MATHER & MURRAY
FINANCIAL

Your annuity choices, explained.

Turn pension questions into a clearer retirement income plan.

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Free guide · Updated 13 November 2026
General information, not personal financial or tax advice.

Start with the income you need

What is an annuity?

An annuity turns a lump sum into a regular income from an insurance company. A pension annuity uses defined contribution pension savings. A purchased life annuity uses money outside a pension. A lifetime annuity pays for life; a fixed-term arrangement pays for an agreed period.

The question is bigger than “What rate can I get?” It is **“What income do I need, for how long, and what happens to my partner if I die?”** We help you compare those choices within your wider retirement plan.

Your three planning questions

• What will you need for essential bills, and what is already covered by your State Pension or other guaranteed pensions?

• What money should remain accessible for one-off costs, emergencies and changing plans?

• What income or lump sum would your partner or family need if you died?

An annuity is one tool, not the whole plan. Keeping some money in drawdown or savings may preserve flexibility, but invested money can fall in value and withdrawals can run it down.

Explore your pension income options

Enhanced annuities: could your health mean more income?

An enhanced annuity considers relevant health and lifestyle information when an insurer calculates its offer. It may pay more than an otherwise equivalent standard annuity. You do not have to be seriously ill to ask.

Common details that can matter

• High blood pressure, including where managed with medication.

• Raised cholesterol or diabetes.

• Height and weight, including a higher body mass index (BMI).

• Smoking history and other relevant health or lifestyle factors.

No condition or BMI automatically guarantees an uplift. Insurers assess the full information differently, and the benefits you select also affect the quote. Give complete, accurate details through the appropriate quotation process.

Why speak to an independent adviser?

We can help identify relevant information, compare equivalent options across providers and weigh income against partner protection, inflation and flexibility. We also check existing pension guarantees and whether an annuity suits your wider retirement plan. Advice costs are explained before you commit.

Please do not send diagnoses, medication lists or medical records through our general enquiry form. We will explain the appropriate next step for health information.

Ask about enhanced annuity options

Fixed terms and maturity values

Fixed-term annuities: income now, choices later

A fixed-term retirement income plan can pay agreed income for a chosen period. Some plans also provide a **guaranteed maturity value**: an amount specified at the start and available at the end, subject to the contract.

Income, term and maturity value need to be considered together. A higher maturity amount will generally mean accepting less income, all else equal. Do not assume the maturity value returns your full original pension pot.

When the term ends you need a new decision: another fixed-term plan, a lifetime annuity or drawdown, depending on suitability and availability. Future annuity rates are unknown. Taking the maturity money as cash can create a substantial income-tax bill.

A fixed term is not a lifetime guarantee. Check early-access restrictions and death-benefit terms before committing.

Ask these questions

• Exactly what income and maturity amount are guaranteed, and for what period?

• What happens if I die during the term?

• Can I access money early, and on what terms?

• What will I live on after the term ends if future rates are less favourable?

Provider terms differ. A guaranteed maturity value is a contractual amount, not a forecast of what income it will buy later.

Shape the income around your life

Level or increasing?

Level payments stay the same. Fixed annual increases follow a selected percentage. Inflation-linked options, including RPI-linked contracts, follow their policy definition and may have caps. Increasing income usually starts lower than otherwise equivalent level income.

Who needs income after you die?

Joint-life benefits can pay an agreed proportion to an eligible surviving partner or dependant. Check eligibility and what happens if that person dies first.

Minimum payment period or lump sum?

A guarantee period can continue payments after an early death. Value protection may pay a lump sum calculated from a protected purchase amount less payments already made. Neither is an accessible savings account.

The important trade-off

Adding protections generally reduces starting income. Check how options interact, including any overlap, and choose before buying. Death-benefit tax depends on circumstances and the rules at the time.

Other capital, tax and flexibility

Purchased life annuities: using money outside a pension

A purchased life annuity is bought with non-pension capital. It may be worth exploring when you want income from savings or other capital, but it is a different planning decision from using a pension pot.

Payments normally contain a **capital element**, treated as a tax-free return of part of the purchase price, and a **taxable income element**, treated as savings income. It is not correct to describe the whole payment as tax-free. Your final tax position depends on your circumstances.

Availability and terms can be limited. We can discuss whether this is an appropriate route to investigate, alongside keeping accessible savings and other investment options. Do not withdraw taxable pension money just to buy one without considering the overall tax cost.

Pension income and tax

Income from a pension annuity is normally taxable as pension income. Eligible tax-free pension cash is a separate decision, limited by your allowances and scheme rules. The amount of tax due depends on your wider income and circumstances.

Check current quotes externally

Rates change, so this guide contains no current rate table. MoneyHelper offers a free comparison tool. A comparison is a starting point, not a personal recommendation or an MMF quote.

Open MoneyHelper’s annuity comparison tool

Advantages, drawbacks and your choices

More certainty

A lifetime annuity provides contractual income for life. Fixed-term plans provide it for the agreed term. The agreed payment does not depend on subsequent performance of your pension investments.

Potential enhanced income

Relevant health and lifestyle details may improve a personalised offer. An uplift is not automatic and the highest starting payment may not provide the benefits your household needs.

Less access and flexibility

Money used to buy an annuity is normally tied up. Changes are usually unavailable after the cooling-off period. A fixed-term plan leaves a new decision at maturity, with future income rates unknown.

Inflation and family protection

Level payments can lose buying power. Increasing income and survivor protection generally reduce starting income. Without suitable death benefits, payments can stop when you die, even soon after purchase.

A balanced retirement plan

You may use part of your pension for an annuity while keeping other money flexible. Drawdown retains investment risk and the risk of running out. Check advice costs, provider terms and any benefits you would lose before deciding.

Annuities and inheritance tax from April 2027

For deaths from 6 April 2027, most unused pension funds and pension death benefits will be included when calculating inheritance tax (IHT). The balance between your income and what you leave to family matters.

Can buying an annuity reduce what is assessed?

Using pension money for a lifetime annuity can reduce unused pension wealth assessed on death. A single-life annuity that stops on death with no remaining death benefit leaves no pension pot from that purchase to inherit. That can mean less to tax, but also less to leave behind.

Why it is not a blanket exemption

Remaining guarantee-period payments and value-protection lump sums may still be in scope. Qualifying joint-life survivor annuities have an exclusion, and spouse or civil-partner exemptions may apply. Income received and kept in savings can form part of your estate. Pension annuity income is normally subject to income tax.

Retirement needs come first

Compare income, flexibility, family protection and your overall tax position. Do not give up suitable benefits solely to reduce IHT. Rules and their application can change; obtain advice before acting.

Review retirement income and inheritance together

Read our guide to pension inheritance tax from 2027

Your next conversation

Have a rough idea of your pension values, desired retirement date, household income needs and any provider quotes. No need to send account numbers, identity documents or medical records through an initial enquiry form.

What happens when you contact MMF?

Start with a free, no-obligation phone conversation with our new business team. We explain the next step, the scope of any adviser appointment and advice fees before you commit.

Enquire about your retirement income

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Sources and further reading

MoneyHelper: compare annuities

Legal & General: pension annuity features

Canada Life: fixed-term income plans

Low Incomes Tax Reform Group: purchased life annuities

GOV.UK: pension tax

GOV.UK: safeguarded pension benefits

HL: enhanced annuities and common conditions

HMRC: inheritance tax on pensions

Royal London: pension death benefits and IHT from April 2027

Important: Product availability, policy terms and tax rules vary and can change. Guarantees are obligations of the insurer, not MMF. This guide is not a recommendation to transfer a pension or buy a product. Seek advice about your circumstances.

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