

# Using your DC Account to buy a Guaranteed Income (Annuity)

## Why should I read this factsheet?

After age 55, you broadly have three different choices for how you use your defined contribution (DC) Account:



Secure a **guaranteed income (annuity)**



Take a cash lump sum



Take a **flexible income** (also known as an adjustable income, 'drawdown' or 'flexi-access drawdown')

You can choose any combination of these options and can usually take up to 25% of your DC Account as a tax-free lump sum. This factsheet explains the process if you want to use your DC Account to buy a guaranteed income (annuity).

## What is a Guaranteed Income option?

You can use your DC Account to buy a **guaranteed income (annuity)** that pays you a regular income for either an agreed time period or for the rest of your life. You can choose to take up to 25% of your DC Account as a tax-free cash lump sum and use the balance to buy an annuity.

**To have an annuity you need to give an insurance company the money you have built up in your DC Account.** In return, the insurance company agrees to provide you with a regular income either for an agreed time period or for the rest of your life. The amount of income your annuity will provide will depend on such factors as annuity rates at your retirement, your age, your gender, your health and lifestyle, and the additional options you want to add on to your annuity.

There are a number of different types of annuities available. Further details can be found at [www.pensionwise.gov.uk](http://www.pensionwise.gov.uk).

**Note:** Where you see a word in *italics* this term is explained in your DC Booklet.



Below is a list of some advantages and disadvantages of buying an annuity - it is not exhaustive. You can find more information at the money advice website visit: [www.moneyadvice.service.org.uk](http://www.moneyadvice.service.org.uk)

Advantages	Disadvantages
<ul style="list-style-type: none"><li>• Your income in retirement will usually be guaranteed.</li><li>• You'll receive an income for an agreed time period or for the rest of your life.</li><li>• There are a number of different options you can add onto your annuity, such as providing an income to those you leave behind after your death, pension increases (fixed or linked to inflation) or a guaranteed minimum length of payment. This will affect the initial level of income your annuity will pay.</li><li>• If you have a medical condition, are in poor health, smoke or are overweight, you may be able to get a significantly higher income through taking an 'enhanced annuity'. Make sure you complete any health and lifestyle questions when shopping around and answer these questions honestly, to ensure you get the best income you can.</li></ul>	<ul style="list-style-type: none"><li>• Usually, once you buy an annuity you can't change your mind.</li><li>• There are many types of annuities and providers available, and regularly changing annuity rates, so working out which option is best for you can be complicated and will take some time to find the most suitable option for you.</li><li>• If you die earlier than average, you may not get the full value of your <b>DC Account</b> savings back. Although you can buy annuities that pay out to your dependants, these protections reduce the income you will initially receive.</li><li>• If you have a very limited life expectancy, an annuity may not be the right option for you.</li><li>• Your money will be paid to you as a regular income, so you won't be able to take out any large amounts in the future, e.g. to meet unexpected expenses.</li></ul>

## How does an annuity work?

An annuity can be tailored to suit your personal circumstances. The most common options are:

- **An income for you followed by an income for others after your death (e.g. spouse's or partner's income)**

You can choose the amount of income they would receive, usually an income of 50% of your own income, up to a maximum of 100%.

- **A guaranteed minimum length of payment**

You can buy an annuity which is guaranteed to pay an income for a certain period, usually 5 or 10 years. This means that if you die within 5 or 10 years, the remaining instalments would still be paid out.

- **Annual increases to your income**

You can buy an annuity with specified increases each year at a fixed rate (e.g. 3% or 5%) or linked to the rate of inflation.

- **A 'level annuity' (one that doesn't increase)**

You can buy an annuity that does not increase. This will provide a higher income initially compared to annuities that increase, but the payments will then stay the same for life or end of term, which means that the purchasing power of the annuity income will reduce over time, due to inflation.

### Please note:

- The minimum retirement age is currently from age 55 but it is expected to increase to age 57 by 2028.
- You don't have to take your benefits from age 55; you can take them at any time after this, but no later than age 75 from the Scheme.
- Restrictions may apply to the type of annuity you can buy if you have an entitlement to a Guaranteed Minimum Pension. Willis Towers Watson will let you know if there are any restrictions when you start planning your retirement.
- Recent changes mean that different types of annuities are now allowed - such as decreasing payments, so you have higher income when you first retire and lower payments when you're older. It's likely that more innovative annuity products will become available in future.
- All benefit options are subject to changes in legislation and the tax status currently afforded to pensions savings.

