Thinking about retirement

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Introduction

Introduction

This guide to retirement options is intended to help people nearing retirement, who have one or more of the following types of scheme:

- Personal Pension
- Stakeholder Pension
- Self-Invested Personal Pension (SIPP)
- Small Self-Administered Scheme (SSAS)
- Workplace money purchase scheme

If you have Final Salary pension arrangements, also known as Defined Benefit schemes, please contact us on 0115 933 8433 to discuss your options in more detail.

This guide explains more about Pension Freedoms; the changes introduced in April 2015, while giving you more information about your options as you get nearer to retirement.

A guide such as this can never replace high quality, independent, financial advice, tailored to your own individual needs. However, as you start out on your retirement journey, we hope our guide will give you a clear overview of the options available to you.

Retiring soon?

Here at Investment Sense we are passionate about making your money work harder for you and helping you to make better financial decisions. Contact Sarah or Bev.

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Pensions Freedom –

A summary of the key changes

In 2015 the retirement rules were re-written; we will therefore start with a summary of the main changes.

The new rules, which came into effect from April 2015, have changed the way people take money out of their pensions, with new freedoms and options available to anyone over the age of 55.

In this part of the guide we explain the key changes, how they could benefit you and some of the pitfalls to look out for.

Change #1: Unrestricted access to your pension from 55

Prior to the new rules taking effect, the maximum amount available to be taken from a pension each year was capped; this is no longer the case.

Anyone over the age of 55 now has complete access to their pension, with no limit to the maximum lump sums or income available. In reality, this means people generally take one of four options:

- Take the whole pension pot as one lump sum; normally 25% will be tax-free with the remainder added to your income and potentially taxed at 20%, 40% or 45%
- Take smaller lump sums as and when needed; as above, 25% will be tax-free, the remainder will be added to your income and potentially taxed at 20%, 40% or 45%
- Take up to 25% of the fund as a tax-fee lump sum and defer taking an income until a later date
- Take up to 25% of the fund as a tax-free lump with the balance used to provide a regular income using an Annuity or Flexi-Access Drawdown (the new name for Income Drawdown)

Anyone considering taking lump sums above the 25% tax-free amount, must be careful not to fall into the trap of miscalculating the tax they should pay. For example, a basic rate taxpayer might assume any additional lump sum will simply be taxed at a rate of 20%. This could be the case. However, if the lump sum, when added to their other income in the tax-year in question, takes you into higher rate tax, you could end up paying 40% on some or all the amount you withdraw, leaving you with less than you anticipated.

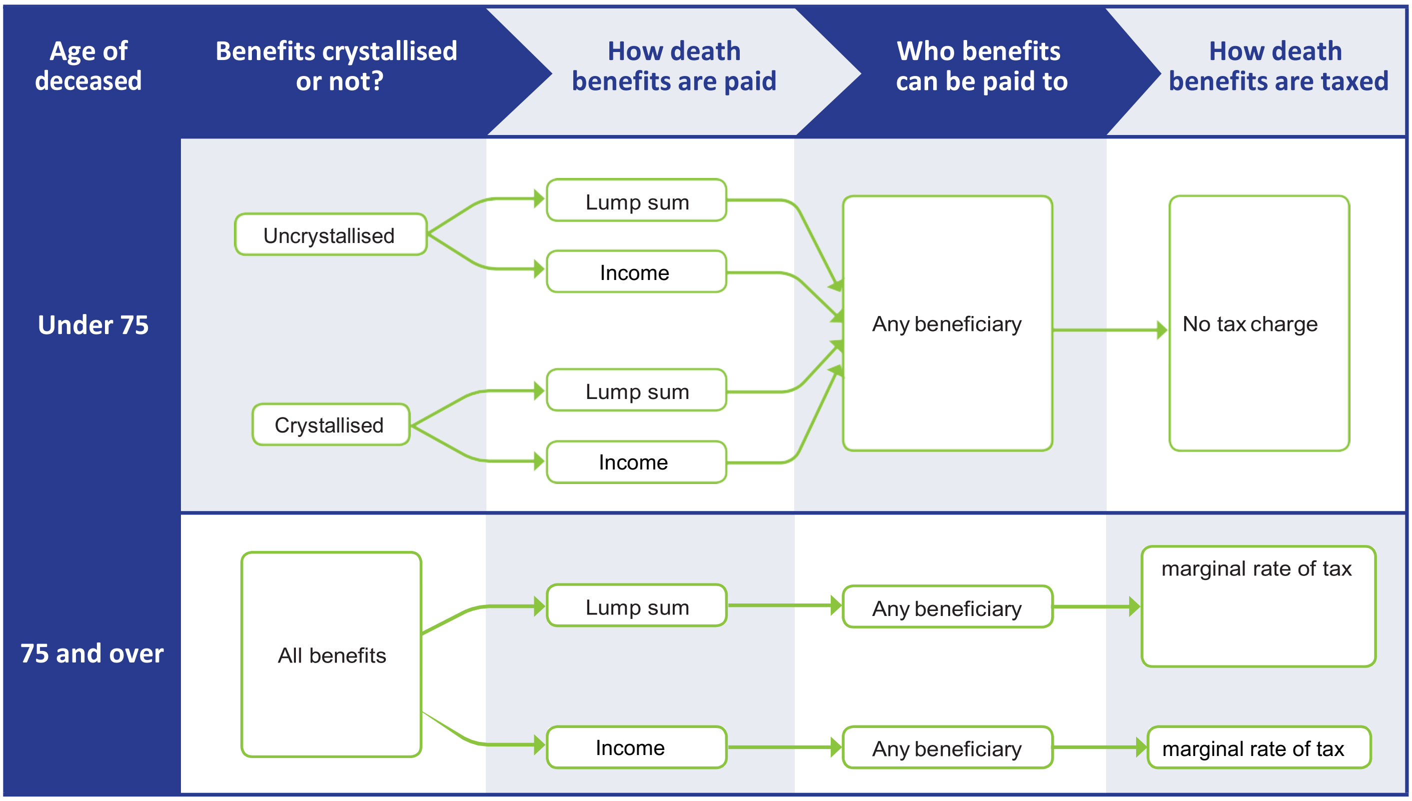
There are ways of minimising the tax you pay on lump sum withdrawals, for example staggering the lump sums over multiple tax years. Alternatively, you could wait to withdraw lump sums until tax years when your income is lower, for example after you have retired.

