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GUIDE TO RETIREMENT PLANNING

HOW WILL YOU ENSURE YOU ACHIEVE THE RETIREMENT LIFESTYLE YOU DESERVE?

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WELCOME

How will you ensure you achieve the retirement lifestyle you deserve?

Welcome to our *Guide to Retirement Planning*. The pension freedoms rule changes mean that we'll be increasingly in charge of our pensions, both while we're building up our retirement pot and when we start to draw an income. It's therefore more important than ever to plan our retirement saving from an early age.

At the heart of planning for our retirement
Making sure we have enough money in retirement to enable us to spend our time the way we want to and doing those things we always intended is at the heart of planning for our retirement. We are all living longer, the State Pension Age keeps increasing and pensions legislation is ever-changing. On the second anniversary of the pension freedoms reforms that took effect from April 2015, some retirement savers say they are still confused by the rules and want no more changes.

The changes of April 2015 represented a complete shake-up of the UK's pensions system, giving people much more control over their defined contribution pension savings than before. There are now more options for using this type of private pension, enabling some people aged over 55 to have greater freedom over how they can access their pension pots – the money they've built up during their working life.

Confusion still surrounds the reforms
Independent research[1] from Prudential highlights that two out of three over-55s (67%) – the age from which retirement savers can utilise the new rules – say they are still confused by the reforms. More than three quarters (77%) want an end to any further changes to pension rules, and more than four out of ten (42%) say the continual changes to pensions have made them switch off from the topic.

Government figures[2] demonstrate the cost of this confusion for retirement savers, as tax bills related to the pension freedoms are now greater than anticipated. It was initially estimated that the changes would mean a total of £900 million being paid in both tax years 2015/16 and 2016/17. In fact, a total of £2.6 billion in tax is now expected to be paid.

Changes to our retirement plans
The new pension freedoms are having an impact in other ways. Nearly one in ten (9%) over-55s say they have made changes to their retirement plans as a result of the reforms. Receiving professional financial advice has also been increasing, with a fifth of retirement savers (21%) saying they are taking advice, while a further 9% are either planning to or have done so for the first time.

However, concerns that pension rules may change again in the future persist, with 81% of over-55s worried that the State Pension might be reduced and 57% concerned it will be abolished. Nearly two out of three (63%) also believe that tax relief on pension contributions will be reduced at some time in the future.

Increased flexibility brought about by the reforms
Nearly 550,000 people have accessed more than £9.2 billion in funds since the launch of pension freedoms[3], demonstrating that there is popular demand for the increased flexibility brought about by the reforms.

Two years on from the introduction of the new rules, there is also widespread confusion, with two out of three over-55s admitting they don't fully understand the reforms. This lack of understanding may be a contributing factor in pension-related tax paid to the Treasury being higher than originally expected.

Importance of advice and guidance
This widespread confusion underlines the importance of advice and guidance in ensuring that the pension freedoms are a long-term success, and it is encouraging that many savers recognise how advice can help them to make the most of their retirement pot. This is a crucial fact, because how you take your pension could have many consequences, including putting you in a higher tax bracket – even if that is not normally the case.

How are you looking towards your future?
The pension freedoms provide a framework of rules, but it is down to individuals to seek help where needed to enable them to plan how to meet their financial goals. If you would like to discuss how to maximise your retirement opportunities, please contact us.

Source data:
[1] Consumer Intelligence conducted research on behalf of Prudential between 17 and 24 February 2017 among a nationally representative sample of 867 people aged 55-plus

[2] https://www.gov.uk/government/publications/spring-budget-2017-documents

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/597335/PU2055_Spring_Budget_2017_web_2.pdf

[3] https://www.gov.uk/government/statistics/flexible-payments-from-pensions

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PENSION FREEDOMS

The most radical changes to pensions in almost a hundred years

On 6 April 2015, the Government introduced the most radical changes to pensions in almost a hundred years. For the first time, individuals from the age of 55 with a defined contribution pension were able to access their entire pension flexibly if they wished.

The pension freedoms announced by George Osborne in Budget 2014 gave over-55s full control of their retirement savings. Instead of being required to buy an annuity with a money purchase pension pot, individuals aged 55 and over could take their money however they deemed appropriate. Generally, 25% of the pension pot is tax-free and the remainder subject to Income Tax at the individual's current rate.

The majority of people at retirement prior to the introduction of pension freedoms had only one realistic option, which was to buy an annuity. Today, you have a much greater choice about how you spend your pension – but there are also greater risks involved if you get it wrong.