- ! Scammers may operate in pension markets. You can find out more about how to avoid scams at:  
■ [www.pensionwise.gov.uk/scams](http://www.pensionwise.gov.uk/scams)

The price of buying an annuity varies depending on when you buy it. Adding options to your annuity affects the value of the income it will pay, so you should consider how important each option is to you and shop around to find the best annuity to suit your circumstances.

## How much tax will I pay?

You can take up to 25% of your **DC Account** as a tax free lump sum. The annuity you buy will be subject to income tax.

Tax is a very complex topic but, to help, the Government's '**Pension wise**' service provides information about the things to consider.

Visit: [www.pensionwise.gov.uk](http://www.pensionwise.gov.uk)

Some tax issues to be aware of include:

- Consider your own personal tax circumstances, and the rate of tax you're likely to pay on the income you receive.
- Different **Annual Allowance**\* arrangements apply to individuals with earnings above £110,000 a year.

You may be liable for additional tax charges when you retire if you exceed the **Lifetime Allowance**\* (i.e. the allowance set by the Government for the value of your total lifetime pension savings that you may draw in a tax efficient way). For more information visit the pension website <http://ukpensions.basf.co.uk> - and look for "Pension & Taxation from 2016".

## What happens when I die?

If you don't select options that provide an income for others after your death, your annuity stops paying out when you die. Otherwise, the rules vary depending on whether you die before or after the age of 75 and the type of annuity you have bought (such as a guaranteed minimum length of payment or income for others after you die). See: [www.pensionwise.gov.uk/when-you-die](http://www.pensionwise.gov.uk/when-you-die) for details.

### If you die under the age of 75

- If a pension is due under a "related annuity" it will be paid to your beneficiary tax free but payments will generally stop when your beneficiary dies. Any guarantee period payments stop when the guarantee period ends.

### If you die over the age of 75

- Any income due will be paid to your beneficiary and will be taxed at the beneficiary's tax rate. "Related annuity" payments will generally stop when your beneficiary dies. Any guarantee period payments stop when the guarantee period ends.

\*These allowances are set by the Government and subject to change.

## How and when do I buy an annuity?

Annuities are bought from insurance companies when you want to take your benefits, and the annuity policy will be in your name.

The insurance company, not your employer or the **Trustee** has sole responsibility for paying your pension. You and your prospective/nominated beneficiaries will then have no further legal connection with or entitlement under the BASF UK Group Pension Scheme in respect of your **DC Account**.

Shopping around is the best way to make sure that you secure the maximum benefits possible with your **DC Account**, but you don't have to do this by yourself. The BASF Scheme has appointed an independent company (currently Origen Financial Services) whom you can use to help you look for the most competitive annuity rates to help you maximise your retirement income. However you don't have to take any annuity or other pension that Origen propose, you may wish to shop around yourself or use a different financial adviser. Remember that annuity purchases are a lifetime commitment, so there's no rush to make a final decision.

The process will automatically begin around seven months before your **Normal Pension Age (NRA)** or **Target Pension Age (TPA)** if you have one, Willis Towers Watson (WTW) will automatically send you a retirement pack. If you wish to retire earlier or later, you can request a retirement pack from WTW on +44 (0) 0113 390 7119.

### Your retirement pack will contain:

- A fund value statement, telling you the value of your **DC Account** and the level of guaranteed income it is estimated to provide.
- Other benefit options and combinations of benefits will also be explained.
- Contact details for independent financial advice (currently Origen Financial Services), who will help you select and buy an annuity; and
- All the relevant forms you will need to complete.

### Shop Around

The BASF Scheme has appointed an independent company to help you with your retirement choices and to help you maximise your retirement income.

Check your retirement pack for details!

## Investing your DC Account to buy a guaranteed income?

Where you invest your DC pension savings can have a material impact on the benefits you receive at retirement. As you get closer to retirement, you may wish to change where you are invested to reduce risk and protect the value of your pension savings.

If you plan to take your **DC Account** as a Guaranteed Income, there are three **LifePlan** options available to help you do this - the Adventurous Guaranteed Income **LifePlan**, Moderate Guaranteed Income **LifePlan** and Cautious Guaranteed Income **LifePlan**.

Please refer to the Investment Guide for full details and if you wish to change your investment choices, you can do so by logging on to **ePA** (see overleaf).