The tax implications of pension withdrawals will be based on your individual circumstances, tax legislation and regulation which are subject to change in the future.

> “Sarah has been a fantastic adviser and would recommend to anyone seeking sound and independent pensions advice.”

Change #2: Lower taxes on death

The new rules mean that the tax paid by your beneficiaries from lump sums from drawdown arrangements is dependent on when you die and can be summarised as follows:



Change #3: Pensions Wise is open for business

As part of the changes, anyone over the age of 50 will now be able to get free guidance and information on the options available to them.

The service is called Pensions Wise and is run by The Pensions Regulator in conjunction with the Citizens Advice Bureau.

Pensions Wise will offer you guidance about the options available to you. According to its website it is: “Free and impartial government guidance about your defined contribution pension options” However, “Pension Wise won’t recommend any products or tell you what to do with your money.”

At present the service is only available to anyone over the age of 50. During your appointment with Pensions Wise you will discuss:

- The various ways you can take money from your pension pot
- The implications of each option for your circumstances
- The various next steps you could take

It is important to emphasise that the service provided by Pensions Wise is very different to, and does not replace, an Independent Financial Adviser.

Pensions Wise will not recommend products, companies or specific investments; only a regulated financial adviser can do that for you. Furthermore, Pensions Wise does not provide an ongoing service, which many advisers do.

The best way to compare the two is to think of guidance as providing high level information, after finding out a little about your circumstances. In contrast, advice is a full recommendation, only made after a fact-finding process, which will include a recommendation as to which product, provider or investment is most suitable for your needs.

Indeed, many people believe that once guidance has been given by Pensions Wise, a referral to a financial adviser will be necessary so that specific advice and technical assistance can be given.

Change #4: Transferring Final Salary and Defined Benefit schemes

Members of Defined Benefit and Final Salary pensions can transfer away from their current scheme into a personal arrangement (e.g. Personal Pension, Stakeholder Pension or Self-Invested Personal Pension).

However, to make such a transfer, if the value of your benefits exceeds £30,000, you must have taken independent advice and some schemes, such as public-sector pensions, will no longer allow a transfer to take place.

Before transferring away from a Defined Benefit or Final Salary pension it is vital you consider the disadvantages of doing so and take independent financial advice.

In most circumstances making such a transfer will not be in your best interests.

Change #5: Tax cut on widow’s / widower’s pensions from an Annuity

Many people choose to include a widow’s or widower’s pension when they buy an Annuity, to ensure their spouse is financially secure in the future.

Under the old rules, the spouse’s pension would be added to the existing income of the widow or widower and taxed accordingly at their highest marginal rate of income tax. Furthermore, it was only possible to include a pension on your death for your spouse, civil partner or other financial dependent.

Under the new rules, if you die before the age of 75 and have a Lifetime Annuity, your spouse will receive their widow or widower’s pension tax-free.

The rules on who can receive the income when you die, have also been relaxed, and are no longer restricted as was previously the case.

Pensions Freedoms –

The key questions answered

As people look to take advantage of the pensions freedoms, there have been no shortage of questions, here are the top 10 which we are asked on a regular basis:

Question #1: Should I still consider buying an Annuity?

Yes, for many people, who want a guaranteed income for life and can't afford to take any risk with the value of their pension fund, or their income, an Annuity might still be the right option.

For other people, buying an Annuity with part of their pension, so that the income it produces, when added to the State Pension, covers essential expenditure is valuable. The remaining pension pot can then be drawdown as and when it is needed to meet discretionary and variable spending, whilst providing an element of flexibility.

Annuities have developed a bad reputation. But for many people, especially those who are older or in ill-health, they may well provide the highest level of sustainable income available.

However, if you do choose to buy an Annuity, take advice, shop around for the best rate, consider all other options and make sure the Annuity provider considers your health and lifestyle.

Question #2: Should I transfer my Final Salary pension?

This is a question which can only be properly answered after you have received independent financial advice.

However, for most people, transferring a Final Salary or Defined Benefit pension will not be in their best interests.

If you have one of these pensions, you should also be careful not to fall prey to unscrupulous people looking to scam you out of your pension, by convincing you to transfer to an alternative arrangement which isn't in your best interests.

> “Bev took the stress out of the annuity purchase.”

Question #3: Can I pay more into my pension before I retire?

Yes, but there are limits.

As the rules currently stand, you can pay in an amount equal to your pensionable taxable earnings or £40,000 each tax year, whichever is lower. Be careful though, if you take any income from your pension under the new Pension Freedom rules, the maximum you can then contribute falls to the higher of your pensionable income and £4,000 each tax year.

In certain circumstances, it might be possible to make higher contributions using 'carry forward'; a tool which allows you to use up allowances from previous years. If you wish to make large pension contributions our advisers can explain 'carry forward' to you.

If you have no earnings in the current tax year, you can still pay into your pension, but the maximum annual contribution is £3,600 gross or £2,880 net of tax-relief.

If you are considering an additional pension contribution you also need to be careful you don't breach the Lifetime Allowance (LTA).

Currently set at £1,073,100 (tax year 2020/21, the LTA is the maximum amount you can have in your pension before a tax charge is triggered. If your pension fund breaches the LTA and you have not applied for one of the various forms of protection, which we can provide more details about, you will pay tax at a rate of up to 55% when you withdraw money if taken as a lump sum or 25% if taken as a regular income.

Question #4: What if you have already bought an Annuity?

The rules don't affect people who have already bought an Annuity, unless of course they die before the age of 75 and included a spouse's pension when they bought their Annuity, in which case the spouse's income will be paid tax free.

Levels, bases of and reliefs from taxation may be subject to change and their value depends on the individual circumstances of the investor.

Question #5: How do I know where to go for safe advice?

Many people are concerned that pensions freedoms will lead to an increase in the number of pension scams, particularly in relation to:

- Transfers from Final Salary and Defined Benefit schemes
- Large lump sums being taken out to invest in risky investments
- The purchase of Buy to Let property following the withdrawal of large lump sums

There are several ways to reduce the risk of being scammed:

- Never take advice or buy a financial product following a cold call
- Only take advice from an adviser regulated in the UK by the Financial Conduct Authority (FCA); you can confirm an adviser is regulated by the FCA by checking the register at www.register.fca.org.uk
- Get a recommendation from friends or family

Use directories of advisers such as Unbiased.co.uk or Vouchedfor

Key Considerations

When planning your retirement and how to create an income from your pensions, there are several key things you need to consider:

Risk

Pensioners, and would-be retirees, are exposed to a number of different risks. Typically, when we talk about risk, we think about investments falling in value.

