference between the original amount invested and the amount paid out (see graphic).

Other companies pay out the higher of the amount above or the actual plan value at the date of death.



TAX

If the retiree dies before the age of 75 there is no tax paid on any money paid out but if death is after age 75 beneficiaries will pay tax at their marginal rate on any monies paid out. Normally there is no IHT as the fixed term plan can be set up under a discretionary trust.

The death benefit does not always need to be paid as a lump sum. For instance, if the person dies after age 75, instead of paying a lump sum which would be taxed at the beneficiary's marginal rate, the money could be paid into a new drawdown plan which gives the beneficiary complete control over how the money is paid out.

Top Tip

Although all plans have a money back guarantee option it is not automatically included in all plans so always check to see if this option has been selected.

AGE AT DEATH	MONEY PAID	TAX
Below age 75	Either as a cash lump sum, continued income (e.g. annuity) or transferred to beneficiary's drawdown	All money is paid tax free
After age 75		All money paid out will be taxed at the beneficiary's marginal rate

7 Who is a fixed term income plan suitable for?

Fixed term income plans are most suitable for those who want a combination of guaranteed income and pension flexibility. However, working out the right combination of certainty and flexibility can be harder than it seems.

Many people, especially since the introduction of pension freedoms, want to have their cake and eat it; that is to have the benefits of a secure income while at the same time having flexibility and control over how they spend their pension pot. For instance, it is not uncommon for people to want guaranteed income to pay the essential bills while at the same time wanting the flexibility to change options if their circumstances change.

This makes choosing the right solution very difficult especially as most solutions don't offer income guarantees and pension flexibility in the same plan. Lifetime annuities pay an income for life but have no flexibility, whereas pension drawdown is the most flexible option but does not normally pay a guaranteed income.

LIFETIME ANNUITIES	PENSION DRAWDOWN
Converts a pension pot into regular income payments for the rest of the policyholder's life no matter how long they live. Annuities are the only policy that can guaranteed income for life but once set up, the options cannot be changed.	Regular or ad hoc income payments can be taken directly from the pension pot which remains invested in cash, bonds or equities. Drawdown is the most flexible solution with income flexibility, investment control and unspent money can be left to the family.

The best way to work out which retirement solution is most suitable for individual circumstances is to get advice from a regulated financial adviser but this might not be right for everybody. With the right amount of information and help it is possible to decide on a suitable solution without financial advice providing all the relevant factors are considered. Anybody who is unsure about their options, or needs additional help can take advantage of the free guidance service from the government funded Pension Wise.

Although there is no short cut when making such an important decision, the task can be made easier if the following factors are considered.

Income requirements?	How much income is needed, when and for how long?
How much guaranteed income?	It normally makes sense to have enough income in addition to the state and company pensions to pay the essential bills
How much flexibility?	In case personal circumstances change in the future

The best way to take these factors and objectives into account to show how fixed term plans can provide the most suitable solution is to look at some case studies:

Don't sleep walk into the wrong solution!
Converting a pension pot into cash and income is probably one of the most difficult financial decisions in personal finance and it is important not just to sleep walk into the wrong solution, such as the default offered by the existing pension provider.

Top Tip

If you are unsure about your options you can get free information and guidance from Pension Wise by calling 0800 138 3944 or visiting **www.pensionwise.gov.uk**

If you want to find a financial adviser there are some useful directories including Unbiased **www.unbiased.co.uk** and Your Money Adviser **www.thepfs.org/yourmoney**

If you want to find a no-advice broker, try putting 'annuity broker' into your internet search engine.

8 Case studies

1. SUE – a single lady aged 65 and concerned about her health:

Income required:	A regular income similar to an annuity
Guaranteed income?	Yes
Flexibility?	Yes – This is very important because of her health.
Other objectives	Although she is in good health at the moment Sue is worried about her future health because of her family history. This means she does not want to lock into a lifetime annuity because she might not live long enough to get good value for money.

Solution:

Sue's financial adviser recommended a fixed term income plan as it meets her objectives better than a lifetime annuity because there is more flexibility. The income is £2,500 per annum, fixed for 5 years and this is about the same income as from a lifetime annuity.

