Guaranteed income (an annuity)

You have the option of taking up to 25% of your pension pot as a cash lump sum and use the rest to provide you with a regular, guaranteed income for a fixed period or the rest of your life. This is known as an annuity.

Depending on your personal circumstances (things like whether or not you smoke or have any underlying medical conditions), you could be entitled to enhanced annuity rates. You should make sure you shop around for the best annuity deal, and consider additional features such as enabling your annuity payments to continue to be paid to your dependants in the event of your death.

Example:

Helen has decided that she's ready to retire. Her pension pot is £150,000 and she's decided to use 25% of her pension pot as tax-free cash to pay off some outstanding debts and take a long awaited holiday.

She took some time before making a decision and has bought an annuity that's right for her personal circumstances. She'll receive a guaranteed income of £5,265 a year.

Helen is 66, so she is also receiving her State Pension of £10,600 a year.

A 'personal allowance' is the amount of money you can earn before you have to start paying tax. This is currently £12,570 for most people, including Helen.

Here's how that all breaks down:

Helen's tax-free cash	£37,500
Helen's regular income from annuity	£5,265
State Pension	£10,600
=	£15,865
Minus the personal allowance of	£12,570
Total taxable income	£3,295
Income tax payable	£659

Helen's total taxable income is £3,295 which means she is subject to basic rate tax of 20% on her income from all sources. She will have to pay £659 in income tax this year.

These figures are calculated for the 2023/2024 tax year.