However, when considering your retirement income, there are other risks you need to consider:

- Inflation
- Annuity rate movements
- Longevity risk
- Investment risk
- A change to your personal circumstances

Inflation

Over the past couple of years, inflation has never been far from the headlines and it remains a serious risk for pensioners, who often have fixed incomes, which inflation will erode. Of course, this reduces your spending power.

To put it another way, you will be able to buy less in the future than you can today, if the rate of increases attached to your investments, savings or retirement income does not match inflation.

This is a problem for people who buy Annuities, which rarely include indexation, due to the cost and large resulting reduction in the level of income at the outset.

To put the problem in context. If inflation remained at a constant 2% per annum, then the real value of a £10,000 income today would be £7,386 in 15 years; more than a 25% reduction in real terms.

Annuity rate movements

The timing of an Annuity purchase can have a big impact on the level of income available. Annuity rates are heavily linked to gilt yields, which fluctuate and can have a significant impact on the rate available from one month to the next.

Predicting Annuity rate trends, and therefore the timing of your purchase, is becoming increasingly difficult.

Several retirement income options allow you to defer the purchase of a Lifetime Annuity to a future date. Whilst these options provide much needed flexibility, there is a risk that when you eventually purchase an Annuity, rates may be lower than at present. Of course, the opposite could equally be true and you may find they are higher.

Longevity risk

Longevity risk is effectively the risk of living too long and running out of money before you die.

Life expectancy has increased significantly over recent decades. According to the Office for National Statistics (ONS), the average life expectancy in the UK for a male currently aged 65 is a further 20 years, rising to 22 years for a female.

Some options described in this guide, such as a Lifetime Annuity, remove longevity risk, by promising to pay an income for the remainder of your life, and, where selected, that of your partner.

Other products leave you exposed to longevity risk and the potential of a depleted pension fund with several years of income still required.

In the worst cases, this will mean income levels are reduced significantly in later retirement. This risk is closely related to investment risk (see below), and can, to a degree, be managed through appropriate investment strategies.

Your own health is closely related to longevity risk. There can be some advantages gained by deferring a Lifetime Annuity until later in life, as life expectancy becomes more predictable. In addition, if your health worsens, it may be possible to take advantage of Enhanced Annuity rates rather than normal Lifetime Annuity rates.

Investment risk

Several of the options described later provide you with the opportunity to continue investing your pension pot for potential future growth. This means you will continue to expose your fund to your chosen level of investment risk.

It is possible to invest these funds in a manner designed to limit the downside of any economic turbulence. However, you will need to consider the level of return required to make such a plan a success. Typically, if you target higher returns, you will need to increase the level of risk you are taking. This can mean there is potential for a higher upside, which is matched by the potential for a greater loss on the downside.

Some options, such as Fixed Term Annuities and Investment Linked Annuities, offer a facility to limit the downside of investment risk. This works by providing an underpin of either a minimum income, and/or a minimum fund value.

A change to your personal circumstances

Your circumstances have no doubt changed throughout your life and it is likely that they will continue to evolve. It's important to consider how you see your retirement developing and the potential life changes that may occur.

Some options, such as a Lifetime Annuity, offer no future flexibility or possibility of change; others offer the opportunity to change at certain points in time; and some methods offer full flexibility.

Each option comes with its own set of risks and compromises may need to be made, to find the most suitable structure for you.

Questions to consider

Whether you are using a financial adviser to help plan your retirement, or you are going it alone, it's vital you spend some time thinking about the goals and ambitions you have for the rest of your life.

We've pulled together a list of questions you might want to ask yourself to help identify exactly what is important to you in years to come:

- What does retirement mean to you?
- Do you want to stop working altogether, keep working as long as possible, or gradually reduce your working hours?
- Do you have a specific age in mind?
- Will you want to sell any assets, such as a business or a property?

How do you want to live in retirement?

- Are there any once in a lifetime dreams you want to fulfil?
- Do you have plans to move abroad, or purchase a second property?
- Do you anticipate living in your current house or downsizing?
- When will you need to generate retirement income and how much?
- Will you need your income monthly, quarterly or annually? Does it have to be paid on the same day?

How much risk can you afford to take with your income?

- How much do you spend on essential items each month, for example, council tax, utility bills, food etc?
- How much do you spend on discretionary items each month, for example holidays, birthdays and Christmas?
- Does it matter if your income falls? If so, by how much could it fall before you get in to financial difficulty?
- What other income sources or assets do you have available?
- How important is certainty of income, is there a minimum you need to meet?

How much risk do you feel comfortable with?

- Would you rather take some risk with this income, to see if you can get more, even if this means it may go down and you could lose it altogether?
- Is it important for you to retain flexibility, accepting this comes with some additional risk, or would you prefer to make an irreversible decision in return for greater certainty of income?
- Are you more concerned about the risk of inflation eroding the relative value of your money, or investment fluctuations eroding the absolute value of it?
- Are you comfortable with retaining an ongoing involvement in managing your retirement income, albeit with professional help, or would you rather make a decision and then forget about it?

Preparing for the worst

- How healthy are you? Do you have any illnesses or any concerns about how long you might live, or require income for?
- Do you have any future financial obligations to meet, such as debts?
- Do you have dependents, such as family, who would be reliant on your income when you die?
- Do you wish to leave an inheritance?
- Should you need specialist care in later life, do you have any views on what type of care you would prefer?

Options

Pension Freedoms give you unprecedented access to your pension, with more options than ever to meet your needs for a lump sum and / or income. You are therefore bound to recognise some of the options for taking money out of your pension, others are new.

This guide considers the different options in some detail, to ensure you understand the advantages and disadvantages of each option. However, it may transpire, that due to your personal circumstances or the size of your pension fund, some of the options are not available or suitable.