Make sure your pension savings last

Pension freedom means the responsibility is up to you to make sure your pension savings last as long as you need them to. Typically, this could be between 20 and 30 years, or even longer, which is why it is essential to obtain professional financial advice. Retirement has always been one of the biggest financial decisions you will make in your lifetime, and it is now much more complicated.

The pension freedoms announced by George Osborne in Budget 2014 gave over-55s full control of their retirement savings.

TAX RELIEF AND PENSIONS

Annual and lifetime limits

Tax relief means some of your money that would have gone to the Government as tax goes into your pension instead. You can put as much as you want into your pension, but there are annual and lifetime limits on how much tax relief you get on your pension contributions.

Tax relief on your annual pension contributions
If you're a UK taxpayer, the standard rule is that you'll receive tax relief on pension contributions of up to 100% of your earnings or a £40,000 annual allowance, whichever is lower.

For example, if you earn £20,000 but put £25,000 into your pension pot (perhaps by topping up earnings with some savings), you'll only get tax relief on £20,000. Similarly, if you earn £60,000 and want to put that amount in your pension scheme in a single year, you'll normally only get tax relief on £40,000.

Any contributions you make over this limit will be subject to Income Tax at the highest rate you pay. However, you can carry forward unused allowances from the previous three years, as long as you were a member of a pension scheme during those years.

There is an exception to this standard rule however. If you have a defined contribution pension, and you start to draw money from it, the annual allowance reduces to £4,000 in some situations.

From 6 April 2016, the £40,000 annual allowance was reduced if you have an income of over £150,000, including pension contributions.

The Money Purchase Annual Allowance (MPAA)
In the tax year 2017/18, if you start to take money from your defined contribution pension, this can trigger a lower annual allowance of £4,000 (down from £10,000 with effect from 6 April 2017). This is known as the 'Money Purchase Annual Allowance' (MPAA).

That means you'll only receive tax relief on pension contributions of up to 100% of your earnings or £4,000, whichever is the lower.

Whether the lower £4,000 annual allowance applies depends on how you access your pension pot, and there are some complicated rules around this.

The main situations when you'll trigger the MPAA are:
- If you start to take ad-hoc lump sums from your pension pot
- If you put your pension pot money into an income drawdown fund and start to take income

The MPAA will not be triggered if you take:
- A tax-free cash lump sum and buy an annuity (an insurance product that gives you a guaranteed income for life)
- A tax-free cash lump sum and put your pension pot into an income drawdown product but don't take any income from it

You can't carry over any unused MPAA to another tax year.

The lower annual allowance of £4,000 only applies to contributions to defined contribution pensions and not defined benefit pension schemes.

Tax relief if you're a non-taxpayer
If you're not earning enough to pay Income Tax, you'll still qualify to have tax relief added to your contributions up to a certain amount.

The maximum you can pay is £2,880 a year or 100% of your earnings – subject to your annual allowance.

Tax relief is added to your contribution, so if you pay £2,880, a total of £3,600 a year will be paid into your pension scheme, even if you earn less than this.

How much can you build up in your pension?
A lifetime allowance puts a top limit on the value of pension benefits that you can receive without having to pay a tax charge.

The lifetime allowance is £1 million for the tax year 2017/18. Any amount above this is subject to a tax charge of 25% if paid as pension or 55% if paid as a lump sum.

Workplace pensions, automatic enrolment and tax relief
Since October 2012, a system is being gradually phased in requiring employers to automatically enrol all eligible workers into a workplace pension.

It requires a minimum total contribution, made up of the employer's contribution, the worker's contribution and the tax relief.

LIFETIME ALLOWANCE

Value of payouts from pension schemes

The lifetime allowance is a limit on the value of payouts from your pension schemes – whether lump sums or retirement income – that can be made without triggering an extra tax charge. The lifetime allowance for most people is £1 million in the tax year 2017/18.

It applies to the total of all the pensions you have, including the value of pensions promised through any defined benefit schemes you belong to, but excluding your State Pension.

From 6 April 2018, the Government intends to index the standard lifetime allowance annually in line with the Consumer Prices Index (CPI).

Working out if this applies to you
Every time a payout from your pension schemes starts, its value is compared against your remaining lifetime allowance to see if there is additional tax to pay.

You can work out whether you are likely to be affected by adding up the expected value of your payouts.