A fixed term of 5 years has been selected with 100% value protection. The term could be shorter or longer depending on financial conditions.

Suitability:

This is more suitable than a lifetime annuity because Sue wants the flexibility to change her options if her health deteriorates. At the end of the term the maturity amount could be used to purchase another fixed term plan, or purchase an enhanced annuity to provide continued regular guaranteed income. If Sue dies before the end of the term the difference between the sum and the amount paid out will be paid to her chosen beneficiaries.

Sue has a £66,667 pension pot, £50,000 after tax free cash of £16,667. She intends using the tax-free cash to pay for home improvements and the rest of the pension pot to provide a regular income.

Fund (after TFC)
£50,000
Term
5 years
Gross annual income
£2,500 p.a.
Maturity Amount
£40,169

Source: William Burrows / AMS Retirement

2. ALAN – aged 60, needs additional income until his company pension starts:

Income required:	£ 5,000 per annum for the next 5 years
Guaranteed income?	Yes
Flexibility?	Not until he is 66
Other objectives	Alan wants a secure income to pay maintain his lifestyle until his state pension and his significant final salary pension starts at age 66.

Solution:

A fixed term income plan paying £5,000 per annum for a 5-year term was recommend by Alan's pension adviser.

Suitability:

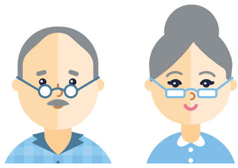
This solution provides an effective bridging pension to cover the income gap until Alan's company pensions start.

The same income could have been taken form a drawdown plan but as Alan doesn't want to take any risks and is concerned that fees will eat into his income, the fixed term plan is more suitable.

Alan needs additional income until his state and company pension starts in 5 years' time. He has personal pensions of £100,000 and he will take the £25,000 tax free cash.

Fund (after TFC)
£75,000
Term
5 years
Gross annual income
£5000 p.a.
Maturity Amount
£54,139

Source: William Burrows / AMS Retirement



3. CHARLES & LOUISE – aged 70 and wanting to reduce their financial risk:

Income required:	A guaranteed income from £50,000 of his pension drawdown pot
Guaranteed income?	Yes – for part of the drawdown pot
Flexibility?	Yes – they want to leave money to their children
Other objectives	To reduce their exposure to investment risk and secure some guaranteed income while at the same time keeping control over their pension for inheritance planning as they have four adult children.

Solution:
At the last drawdown review, Charles' pension adviser suggested £50,000 should be invested in a 5-year fixed term plan. The income from a single life level annuity would pay about £2,900 so it was decided to take an income of £3,000 from the fixed term.

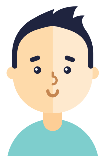
In 5 years time, when Charles is 75, the pension pot will be reviewed and a decision made whether to continue with drawdown, purchase a lifetime annuity, or arrange another fixed term income plan.

Suitability:
This is an effective way for Charles to reduce his risk by guaranteeing some of his pension income and protecting the value of part of his pension pot. He could have purchased a joint life annuity but their adviser thought their inheritance objectives were better served with a fixed term plan.

Charles has a drawdown plan valued at £200,000 and he is taking an income of £10,000 per annum gross. He and his wife Louise, both age 70 are concerned about the financial outlook and want to reduce the risk to their income and pension.

Fund (after TFC)
£50,000
Term
5 years
Gross annual income
£3,000 p.a.
Maturity Amount
£37,855

Source: William Burrows / AMS Retirement



4. CHRIS – wants all his £50,000 pension without incuring higher rate tax:

Income required:	All of the pension as cash as quickly as possible
Guaranteed income?	Yes
Flexibility?	Yes
Other objectives	Chris wants to take all of his pension as cash and gift it to his children but he wants to avoid paying higher rate tax. He has considerable property investments and other income and pensions so he can afford to give this money away.

Solution:
Chris searched on the internet and found a non-advised firm which arranged him a fixed term income plan with a 5-year term and no maturity amount (cash-out plan). The income is just below £8,000 per annum so this is below Chris's higher rate tax threshold.