In summary, the following options are available to you:

- Take the entire pension pot as one single lump sum
- Take the 25% tax-free lump sum and generate an income from one of the following methods:
    - Lifetime Annuity, including an Enhanced Annuity or Investment Linked Annuity
    - Fixed Term Annuity
    - Flexi Access Drawdown (FAD)
    - A combination of the above options
- Taking ad hoc lump sums from your existing pension, also known as Uncrystallised Funds Pension Lump Sum (UFPLS)
- Delaying a decision and leaving the money invested in the existing pension

Except for delaying and UFPLS, each of the above options results in your pension becoming ‘crystallised’. This simply means you have chosen to take some or all your benefits from your pension. When a Benefit Crystallisation Event (BCE) occurs, the value of the fund used to provide the benefits is measured against the Lifetime Allowance, currently £1,073,100.

If the value of your pensions is more than the Lifetime Allowance, a tax charge may become payable if you have not previously applied for protection against the tax charge. It is therefore important to consider all your pensions and existing pension income when retirement planning.

The rest of this guide concentrates on explaining more about the options available to you, including the advantages and disadvantages of each.

“Thank you so much for sorting out my pension in such a professional manner, for which I am in your debt.”

Delay taking benefits

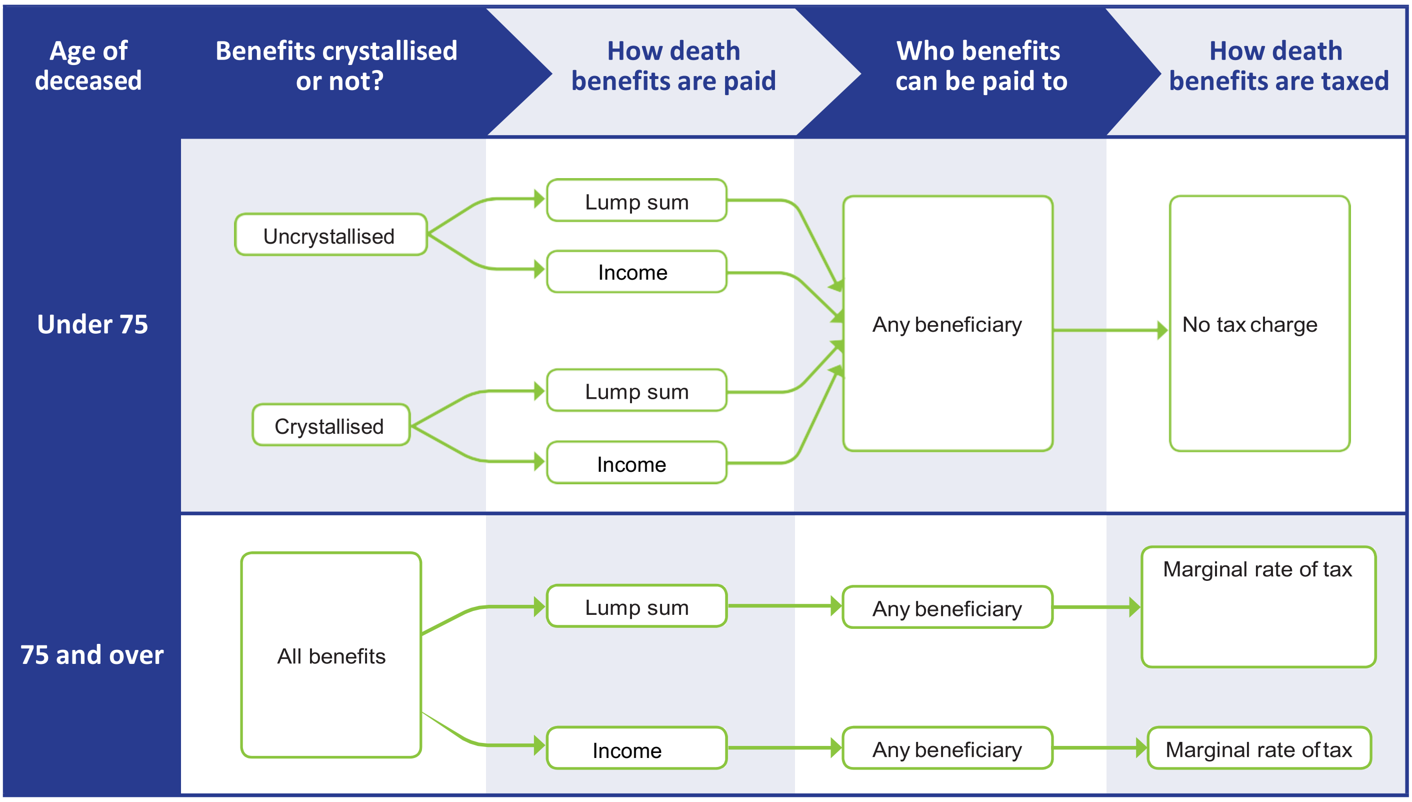
Although delaying taking your pension might feel strange, after all you have probably saved diligently for years, it can be the right thing to do and is certainly an option which should be considered.

Sometimes, pension benefits are taken simply because people think there is no other option. People are often still healthy and active at retirement age, and may actually want, or indeed need, to continue to work.

It is also often possible to delay taking benefits from your pension pot and use other investments or income sources to meet your expenditure. Of course, this could reduce your capital, especially if the income you take is greater than the growth or interest received. It is therefore important to carefully consider your investment strategy in deferment to ensure the fund is not exposed to inappropriate risk.

Should you die before age 75 and you have not taken an income and / or tax-free lump sum, your fund is classed as 'uncrystallised' and can generally be passed to your spouse or partner without deduction of tax.

The rules on death both pre and post age 75 are explained in the diagram below:



"I'd like to thank you for all the work and your patience in sorting my pension investments – also to say what a pleasure it has been working with you."

There are a several advantages to delaying taking money from your pension pot:

- The money in your pension remains invested in a tax-efficient environment
- Annuity rates generally increase the older you get, although this rise can sometimes be outweighed by falls in the general level of Annuity rates
- If you plan to buy an Annuity, deferring the purchase may allow you to qualify for an Enhanced Annuity if you start to suffer from ill health
- An alternative income stream, perhaps from other investments, may provide a more tax-efficient income
- Means-tested state benefits may still be available
- Usually, your pension assets are outside of your estate for Inheritance Tax purposes

As you would expect, there are a number of disadvantages to deferment:

- Future Annuity rates cannot be guaranteed and may have fallen by the time you come to buy an Annuity, of course the reverse could also be true
- You will not receive the benefit of the income stream that would otherwise have been created
- If the fund remains invested, the value could fall
- Inflation could start to erode the value of your fund if returns do not keep pace with rising prices
- Delaying taking pension benefits may mean other capital must be used to provide an income. This capital may be in equally tax-efficient investments such as ISAs (Individual Savings Accounts)

Lifetime Annuity

A Lifetime Annuity is the only option which guarantees an income for the rest of your life, however long that may be.