You work out the value of pensions differently depending on the type of scheme you are in:

- For defined contribution pension schemes, including all personal pensions, the value of your benefits will be the value of your pension pot used to fund your retirement income and any lump sum
- For defined benefit pension schemes, you calculate the total value by multiplying your expected annual pension by 20. In addition, you need to add to this the amount of any tax-free cash lump sum if it is additional to the pension. In many schemes, you would only get a lump sum by giving up some pension, in which case the value of the full pension captures the full value of your payouts. So you are likely to be affected by the lifetime allowance in 2017/18 if you are on track for a final salary pension (with no separate lump sum) of more than £50,000 a year, or a salary-related pension over £37,500 plus the maximum tax-free cash lump sum
- Note that certain tax-free lump sum benefits paid out to your survivors if you die before age 75 also use up lifetime allowance
- Whenever you start taking money from your pension, a statement from your scheme should tell you how much of your lifetime allowance you are using up
- Whether or not you take money from your pension, a check will be made once you reach the age of 75 against any unused funds or undrawn entitlements

Charges if you exceed the lifetime allowance
If the cumulative value of the payouts from your pension pots, including the value of the payouts from any defined benefit schemes, exceeds the lifetime allowance, there will be tax on the excess – called the 'lifetime allowance charge'.

The way the charge applies depends on whether you receive the money from your pension as a lump sum or as part of regular retirement income.

Lump sums
Any amount over your lifetime allowance that you take as a lump sum is taxed at 55%.

Your pension scheme administrator should deduct the tax and pay it over to HM Revenue & Customs (HMRC), paying the balance to you.

Income
Any amount over your lifetime allowance that you take as a regular retirement income – for instance, by buying an annuity – attracts a lifetime allowance charge of 25%. This is on top of any tax payable on the income in the usual way.

For defined contribution pension schemes, your pension scheme administrator should pay the 25% tax to HMRC out of your pension pot, leaving you with the remaining 75% to use towards your retirement income.

For example, suppose someone who pays tax at the higher rate had expected to get £1,000 a year as income, but the 25% lifetime allowance charge reduced this to £750 a year. After Income Tax at 40%, the person would be left with £450 a year.

This means the lifetime allowance charge and Income Tax combined have reduced the income by 55% – the same as the lifetime allowance charge had the benefits been taken as a lump sum instead of income.

For defined benefit pension schemes, your pension scheme might decide to pay the tax on your behalf and recover it from you by reducing your pension.

If you wish to avoid the lifetime allowance charge, it's important to monitor the value of your pensions, and especially the value of changes to any defined benefit pensions, as these can be surprisingly large.

You might also wish to consider applying for protection if your pension savings is expected to exceed the lifetime allowance threshold.

From 6 April 2018, the Government intends to index the standard lifetime allowance annually in line with the Consumer Prices Index (CPI).

If you were already reviewing a State Pension before 6 April 2016, you'll continue to receive your State Pension under the old rules.

STATE PENSION

New rule changes

The State Pension changed on 6 April 2016. If you reached State Pension age on or after that date, you'll get the new State Pension under the new rules.

The new State Pension is designed to be simpler than the old system, but there are some complicated changeover arrangements which you need to know about if you've already made contributions under the old system.

Already reviewing a State Pension
If you were already reviewing a State Pension before 6 April 2016, you'll continue to receive your State Pension under the old rules.

However, if you're a woman born before 6 April 1953 or a man born before 6 April 1951, your State Pension will be paid under the old system. Even if you deferred your State Pension to a date after 6 April 2016, it will still be calculated under the old system.

State Pension under the old system
Women born on or after 6 April 1953 or men born on or after 6 April 1951 will receive the new State Pension. If someone has already started to build up a State Pension under the old system, this will be converted into an amount under the new State Pension.

If they hadn't built up any State Pension by 6 April 2016, their State Pension will be completely calculated under the new rules.

Changes to the State Pension
The earnings-related part of the old system which applied to employed people – called the 'Additional State Pension' – is abolished.

The new State Pension is based on your National Insurance (NI) record alone. For the current tax year, the new State Pension is £159.55 per week. However, someone may receive more than this if they have built up entitlement to Additional State Pension under the old system – or less than this if they were 'contracted out' of the Additional State Pension. To be eligible for the full £159.55 per week, someone will need 35 years' NI record.

'Starting amount' under the new State Pension
The new State Pension is calculated from your NI record as at 6 April 2016, converted into a 'starting amount' under the new State Pension. This won't be lower than the amount you would have received under the old system.