**Note: If you have AVCs invested with one of our external providers, they will have different investment options that apply. You can contact Willis Towers Watson for further details on: +44 (0) 113 390 7119 email: [BASF@towerswatson.com](mailto:BASF@towerswatson.com)**

## Choosing your investment route in the BASF Scheme

If you are planning ahead (for example, more than 5-10 years from retirement)	If you are getting ready to retire (less than 5-10 years from retirement)
↓	↓
Log on to your <b>ePA</b> account and take a look at your investment choices	Log on to your <b>ePA</b> account and use the Retirement Planner to consider the type of benefits you'd like to take
↓	↓
Check and update your Target Pension Age if necessary	Update your investment choices to suit the type of benefits you want to take at retirement
↓	↓
Keep your investment choices under regular review	Check and update your Target Pension Age if necessary
↓	↓
Consider using the Pension wise service from age 50, for tailored guidance on your options.	Willis Towers Watson will contact you seven months before your Target Pension Age to start your retirement planning

# Get support with your decisions

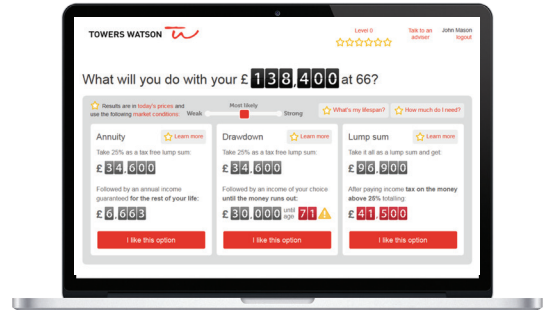
We know that choosing your benefits is a really important decision. We want to make sure you are provided with the right level of support, from sources that you can trust.

## Use your ePA account - A simple way to manage your DC Account

Your **ePA** (electronic Pensions Administration) account allows you to view and change a number of details about your **DC Account**. There is a Retirement Planner (under the Quotations tab), which shows how much your **DC Account** might provide as a **guaranteed income (annuity)**, cash lump sum or **flexible income**. There's also an 'Annuity Quotation Tool' that will give you an indication of how much **guaranteed income** you could secure with different providers.

Visit: <https://epa.towerswatson.com/doc/BASF/login.htm>

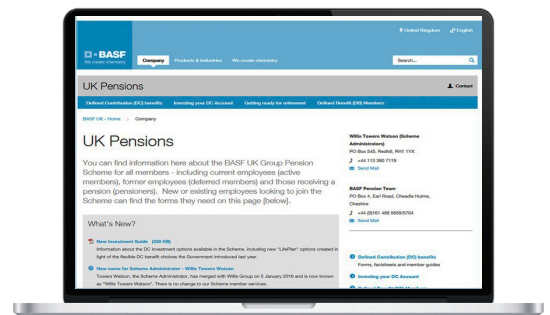
If you need help loggin in, contact WTW on: +44 (0) 113 390 7119.



## Use the Scheme website

The BASF UK Group Pension Scheme website is dedicated to our members and gives you a central place to go when managing your Scheme benefits.

Visit: <http://ukpensions.basf.co.uk>



## Pre-retirement Workshop

If you are still working for BASF, you can attend a Pre-retirement Workshop. Full details are available on the Planning for Retirement factsheet which can be found on the Scheme website <http://ukpensions.basf.co.uk> under 'Getting ready for Retirement'.



## Pension wise - free Guidance

There is a lot of information available about options at retirement and it's important that you only rely on reputable sources of information to avoid being targeted by scammers. To help, the Government has launched a new 'Pension wise' service to give free impartial guidance to anyone with a **DC Account**, aimed at anyone aged 50 or over. We recommend that you get guidance to help with your retirement planning decisions. The website offers you guidance on your pension options, or if you'd prefer to talk to a specialist, you can arrange a telephone or face-to-face appointment. If you are interested in this service visit: [www.pensionwise.gov.uk](http://www.pensionwise.gov.uk)



# Get support with your decisions

## Origen Financial Services

The BASF Scheme has appointed an independent company to help you with your retirement choices and to help you maximise your retirement income. Contact Origen on 0344 209 3915 or [basf@origenfs.co.uk](mailto:basf@origenfs.co.uk)



## Willis Towers Watson (WTW)

If you are approaching retirement and want to discuss your options, contact WTW who will be able to explain your options in more detail and provide a retirement benefit estimate. Please note that WTW **can only provide information** on your retirement options they cannot give individual advice. Call +44 (0) 113 390 7119 or email: [basf@willistowerswatson.com](mailto:basf@willistowerswatson.com)

## Independent Financial Advice

In addition to or instead of Origen, you can use an Independent Financial Adviser (IFA). They will be able to give you advice in relation to your personal circumstances, but please be aware that you may be charged for this advice. To find details of a local IFA visit [www.moneyadvice.service.org.uk](http://www.moneyadvice.service.org.uk) or [unbiased.co.uk](http://unbiased.co.uk)