Historically, this is the most common way to take retirement benefits, taking the maximum tax-free cash sum available and using the balance of the fund to buy a Lifetime Annuity. The income is provided on a level or increasing basis for the rest of your life and is taxed as earned income.

Annuity rates are based on your age, health, life expectancy and the level of gilt yields at the time you buy your Annuity. Payments are made at agreed intervals, such as monthly or yearly, until your death.

You can buy your Annuity from the provider of your existing pension or shop around for a potentially better rate using the 'Open Market Option' facility. If you plan to buy an Annuity, it is crucial that you compare the rate offered by your current pension provider, with that which could be bought in the open market.

There are a variety of options which need to be considered, each of these will impact the Annuity rate and income you receive.

You can maximise income by limiting the number of additional options selected. However, it is important that the options you select provide you with an Annuity which is suitable for your circumstances.

An Annuity with no options included will stop when you die and never increase in value. Any options selected at outset cannot be changed once the contract has been set up. You must consider these options carefully and understand that a Lifetime Annuity income cannot be altered in the future to match changing circumstances.

The main options available include:

Income frequency

Typically, Annuity income is paid monthly. However, it is possible to have income paid at a different interval, such as annually, half yearly, or quarterly. Income can also be paid at the beginning of each time period, or at the end, this is commonly known as 'in advance', or 'in arrears'.

If income were to be paid annually in arrears, a slightly higher level of income would be payable than for an Annuity with income payable monthly in advance.

Guaranteed period

A Lifetime Annuity guarantees to pay an income for the rest of your life. However, including a guaranteed period means that if you die shortly after retirement, the full income continues to be paid to any beneficiary for the remainder of the guaranteed period.

For example, if you die after two years, the balance of the income due during a five year guaranteed period, i.e. three years, will be paid to your nominated beneficiary.

Typical options are to include a five or 10-year guarantee from the date of Annuity purchase. However, since the changes in 2015, longer guarantee periods, of up to 20 or 30 years, to suit a variety of needs, are becoming increasingly common.

If you select a guaranteed period you should note that it does not start from the date of death but from the date the Annuity is set up.

Indexation

If you wish to protect the real value of your income, it is necessary to include annual increases when you buy your Annuity.

Indexation is normally set at a fixed percentage, or at a level to match the Retail Price Index (RPI) or Consumer Prices Index (CPI) with increases taking effect on the annual anniversary of the plan.

A level income is particularly exposed to inflation risk. This means that the buying power of your income will be impacted year on year, as the cost of goods and services rise.

Establishing an Annuity with an increasing income will have a significant impact upon the level of starting income, which is why most people chose to buy a level Annuity. There can be as much as a 30% reduction of initial income for including a 3% increasing income and up to 50% if RPI is chosen. This means consideration should be given to the amount of time needed to catch up with the income that would have been paid from a level Annuity.

Spouse's / partner's pension

If you are married, in a civil partnership or have a financially dependent partner, the Annuity can be set up to continue paying an income to them after you have died. Indeed, due to a change in the rules, an Annuity can now be set up to pay the ongoing income to almost anyone you choose.

Following your death, the income can continue at the full rate, or at a reduced level, generally, two-thirds or a half.

Selecting this option may reduce your starting income and cannot be changed. Therefore, if your partner dies before you, the Annuity terms will remain the same and the proportion of the purchase price used to buy the spouse's pension will have been wasted.

However, this option can provide valuable peace of mind.

“ Sarah has been a fantastic adviser and would recommend to anyone seeking sound and independent pensions advice. ”

Enhanced Annuities

Overall, average life expectancy is increasing, but many people reaching retirement age are in poor health and their individual life expectancy may be less than the 'average' used in traditional Annuity calculations.

An Enhanced Annuity considers any health problems you may suffer from, or lifestyle issues which could reduce your life expectancy. It can therefore give you a higher income.

Typical conditions which will mean you qualify for an Enhanced Annuity, include, but are not limited to:

- The effects caused by long-term smoking
- Alcohol consumption
- High cholesterol
- High blood pressure
- Angina
- Circulatory or breathing difficulties
- Cancer
- Heart attack
- Stroke.

Many other illnesses, which you could be living with quite happily on a daily basis, may mean you qualify for an Enhanced Annuity.

It is essential to disclose any medical conditions to your adviser, no matter how trivial you think they are, to confirm whether you could qualify for an Enhanced Annuity.

An Enhanced Annuity works a little like life insurance in reverse. When you take out life insurance, the healthier you are, the cheaper the cost of cover. However, with an Enhanced Annuity the less healthy you are, the more likely you are to be able to enjoy a better annuity rate and higher income.

Once you have been medically underwritten and the Annuity is purchased, the income will then continue to be paid for the remainder of your life. If this is longer than anticipated, the Annuity provider will continue to pay the income until death.

It is therefore essential that when considering buying an Annuity you provide full details of your health, including any medication that you are currently taking. Furthermore, if you are taking a joint-life Annuity, the same information should be provided about the other annuitant, usually your spouse, partner or civil partner.

Guaranteed Annuity Rates

Some older style Personal Pensions or Retirement Annuity Contracts (RACs) sometimes include Guaranteed Annuity Rates (GARs).

GARs provide potentially higher Annuity rates than are offered by today's marketplace. If your pension includes a guaranteed rate you may have to take the Annuity in the structure dictated by the contract, which may or may not suit your circumstances.

Such terms are often very attractive and should be considered carefully. When we are advising clients, we will always check whether their existing pension has Guaranteed Annuity Rates before we recommend an alternative option.