Under the old system, if you were employed (rather than self-employed), you paid Class 1 National Insurance which entitled you to the Basic State Pension and an Additional State Pension. The Additional State Pension was based on your earnings as well as the National Insurance contributions you had made or been credited with.

Substantial entitlement to Additional State Pension
If you had built up substantial entitlement to Additional State Pension, this might mean that you have already earned a pension under the old system which is worth more than £159.55 a week. If this applies to you, you will get the full new State Pension amount, and you'll also keep any amount above this as a 'protected payment' which will increase by inflation. However, you won't be able to build up any more State Pension after April 2016.

If your starting amount is equal to the full new State Pension, you'll receive the full new State Pension amount. You won't be able to build up any more State Pension after April 2016.

If your starting amount is lower than the full new State Pension, this might be because you were 'contracted out' of the Additional State Pension. You can continue to build up your State Pension to the maximum (currently £159.55 per week) up until you reach State Pension age.

You can do this even if you already have 35 years of NI contributions or credits.

Less than 35 years of NI

- To receive the full amount, you'll need to have 35 years' worth of NI contributions or credits (known as 'qualifying years') during your working life. These don't have to be consecutive years
- If you have less than 35 years of NI contributions or credits, you'll receive an amount based on the number of years you have paid or been credited with NI
- If you have less than ten years, you won't normally qualify for any State Pension
- However, the ten-year minimum qualifying period does not apply to certain women who paid married women and widow's reduced-rate National Insurance contributions
- If you have gained qualifying years in the European Economic Area, Switzerland or certain bilateral countries which has a social security agreement with the UK, these can be used towards achieving the minimum qualifying period. However, the actual UK State Pension award will normally be based on just the UK qualifying years

Deferring the new State Pension

You'll still be able to defer taking your State Pension. For each year you defer, you'll receive just under a 5.8% increase in your State Pension (compared to 10.4% under the old system). You cannot take the deferred amount as a lump sum.

The new State Pension is normally based on your own NI contributions alone, but you may be able to have your State Pension worked out using different rules that could give you a higher rate if you chose to pay married women and widow's reduced-rate NI contributions (sometimes called the 'married woman's stamp').

Not enough NI record to qualify for State Pension

If you have not yet reached State Pension Age but are worried that you might not have enough NI record to qualify for State Pension (or to receive the maximum amount), you can make Class 3 National Insurance contributions. These contributions are voluntary and allow people to fill gaps in their record to improve their basic State Pension entitlement.

You should regularly request a State Pension statement so that you can see how much State Pension you've built up so far.

DEFINED CONTRIBUTION PENSION SCHEMES

Providing an income in retirement

With a defined contribution pension, you build up a pot of money that you can then use to provide an income in retirement. Unlike defined benefit schemes, which promise a specific income, the income you might get from a defined contribution scheme depends on factors including the amount you pay in, the fund's investment performance and the choices you make at retirement.

Defined contribution pensions build up a pension pot using your contributions and your employer's contributions (if applicable) plus investment returns and tax relief. If you're a member of the scheme through your workplace, then your employer usually deducts your contributions from your salary before it is taxed. If you've set the scheme up for yourself, you arrange the contributions yourself.

The fund is usually invested in stocks and shares, along with other investments, with the aim of growing it over the years before you retire. You can usually choose from a range of funds to invest in. Remember, though, that the value of investments can go up or down.

The size of your pension pot and amount of income you receive when you retire will depend on:

- How much you pay into your pot
- How long you save for
- How much your employer pays in (if a workplace pension)
- How well your investments have performed
- What charges have been taken out of your pot by your pension provider
- How much you take as a cash lump sum
- The choices you make when you retire
- Annuity rates at the time you retire – if you choose the annuity route

When you retire, your pension provider will usually offer you a retirement income (an annuity) based on your pot size. However, you don't have to take this, and it isn't your only option.

DEFINED BENEFIT PENSION SCHEMES

Secure income for life

A defined benefit pension scheme is one where the amount paid to you is set using a formula based on by how many years you've worked for your employer and the salary you've earned rather than the value of your investments. If you work or have worked for a large employer or in the public sector, you may have a defined benefit pension.

Defined benefit pensions pay out a secure income for life which increases each year. They also usually pay a pension to your spouse or registered civil partner and/or your dependants when you die.

