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A guide to escalation options in annuities

What is it?

Escalation options

When setting up a pension annuity, **escalation options** determine how income increases over time. These are important for protecting the purchasing power against inflation. Here are the main types:

What are the Annuity escalation options?

Escalation Type	Description	Pros	Cons
Level **(Non-escalating)**	Income stays the same throughout retirement	✓ Higher starting income	✗ No inflation protection
Fixed escalation	Income increases by a fixed percentage each year (e.g. 3% or 5%)	✓ Predictable growth	✗ Lower starting income
RPI-Linked **(Inflation-Linked)**	Income increases in line with the Retail Prices Index (RPI)	✓ Protects against inflation	✗ Can be expensive; lower initial income

Why do some people choose escalation?

Usually chosen for peace of mind that income will grow each year, either at a fixed rate or in line with inflation. This helps protect against rising living costs over time.

Example

Let's say they buy an annuity with a £100,000 pension pot:

- **Level annuity:** £6,000/year for life.
- **3% escalating annuity:** Starts at £4,800/year, increases by 3% annually.
- **RPI-linked annuity:** Starts at £4,500/year, increases with inflation.

Summary

Things to Consider

- **Life expectancy:** Escalating annuities pay off more over time.
- **Inflation outlook:** If inflation is expected to rise, escalation protects income.
- **Immediate income needs:** Level annuities give more income upfront.

Feature availability may vary by product. Please use the corresponding product literature for details.

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