Advantages of a Lifetime Annuity

- You have immediate access to some or all the tax-free cash available
- The income is guaranteed for life
- A choice can be made between a level or increasing income
- You have no exposure to investment risk
- A surviving spouse's / dependant's pension can be included to carry on being paid after your death
- Income payments can be 'guaranteed' for a certain period from the Annuity contract start date, so that they will continue to be paid for the remainder of the selected fixed period after your death
- The risk of you living longer than expected is transferred to the Annuity provider
- Depending on how long you live, you may get back more in income than you used to buy the Annuity in the first place
- They are relatively simple plans and do not involve ongoing planning and costs
- If you suffer from ill health, or are affected by other lifestyle factors, this can improve the level of income you receive

Disadvantages of a Lifetime Annuity

- The pension you receive depends on Annuity rates at the time of purchase, which are currently low when compared to historical rates
- Options selected at outset, which will have reduced your starting income, may never be used. For example, if you choose a spouse's or partner's pension, and your spouse or partner predeceases you, then the cost of this benefit has been lost
- You will not benefit from improved Annuity rates in later life, which may be generated by worsening health or by simply growing older
- Unless you include indexation, you are exposed to the risk of inflation eroding the value of your pension income
- An Annuity may represent poor value for money should you die early and do not opt for Value Protection or a Guaranteed Period
- The more features you choose, such as guaranteed periods, indexation and spouse's benefit, the lower your starting income will be

“ I found Bev's advice invaluable. I really appreciated her knowledge and competence which inspired confidence. ”

Investment Linked Annuities

Investment Linked Annuities typically invest in Unit Linked or With Profits investment funds. The level of income received is linked to how well the investments perform. Good investment conditions may produce an increasing income, whilst poor investment returns are likely to have a negative effect on the level of future income.

Investment Linked Annuities are like conventional Lifetime Annuities in some respects. You will need to make some decisions which are irreversible, such as whether you wish to include a spouse’s pension or a guaranteed period.

The income that you receive each year is not guaranteed, although many products provide a minimum level of income each year.

The actual income you receive will be directly influenced by investment returns and investment risk means that your income could be less than that provided via a conventional Lifetime Annuity.

However, there may be sufficient investment reward to produce an income higher than a conventional Lifetime Annuity.

Unlike Lifetime Annuities, Investment Linked Annuity contracts differ massively in structure and type; taking advice and guidance with these contracts is therefore essential.

Advantages of an Investment Linked Annuity

- You have immediate access to some or all the tax-free cash available
- You can have some flexibility in the starting level of income you will receive, but this will then fluctuate in line with investment returns in later years
- If investment returns are above expectations, you may have the opportunity to grow your retirement income
- Some contracts may allow you to vary your level of income, allowing you to match income tax bands, offset other incomes, or take ad hoc income payments
- Subject to the risks outlined above, income payments can be ‘guaranteed’ for a certain period, so that they will continue to be paid for the remainder of the selected fixed period after your death
- Depending on how long you live, you may get back more in income than you used to buy the Annuity in the first

Disadvantages of an Investment Linked Annuity

- Investment returns may be negative and can reduce the future level of income available to you
- The investment risks must be fully understood
- Your income may fluctuate, as the income payable in any one year is dependent on the rate of investment return achieved and the initial assumptions made
- It is possible that you may get less back, than the amount of money you invested in the Annuity, if you die early
- This is a more complex type of plan and requires ongoing advice which will need to be paid for

Fixed Term Annuities

Fixed Term Annuities provide a guaranteed level of income for a specific term. At the end of the term a Guaranteed Maturity Amount (GMA) is provided, with which a further Fixed Term Annuity can be purchased. Alternatively, other options such as conventional Lifetime Annuity, Investment Linked Annuity or Income Drawdown could also be used.

This approach provides flexibility and enables you to enjoy certainty regarding your income payments, as you would with a Lifetime Annuity, but only for the term selected, rather than throughout your life.

The Fixed Term Annuity provides future flexibility by offering the ability to change the amount and shape of income at agreed intervals.

There is no minimum or maximum level of income which needs to be taken, meaning that if required, you can take the tax-free cash alone and defer income to a later time.

A Fixed Term Annuity can be free of investment risk. The income payments are guaranteed, as well as the GMA available at the end of the term, which is known at the outset of the arrangement.

Spouse's / partner's pension

Again, as with a Lifetime Annuity, if you are married, in a civil partnership or have a financially dependent partner, the Fixed Term Annuity can be set up to continue paying them an income after you have died.

This can be at the full rate, or at a reduced level. For example, two-thirds or a half. However, this continuing income is only payable for the remainder of the fixed term, with the GMA then being available for reinvestment by the surviving spouse / partner at the same selected percentage level of the income. For example, if you select a 50% Spouse's Pension, he or she would receive 50% of the GMA.

Including a guaranteed period

It is possible to structure a Fixed Term Annuity to ensure the income will be paid for a specified number of years from the start of the contract, even if the investor dies in the early years. However, it is important to note that the guarantee period starts at the beginning of the fixed term, not from the date of death.

We would recommend selecting the appropriate structure for death benefits should be handled in conjunction with a professional retirement adviser.

Exit strategies

Fixed Term Annuity contracts expire at the end of the agreed term. At that point, you have the opportunity to review and select the most appropriate income structure and ongoing retirement income option at the time.

With some products, it is not possible to exit the contract during the fixed term, whereas others allow you to purchase an enhanced Lifetime Annuity should you become eligible during the fixed term.

Advantages of a Fixed Term Annuity

- You have immediate access to some or all the tax-free cash available
- You can choose to take just the tax-free cash and no income
- There is no exposure to investment risk
- Your income is guaranteed for the fixed term
- The Guaranteed Maturity Amount (GMA) is known from the outset
- At the end of the fixed term, you can use the GMA to purchase any allowable form of pension income product suitable for you at that time, providing considerable flexibility
- You may be eligible for an Enhanced Annuity if your health has worsened in the period between buying the Fixed Term Annuity and the maturity date of the plan. This may lead to a significantly higher income
- The Value Protection death benefit, if selected, ensures that your spouse or partner and/or dependants, or estate, receive the full value of the original purchase price of the Annuity, less the value of any income payments actually paid; tax is only payable if you die after the age of 75
- Income payments can be guaranteed for a certain period so they will continue to be paid for the remainder of the fixed period after your death. However, this cannot be used in conjunction with Value Protection
- You can choose for a surviving spouse's / dependant's pension to carry on being paid after your death, which will also enable him or her to receive the appropriate level of GMA. For example, if you select a 50% Spouse's pension, he or she will receive 50% of the GMA.