The pension income they pay is based on:

- The number of years you've been a member of the scheme – known as 'pensionable service'
- Your pensionable earnings – this could be your salary at retirement (known as 'final salary'), salary averaged over a career ('career average'), or some other formula
- The proportion of those earnings you receive as a pension for each year of membership – this is called the 'accrual rate', and some commonly used rates are 1/60th or 1/80th of your pensionable earnings for each year of pensionable service

These schemes are run by trustees who look after the interests of the scheme's members. Your employer contributes to the scheme and is responsible for ensuring there is enough money at the time you retire to pay your pension income.

Check your latest pension statement to get an idea of how much your pension income may be. If you haven't got one, ask your pension administrator to send you one. Statements vary from one scheme to another, but they usually show your pension based on your current salary, how long you've been in the scheme and what your pension might be if you stay in the scheme until the scheme's normal retirement age.

If you've left the scheme, you'll still receive a statement every year showing how much your pension is worth. In most cases, this pension will increase by a set amount each year up until retirement age. Contact your pension administrator if you're not receiving your annual statement.

The more you take, the lower your income

When you take your pension, you can usually choose to take up to 25% of the value of your pension as a tax-free lump sum. With most schemes, your pension income is reduced if you take this tax-free cash. The more you take, the lower your income. But some schemes, particularly public sector pension schemes, pay a tax-free lump sum automatically and in addition to the pension income.

Make sure you understand whether the pension shown on your statement is the amount you'll get before or after taking a tax-free lump sum. Also, don't forget that your actual pension income will be taxable.

Most defined benefit schemes have a normal retirement age of 65. This is usually the age at which your employer stops paying contributions to your pension and when your pension starts to be paid.

If your scheme allows, you may be able to take your pension earlier (from the age of 55), but this can reduce the amount you get quite considerably. It's possible to take your pension without retiring.

Again, depending on your scheme, you may be able to defer taking your pension, and this might mean you get a higher income when you do take it. Check with your scheme for details.

Yearly increases

Once your pension starts to be paid, it will increase each year by a set amount – your scheme rules will tell you by how much. It will continue to be paid for life. When you die, a pension may continue to be paid to your spouse, registered civil partner and/or dependants. This is usually a fixed percentage (for example, 50%) of your pension income at the date of your death.

You may be able to take your whole pension as a cash lump sum. If you do this, up to 25% of the sum will be tax-free, and the rest will be subject to Income Tax. You can usually do this from age 55 or earlier if you're seriously ill.

PERSONAL PENSIONS

Saving tax-efficiently for retirement

A personal pension is a type of defined contribution pension. You choose the provider and make arrangements for your contributions to be paid. If you haven't got a workplace pension, getting a personal pension could be a good way of saving for retirement.

Your pension provider will claim tax relief at the basic rate and add it to your pension pot. If you're a higher rate taxpayer, you'll need to claim the additional rebate through your tax return. You also choose where you want your contributions to be invested from a range of funds offered by your provider.

Your pension pot builds up in line with the contributions you make, investment returns and tax relief. The fund is usually invested in stocks and shares, along with other investments, with the aim of growing the fund over the years before you retire. You can usually choose from a range of funds to invest in.

When you retire, the size of your pension pot when you retire will depend on:

- How much you pay into your pension pot
- How long you save for
- How much, if anything, your employer pays in
- How well your investments have performed
- What charges have been taken out of your pot by your pension provider

Following changes introduced in April 2015, you now have more choice and flexibility than ever before over how and when you can take money from your pension pot.

Your pension provider will claim tax relief at the basic rate and add it to your pension pot. If you're a higher rate taxpayer, you'll need to claim the additional rebate through your tax return.

SIPPs are designed for people who want to manage their own fund by dealing with, and switching, their investments when they want to.

SELF-INVESTED PERSONAL PENSIONS

Providing greater flexibility with the investments you can choose

A self-invested personal pension (SIPP) is a pension 'wrapper' that holds investments until you retire and start to draw a retirement income. It is a type of personal pension and works in a similar way to a standard personal pension. The main difference is that with a SIPP, you have greater flexibility with the investments you can choose.

With standard personal pension schemes, your investments are managed for you within the pooled fund you have chosen. SIPPs are a form of personal pension that give you the freedom to choose and manage your own investments. Another option is to pay an authorised investment manager to make the decisions for you.

SIPPs are designed for people who want to manage their own fund by dealing with, and switching, their investments when they want to. SIPPs can also have higher charges than other personal pensions or stakeholder pensions. For these reasons, SIPPs tend to be more suitable for large funds and for people who are experienced in investing.