Suitability:
By keeping his income below the higher rate tax threshold Chris will have more money to leave to his children. He could have phased his income from a drawdown plan but as he does not have a financial adviser he thought it was easier and less risky to invest in a fixed term plan.

The income will be paid annually in arrears and with 100% value protection.

Chris has a £50,000 pension pot and simply wants all of his money without paying higher rate tax. He can take 25% (£12,500) tax free leaving £37,500 on which he must pay tax. His accountant has worked out he can take about £8,000 per annum for the next 5 years in order to remain a basic rate tax payer.

Fund (after TFC)
£37,500
Term
5 years
Gross annual income
£7,943 p.a.
Maturity Amount
£0

Source: William Burrows / AMS Retirement

9 Frequently asked questions (FAQs)

What is the advantage of having a SIPP based fixed term income plan?

Some fixed term income plans, such as those from Primetime Retirement, are set up as a Self-Invested Personal Pension (SIPP) and this gives them an extra advantage. Although the income is fixed for the set term, it does not necessarily have to paid out to the plan holder (who will pay tax on the income) as it can be re-invested in the SIPP cash fund (without any tax deduction) until it is needed.

For example, if someone took out a fixed term plan and after a few years find out that they were paying higher rate tax on their total income (perhaps some other pensions had started paying out), they could stop taking taxable income payments from their fixed term plan and the income would be paid into the SIPP bank account. If this money was left in the account, it would be added to the maturity amount at the end of the term.

How safe are fixed term income plans?

All Fixed term income plans are covered by the Financial Services Compensation Scheme (FSCS) so any money invested in these plans is normally 100% protected in the unlikely event of the provider becoming insolvent.

There is an important distinction between the plans issued by insurance companies which are technically 'long term savings plans' and the plans set up a SIPP. With the insurance companies, 100% of any money left in the fixed term plan is guaranteed no matter how much. In the case of SIPPs, the protection is on the cash fund, not the plan itself, and this is subject to the upper limit of £85,000 per deposit taker. (See www.fscs.org.uk/what-we-cover/products/pensions).

Who else offers fixed term income plans?

There are 5 companies offering fixed term income plans including Primetime Retirement. This means there is a competitive market so it is always important to include the rates when offered by Primetime Retirement when researching the market.

Where can I get a fixed term income illustration?

Financial advisers can get fixed term illustrations from most of the online portals such as IRESS The Exchange, AMS Retirement, or direct from the providers themselves.

Individual clients can obtain illustrations from a financial adviser or from a non-advice broker. Some providers allow customers to deal direct.

Billy Burrows – Retirement IQ

Billy Burrows has been involved with retirement options for over 20 years, advising clients on all aspects of annuities and retirement income options. He runs his own consultancy business Retirement IQ and is a regulated financial adviser with Better Retirement.

In 1993 he helped establish Annuity Direct and then in 1997 he set up William Burrows Annuities. A year later he joined Prudential Annuities as their Marketing Director for annuities. In 2001 he returned to running William Burrows Annuities and in 2010 the business was incorporated with Better Retirement Group Ltd to provide clients with a wider range of services.

Billy is frequently quoted in the national press and appears on radio, podcasts and videos and writes extensively on annuity and drawdown options.

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Primetime Retirement

Primetime Retirement was originally known by a previous brand name, Living Time and launched into the UK market back in 2006. We were the first to introduce a Fixed Term Annuity into the UK and have been providing fixed term income solutions longer than any of our competitors.

Since launch we have continued to refine our product proposition to meet the changing needs of retirees. Since our inception we have rebranded as Primetime Retirement and in 2014 the business was acquired by the KR Group.

KR Group is one of the most successful retirement specialist brands in the UK, providing expert advice to the over 55s on a range of product solutions from retirement lending to Wills and Lasting Powers of Attorneys (LPAs) as well as being a leading manufacturer of later life product solutions. The multi award winning customer service and proposition has helped establish the business as a major industry participant and thought-leader.

KR Group is owned by Partners Group who bought the business in 2017 for £208 million, giving backing to the management board to build the 'go to' brand for financial products and related services for consumers nearing or in retirement.'

www.primetimeretirement.co.uk

Retirement IQ

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