Disadvantages of a Fixed Term Annuity

- Your pension options are fixed for the term selected, and cannot be altered to take account of changes in personal circumstances during the fixed term
- The pension you receive is dependent upon Annuity rates at the time of purchase, which are currently low when compared to historical rates
- Whilst the GMA is guaranteed, the actual amount of income in the future will be dependent upon the prevailing Annuity rates at the time. Your future income may be lower or higher than the current level of income
- Unless you include inflation proofing, you are exposed to the risk of inflation eroding the value of your income during the contract term
- At the end of the fixed term, you may need advice which is likely to incur a cost

Flexi Access Drawdown

Flexi Access Drawdown, or FAD for short, is the new term for drawdown pension, previously known as Capped or Flexible Drawdown.

Flexi Access Drawdown allows you, from the age of 55, to leave your pension pot invested and withdraw as much or as little as you want over any period. Up to 25% of the fund can be taken as a tax-free lump sum. Any additional amounts withdrawn, whether lump sums or income, will be added to any existing income and then taxed.

If you decide not to take the tax-free cash but take an income, the tax-free lump sum cannot be withdrawn later.

Money not withdrawn continues to be invested. This means you continue to potentially benefit from any fund growth in a tax-efficient environment, but conversely you remain exposed to investment risk and potential losses.

After you have started Flexi Access Drawdown you will be able to make further pension contributions. However, if you take any income or withdraw a lump sum, in addition to the tax-free lump sum, you will have a reduced annual allowance of £4,000 for future contributions to defined contribution plans, for example Personal Pensions or Self-Invested Personal Pensions. This is known as the Money Purchase Annual Allowance (MPAA).

“Sarah is reliable and trustworthy and we will definitely be using her again. I recommend Sarah if you are looking for honest, straightforward and practical financial advice.”

If you already have a Capped Drawdown arrangement, the rules are different and we would suggest you speak to one of our retirement specialists if you are intending to make a contribution.

Where you remain a member of a Final Salary or Defined Benefit occupational pension scheme, you will also benefit from the standard annual allowance for these contributions.

If you die with funds remaining in a Flexi Access Drawdown arrangement, your beneficiaries will have several options:

- Continue to take income and / or lump sums
- Buy an annuity
- Take the remaining fund as a lump sum

The amount of tax your beneficiaries will pay depends on the date of your death and is explained in the following flow chart:

Advantages of Flexi Access Drawdown

- You have immediate access to some or all the tax-free cash available
- Flexi Access Drawdown avoids the need to purchase a Lifetime Annuity
- You have complete flexibility to withdraw income and / or lump sums to suit your requirements, allowing you to influence the level of tax you pay on that income
- Your pension fund, less the plan charges and income taken from it, remains fully invested, allowing the potential for capital growth in a tax efficient environment
- On death, your beneficiaries will have a wide range of options to choose from to suit their own needs
- Difficult decisions, such as whether to purchase an Annuity can be deferred until your personal circumstances or objectives become clearer
- You may become eligible for an Enhanced Annuity in the future

Disadvantages of Flexi Access Drawdown

- There is no guarantee that your income will be as high as that provided by an Annuity
- Future investment returns are unknown and the value of funds will fluctuate over time
- A combination of poor investment returns and high-income withdrawals can reduce the value of your remaining fund. Withdrawing too much income in the early years may have an adverse effect on preserving the pension purchasing power or preserving the capital value of your fund
- The value of the remaining fund may not be enough to maintain income at the same level as an Annuity bought at the outset
- Flexi Access Drawdown can be a complex arrangement requiring annual reviews, decisions to be made on desired income levels and an appropriate investment strategy. It is likely to require ongoing advice with ongoing advice costs

“ Well, a big thanks for all your helpful advice and running this all through so smoothly. Of all the financial groups I contacted you were far and away the most sensible & proactive, and able to communicate in non-geek-pension-speak. ”

> "I would like to take this opportunity to thank you for the outstanding way in which you have advised me and set up my pension plan."

Uncrystallised Funds Pensions Lump Sum (UFPLS)

This option was introduced in April 2015 following the implementation of Pension Freedom.

Uncrystallised Funds Pension Lump Sum, or UFPLS for short, allows you to withdraw a single or series of lump sums from your existing pension without the need to move the funds into a Flexi Access Drawdown plan first.

25% of each payment under UFPLS may be taken tax free with the balance taxed at your marginal rate of income tax.

Some pension providers may not offer UFPLS as an option. In these circumstances, it is therefore necessary to transfer to an alternative arrangement unless you wish to withdraw the entire fund.

To take advantage of UFPLS there are several, sometimes complex conditions, which need to be met:

- You must be aged 55 or over or, if younger, meet ill-health conditions
- The payments come from a money purchase plan, such as a Personal Pension, Stakeholder or SIPP, which is uncrystallised, that is to say income and / or lump sums have not already been taken from it
- If you are aged under 75, you must have more Lifetime Allowance remaining than the lump sum required
- If aged over 75, you must have some Lifetime Allowance remaining

There are also a few circumstances where UFPLS is unavailable:

- If you have Enhanced and/or Primary Protection together with registered tax free cash of more than £375,000, immediately before the lump sum is paid
- If the UFPLS would be coming from a pension that contains a disqualifying pension credit, such as a pension credit on divorce, that originates from previously crystallised funds
- If you have a Lifetime Allowance enhancement factor on your pension benefits and the available lump sum would be less than 25% of the proposed amount of the UFPLS

Advantages of UFPLS

- It should allow you simple and easy access to your money held within your pension fund
- It is an ideal option for people with small pension funds who simply want to have their entire pension pot paid out in one lump sum
- Money not withdrawn will continue to be invested in a tax-efficient environment

Disadvantages of UFPLS

- Although UFPLS was introduced by the Government, pension providers are not being forced to offer it as an option. If your provider doesn't offer UFPLS you may have to move your pension pot elsewhere
- Tax will be payable on 75% of the amount withdrawn, although it may be possible to reduce this amount if payments are staggered over different tax years. This option, which the Government billed as treating your pension like a bank account, may increase the temptation to keep dipping into your pension pot, which could leave you unable to meet your expenditure in years to come. Providers are likely to impose a minimum amount that must be withdrawn each time you access your funds.
- It is likely that some people who withdraw cash from their pensions early in the financial year may be taxed too highly by HM Revenue & Customs (HMRC). For example, if you receive a payment in April, HMRC will treat it as if it expects you to get the same amount every month for the rest of the tax year. If you only plan to make one withdrawal in the year, this could mean you pay too much tax and have to claim it back or wait for it to be automatically repaid
- The remainder of your pension fund not taken as income and / or a lump sum will be subject to future investment returns, which are unknown and the value of funds will fluctuate over time

State Pension

The State Pension is intended to ensure that everyone has a basic amount of money to support them in their old age. The amount you will receive is based on your National Insurance (NI) record and to receive the full basic State Pension you will need to have 35 years' worth of contributions.