Most SIPPs allow you to select from a range of assets in which to invest, including:

- Individual stocks and shares quoted on a recognised UK or overseas stock exchange
- Government securities
- Unit trusts
- Investment trusts
- Insurance company funds
- Traded endowment policies
- Deposit accounts with banks and building societies
- Some National Savings and Investment products
- Commercial property (such as offices, shops or factory premises)

These aren't all of the investment options that are available – different SIPP providers offer different investment options. Residential property can't be held directly in a SIPP with the tax advantages that usually accompany pension investments. But, subject to some restrictions (including on personal use), residential property can be held in a SIPP through certain types of collective investments, such as real estate investment trusts, without losing the tax advantages. Not all SIPP providers accept this type of investment though.

New pension freedoms introduced in April 2015 mean you can access and use your pension pot in any way you wish from age 55. However, SIPPs aren't appropriate for everyone, and you should seek professional advice if you are considering this option.

USING YOUR PENSION POT

More choice and flexibility than ever before

Under the pension freedoms rules introduced in April 2015, once you reach the age of 55, you can now take your entire pension pot as cash in one go if you wish. However, if you do this, you could end up with a large tax Income Tax bill and run out of money in retirement. It's essential to obtain professional advice before you make any major decisions about how to access your pension pot.

Closing your pension pot
If you want to take your entire pension pot as cash, you simply close your pension pot and withdraw it all. The first 25% is tax-free, and the remaining 75% is taxed at your highest Income Tax rate, calculated by adding it to the rest of your income.

This approach won't provide a regular income for you – or for your spouse or any other dependant after you die. Three quarters of the amount you withdraw is taxable income, so there's a possibility that your tax rate could increase when the money is added to your other income. Once you have exercised this option, you can't change your mind.

Tax-efficient approaches to consider before taking your pension
There are likely to be a number of alternative tax-efficient approaches you should consider first before taking your pension. Withdrawing a large cash sum could reduce any entitlement you have to benefits now, or as you grow older – for example, to help with long-term care needs. Also, cashing in your pension to clear debts, buy a holiday or indulge in a big-ticket item will reduce the money you will have to live on in retirement – and you could end up with a large tax bill.

Depending on how much your pension pot is, when it's added to your other income it might increase your tax rate. Your pension scheme or provider will pay the cash through a payslip and take off tax in advance – called 'PAYE' (Pay As You Earn). This means you might pay too much Income Tax and have to claim the money back – or you might owe more tax if you have other sources of income.

Exceeding the lifetime allowance
Extra tax charges or restrictions might apply if your pension savings exceed the lifetime allowance (currently £1 million), or if you have reached age 75 and have less lifetime allowance available than the value of the pension pot you want to cash in.

If the value of the pension pot you cash in is £10,000 or more, once you have taken the cash, the annual amount of defined contribution pension savings on which you can get tax relief is reduced from £40,000 (the Money Purchase Annual Allowance or MPAA) to £4,000 (MPAA). If you want to carry on building up your pension pot, this option might not be suitable.

If you die, any remaining cash or investments from the money that came from your pension pot will count as part of your estate for Inheritance Tax purposes. Whereas any part of your pot not used would not normally be liable.

TAKING YOUR PENSION

Using different parts of one pension pot or using separate or combined pots

Under the new flexible pension freedoms rules, you can now mix and match various options, using different parts of one pension pot or using separate or combined pots.

Leave your pension pot untouched
You might be able to delay taking your pension until a later date. Your pot then continues to grow tax-free, potentially providing more income once you access it.

It's important to check with your pension scheme or provider whether there are any restrictions or charges for changing your retirement date, and the process and deadline for telling them. Also check that you won't lose any income guarantees – for example, a guaranteed annuity rate (GAR) – by delaying your retirement date.

The value of pension pots can rise or fall. Remember to review where your pot is invested as you get closer to the time you want to retire and arrange to move it to less risky funds if necessary. If you want to delay taking your pot but your scheme or provider doesn't have this option, obtain advice and shop around before moving your pension.

The longer you delay, the higher your potential retirement income. However, this could affect your future tax and your entitlement to benefits as you grow older, for example, long-term care costs.
You could instead delay taking some of your pension. For example, you might be able to arrange to retire gradually, or change to working part-time or flexibly and then draw part of your pension. If you want your pot to remain invested after the age of 75, you'll need to check with your pension scheme or provider that they will allow this. If not, you might need to transfer to another scheme or provider who will.

- **If you die before age 75:** your untouched pension pots can pass tax free to any nominated beneficiary. The money will continue to grow tax-free as long as it stays invested, and, provided they take it within two years of your death, the beneficiary can take it as a tax-free lump sum or as tax-free income. If they take it later, they pay tax on it
- **If you die after 75:** if your nominated beneficiary takes the money as income or as a lump sum payment, they'll pay tax at their marginal rate. This means that the money will be added to their income and taxed in the normal way

If the total value of all your pension savings when you die exceeds the lifetime allowance (currently £1 million), further tax charges will be payable by the beneficiary.

Guaranteeing a regular retirement income for life
You can choose to take up to 25% of your pension pot as a one-off tax-free lump sum, then convert the rest into a taxable income for life called an 'annuity'. A lifetime annuity is a type of retirement income product that you buy with some or all of your pension pot. It guarantees a regular retirement income for life. You can also choose to provide an income for life for a dependent or other beneficiary after you die.

Lifetime annuity options and features vary – what is suitable for you will depend on your personal circumstances, your life expectancy and your attitude to risk. You can normally choose to take up to 25% of your pension pot – or of the amount you're allocating to buy an annuity – as a tax-free lump sum.

This retirement income from an annuity is taxed as normal income. Typically, the older you are when you take out an annuity, the higher the income (annuity rate) you'll get.

Two types of lifetime annuity to choose from:
- **Basic lifetime annuities** – where you set your income in advance

- **Investment-linked annuities** – where your income rises and falls in line with investment performance but will never fall below a guaranteed minimum

Basic lifetime annuities offer a range of income options designed to match different personal circumstances and attitude to risk.

Decide whether you want:
- One that provides an income for life for you only – a single life annuity, or one that also provides an income for life for a dependant or other nominated beneficiary after you die (called a 'joint life annuity')
- Payments to continue to a nominated beneficiary for a set number of years (for example, ten years) from the time the annuity starts in case you die unexpectedly early – called a 'guarantee period'
- 'Value protection' – less commonly used, but designed to pay your nominated beneficiary the value of the pot used to buy the annuity less income already paid out when you die

Your choices affect how much income you can receive. Also where you expect to live when you retire may affect how much income you get.

If you have a medical condition, are overweight or smoke, you might be able to get a higher income by opting for an 'enhanced' or 'impaired life' annuity.

Investment-linked annuities
Investment-linked annuities also pay you an income for life, but the amount you get can fluctuate depending on how well the underlying investments perform. If the investments do well, they offer the chance of a higher income. However, you have to be comfortable with the risk that your income could fall if the investments don't do as well as expected. All investment-linked annuities guarantee a minimum income if the fund's performance is weak.

With investment-linked annuities, you can also opt for joint or single annuity, guarantee periods, value protection and higher rates if you have a short life expectancy due to poor health or lifestyle. However, not all providers will offer these options.

Flexible retirement income – flexi-access drawdown
With flexi-access drawdown, when you come to take your pension, you reinvest your pot into funds designed to provide you with a regular retirement income. This income may vary depending on the fund's performance, and it isn't guaranteed for life. Unlike with a lifetime annuity, your income isn't guaranteed for life – so you need to manage your investments carefully.

You can normally choose to take up to 25% of your pension pot as a tax-free lump sum. You then move the rest into one or more funds that allow you to take a taxable income at times to suit you. Increasingly, many people are using it to take a regular income.

You choose funds to invest in that match your income objectives and attitude to risk and set the income you want. The income you receive might be adjusted periodically depending on the performance of your investments.

Once you've taken your tax-free lump sum, you can start taking the income right away or wait until a later date. You can also move your pension pot gradually into income drawdown. You can take up to a quarter of each amount you move from your pot tax-free and place the rest into income drawdown.

You can at any time use all or part of the funds in your income drawdown to buy an annuity or other type of retirement income product that might offer guarantees about growth and/or income.

Flexi-access drawdown is a complex product so it's important to obtain professional financial advice to discuss the options available. You need to carefully plan how much income you can afford to take under flexi-access drawdown, otherwise there's a risk you'll run out of money.

This could happen if:
- You live longer than you've planned for
- You take out too much in the early years
- Your investments don't perform

as well as you expect and you don't adjust the amount you take accordingly

If you choose flexi-access drawdown, it's important to regularly review your investments. Not all pension schemes or providers offer flexi-access drawdown. Even if yours does, it's important to compare what else is on the market, as charges, the choice of funds and flexibility might vary from one provider to another.