The State Pension rules are regularly amended, so much so that most people don't know what they will get, and from when.

Obtaining regular updates on the State Pension you will receive, and from what age, are a vital part of retirement planning. This can be done easily by clicking **here**.

> **"A potentially worrying situation made easy, painless and satisfactory. Many, many thanks to Bev."**

Eight things to think about before you retire

We want to make sure you get the best possible result from your pension savings; we also like to offer practical help and ideas that actually make a difference.

We are specialists in what is known as the 'At Retirement' market and we help many of our clients convert their pension savings into income.

As this guide shows, there are many ways to do this and a different solution is required for each and every individual.

However, we find that whilst more and more people are realising the value of advice and researching wider options than just an Annuity, there are many things that could have been done in the months and years leading up to retirement that would have improved the income available.

Here are just a few practical steps you could take to help you maximise your income in retirement.

#1: Take another look at how your pension is invested

We see many clients who have remained invested in equities, also known as stocks and shares, right up until the day that they want to start taking an income from the pension.

There are countless times when we have seen an individual who wants to purchase an Annuity, only to find that they are getting a lower income than they might have previously done, because the stock market has dropped, and therefore the value of their pension has fallen.

In the five years leading up to the time when you are likely retire, take time to carefully consider how it is invested.

Remaining in equity based funds may be the right thing to do. However, as a rule of thumb, the more likely you are to purchase an Annuity, perhaps because of the size of your fund or desire to avoid the risk associated with Flexi Access Drawdown, the more you should consider moving to safer investments.

#2: Remember the State Pension

The State Pension can be an extremely valuable source of income, but we find many people do not know how much they will be entitled to.

Even worse, although perhaps understandably with all the changes which have taken place, some people don't even know what their State Pension Age is.

The State Pension may be derided by many; however, it can form a significant part of your income in retirement and should be included in all planning. It is also index linked, and will rise in line with inflation, earnings or 2.5%, whichever is higher, making it even more valuable.

It also makes sense to check that you have paid sufficient National Insurance to qualify for a full State Pension.

Of course, you could just call us and we'll happily do the hard work for you.

#3: Use the information you get about your State Pension carefully

So, you have found out what your State Pension will be, what next?

If you do not qualify for a full State Pension, consider whether it is worth making additional National Insurance contributions.

Now consider how the amount of State Pension that you will be entitled to affects other PAYE income.

For example, we see many situations where a couple have a State Pension and other pensions, whether they be private or occupational, but these are all held by one of the couple, usually the husband, with the partner having no pension provision.

This is not tax efficient. The partner with no pension will not use their Personal Allowance and the partner with the pensions will be paying more tax than is necessary.

It is not possible to transfer pensions from one person to another, except on divorce. However, there are ways, such as reallocating contributions from one person to the other, to try and equalise pensions, so that your income in retirement is more evenly split and therefore more tax efficient.

#4: Consider paying more into your pension

This might sound like an obvious piece of advice and not particularly imaginative, but take a step backand consider the benefits.

It's true that the closer to retirement the additional contribution is made, the less time it will have to grow, but consider the tax relief benefits. As you probably know, contributions to your pension are eligible for tax relief, meaning that for a basic rate tax payer, for every £80 personal contribution that is made; £100 is credited to the pension, the £20 difference being tax relief.

If you are a higher rate taxpayer, even more can be claimed.

There are of course disadvantages to a pension, although Pensions Freedom has addressed many of these problems. However, the tax relief that contributions are eligible for can make them look very attractive, indeed, we see many people making quite sizeable contributions just on the strength of the tax relief that is available.

Further contributions could also be the answer to balancing up pension provision between spouses or partners. If one spouse will not fully use their personal allowance in retirement, consider making pension contributions in his or her name.

To obtain tax relief he or she will need to have earned income of their own. Serious consideration should be given to in whose name pension contributions are made.

#5: Avoid any nasty surprises

If you decide an Annuity is the right choice for you, it can take some weeks to shop about for the best rate and put the Annuity in place, especially if you do it by yourself.

During this time, if you are invested in an equity based fund, we would strongly suggest that you consider switching into a Cash or Deposit based fund to minimise any nasty surprises. Nasty surprises such as the Eurozone crisis tend to creep up on us without warning and could have a detrimental effect on your pension fund, especially if you are invested in equities, just when you need it most.

Most pension providers offer a Cash or Deposit fund, which will provide a short term safer haven for your money whilst you make up your mind about the best thing to do.

Yes, the market may increase whilst you are invested in Cash, but it could equally move downwards. A reduction in value is far more dangerous; after all, you are potentially stuck with the results of a fall in share prices for a very long time.

> “ A shining light in a comparative world of financial darkness. ”

#6: Budget carefully

Clients often ask us if their pension fund is ‘enough.’ It’s not a question we can answer because everyone has different financial aspirations and needs. A great starting point is to sit down with your bank statements and make a list of all outgoings from your household income; split it down into essentials, lifestyle and luxury. Then it’s a case of having a look at how closely your income is going to match your outgoings and if there is a shortfall, then what you cut back on.

#7: Take advice

There is no substitute for good solid financial advice with an adviser who will run through all your options and the pros and cons of each. Some of the decisions you may make are irrevocable so it’s important they are right.

#8: Plan, plan, and plan some more

All the steps outlined above, along with making the right decisions when you do retire, will help you increase your income in retirement.

However, you need a coherent, considered strategy to get the best income possible in retirement and to work out exactly which of the steps outlined are right for you.

An Independent Financial Adviser can be invaluable when it comes to helping you plan your retirement strategy, and it needs just this, planning, the more planning you do, the better the result will be.