Any money you take from your pension pot using income drawdown will be added to your income for the year and taxed in the normal way. Large withdrawals could push you into a higher tax band, so bear this in mind when deciding how much to take and when.

If the value of all of your pension savings is above £1 million when you access your pot (2017/18 tax year), further tax charges might apply.

If the value of your pension pot is £10,000 or more, once you start to take income, the amount of defined contribution pension savings which you can get tax relief on each year falls from £40,000 (the 'annual allowance') to £4,000 (the Money Purchase Annual Allowance or MPAA).
If you want to carry on building up your pension pot, this might influence when you start taking income.

You can nominate who you'd like to receive any money left in your drawdown fund when you die.

- If you die before the age of 75, any money left in your drawdown fund passes tax-free to your nominated beneficiary whether they take it as a lump sum or as income. These payments must begin within two years of your death, or the beneficiary will have to pay Income Tax on them
- If you die after the age of 75 and your nominated beneficiary takes the money as income or lump sum, they will pay tax at their marginal rate. This means that any income or lump sum taken on or after this date will be added to their income and taxed in the normal way

Combining your retirement options
You don't have to choose one option when deciding how to access your pension – you can combine your options as appropriate, and take cash and income at different times to suit your needs.
You can also keep saving into a pension if you wish, and get tax relief up to age 75.

Which option or combination is right for you will depend on:
- Your age and health
- When you stop or reduce your work
- Whether you have financial dependents
- Your income objectives and attitude to risk
- The size of your pension pot and other savings
- Whether your circumstances are likely to change in the future
- Any pension or other savings your spouse or partner has, if relevant

The choices you face when considering taking some or all of your pension pot are very complex, and you should obtain professional advice to assess your best option or combination of options.

BUYING AN ANNUITY

A regular retirement income for the rest of your life

One way to use your pension pot is to buy an annuity. This gives you a regular retirement income, usually for the rest of your life. In most cases, this is a one-off, irreversible decision, so it's crucial to choose the right type and get the best deal you can.

Until recently, most people with a defined contribution pension (based on how much has been paid into their pension pot – also known as a 'money purchase pension') used their pot to buy an annuity.

However, you can now access and use your pension pot in any way you wish from age 55.

You don't have to buy an annuity from your pension provider; you can shop around on the open market to help ensure you get the best deal and options for you.

Decide on the type of annuity you want

Choosing an annuity is about more than getting the best value on the market. There are different annuity types (ones that pay an income for life – including basic lifetime annuities and investment-linked annuities – and 'fixed-term' annuities that pay an income for a set period).

Within these types, you have several options for how you want the income paid. It's important to choose the right annuity type and income options for your circumstances and pension pot.

Higher income for poor health or lifestyle

If you have a diagnosed medical condition or poor lifestyle, you could qualify for a higher retirement income from an 'enhanced annuity'. So don't hide your health problems or unhealthy lifestyle. It pays to tell your provider – and other providers when shopping around – if, for example, you're a smoker or have high blood pressure.

Check what your pension provider is offering

At least six weeks before your retirement date, your provider will contact you with:

- Details of the value of your pension pot
- An indication of the retirement income your pot would generate if you bought a basic lifetime annuity with it

It's important to check whether your agreement with your provider includes a guaranteed annuity rate (GAR). These can be very valuable as they can offer much better rates than those generally available. A GAR might come with restrictions but can lead to a significant boost to your retirement income.

The retirement income that your current provider offers you is your starting point for finding out if you can get a better rate elsewhere.

Discuss your options

In most cases, choosing an annuity is a decision that will determine your income for the rest of your life, so it's extremely important to make the right choice.

You should discuss your findings with a professional financial adviser before choosing an annuity.

The law and tax rates may change in the future. These details are based on our understanding of tax law and HM Revenue & Customs' practice which is subject to change. The amount of tax you pay, and the value of any tax relief, will depend on your individual circumstances.

Until recently, most people with a defined contribution pension (based on how much has been paid into their pension pot – also known as a 'money purchase pension') used their pot to buy an annuity.

FINANCIAL FREEDOM TO FULFIL YOUR DREAMS

Retirement should be one of the most enjoyable and fulfilling stages of your life. It should offer exciting new opportunities and the financial freedom to fulfil your dreams – if you have planned well enough in advance.

To discuss your situation, please contact us – we look forward to hearing from you.

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