



LAMPIERS
FINANCIAL PLANNING

Guide to

Retirement Planning

Creating the opportunity to enjoy
your life after work

MAY 2018



Guide to Retirement Planning

Creating the opportunity to enjoy your life after work

Welcome to our *Guide to Retirement Planning*. In recent years, retirement has become more about the opportunity to enjoy your life after work. Your finances are a huge part of achieving that. With the maximum State Pension currently £8,546.20 (2018/19) a year, you'll need to decide if this is going to be enough for you to live on when you retire.

However you see your retirement, it's important not to worry about your money running out. We'll help you to establish your goals and priorities and review your existing pensions and investments, calculating expected future income and how much you might need to contribute.

IT'S NEVER TOO LATE TO GET STARTED

When planning for retirement, the truth is that the earlier you start saving and investing, the better off you'll be, thanks to the power of compound interest. And even if you began saving late or have yet to begin, there are steps you can take to increase your retirement savings. It's never too late to get started. Life changes when you retire – and so does how you spend your money. Whatever your plans, it's important to keep on top of things and think about the lifestyle you want.

Everybody's circumstances are different, but the key consideration for most people when they think about retiring will come down to factors such as: how much money they think

they'll need in retirement, if they plan to phase their retirement by working part-time, their life expectancy and health, and how much money they've saved in pensions and other investments.

HELPING GIVE YOU MORE PEACE OF MIND

Whether it's saving for retirement or living in retirement, we can help give you more peace of mind with a financial plan that is able to remain on track as your life continues to change. In this guide, we consider the various options you have when it comes to taking money from your pension pot.

You can choose one or a combination of these options, some of which will affect you for the rest of your life, which is why it's essential you obtain professional financial advice.

ARE YOU MAXIMISING YOUR RETIREMENT OPPORTUNITIES?

Changes to pension rules in recent years mean now could be a good time to revisit your provision for retirement planning. Whether you are in the process of building your pension pot or getting ready to retire, we can advise you on all aspects of your retirement planning. To discuss how to maximise your retirement opportunities, please contact us.

Contents

- 02 WELCOME**
Creating the opportunity to enjoy your life after work
-
- 04 PENSION FREEDOMS**
Accessing your entire pension flexibly
-
- 05 TAX RELIEF AND PENSIONS**
Annual and lifetime limits
-
- 06 PENSION LIFETIME ALLOWANCE**
Putting a value on your pension savings in the future
-
- 07 STATE PENSION**
New changeover arrangements designed to be simpler than the old system
-
- 08 DEFINED CONTRIBUTION PENSION SCHEMES**
Building up a pot of money to provide an income in retirement
-
- 09 DEFINED BENEFIT PENSION SCHEMES**
Paying out a secure income for life which increases each year
-
- 10 PERSONAL PENSIONS**
Saving tax-efficiently for retirement
-
- 11 SELF-INVESTED PERSONAL PENSIONS**
Providing greater flexibility with the investments you can choose
-
- 12 PENSION CONSOLIDATION**
Managing your retirement savings in one place
-
- 13 USING YOUR PENSION POT**
More choice and flexibility than ever before
-
- 14 TAKING YOUR PENSION**
Using different parts of one pension pot or using separate or combined pots
-
- 17 BUYING AN ANNUITY**
A regular retirement income for the rest of your life
-
- 18 DECIDING WHAT TO DO WITH YOUR SAVINGS IN RETIREMENT**
Make sure you don't run out of money or face a reduced standard of living
-
- 19 EMBRACING THE BENEFITS OF RETIREMENT**
New lease of life and new-found time
-



Pension freedoms

Accessing your entire pension flexibly

How your future looks will ultimately be determined by having the right vehicle in place for your retirement. As you approach retirement and start thinking about when and how to take your money, it's a good idea to check what pensions you have and what they might give you. The rules around pensions are continuously changing, which means it's essential to receive regular professional advice on how to build up and invest your pension effectively.

The concept of an 'ageing population' may feel overused, but the fact is that advances in medicine and generally improving living standards are combining to increase how long we can expect to live. The backdrop to this is a tightening of the welfare state, including the basic State Pension. We need to make our own provision if we are to have any chance of a comfortable retirement.

RADICAL CHANGES TO PENSIONS

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

The pension freedoms, announced by the then Chancellor, 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.

Tax relief and pensions

Annual and lifetime limits

When it comes to managing money, one of the things some people find most difficult to understand is the tax relief they receive on payments into their pension. 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, in the tax year 2018/19 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. 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.

But there is an exception to this standard rule. If you have a defined contribution pension and you start to draw money from it, the annual allowance is reduced by £1 for every £2 income where adjusted income exceeds £150,000.

THE MONEY PURCHASE ANNUAL ALLOWANCE (MPAA)

In the tax year 2018/19, if you start to take money from your defined contribution pension, this can trigger a lower annual allowance of £4,000. 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 pension lifetime allowance puts a top limit on the value of pension benefits that you can receive without having to pay a tax charge.

The pension lifetime allowance is £1,030,000 for the tax year 2018/19. 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 has been 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.

Pension lifetime allowance

Putting a value on your pension savings in the future

The pension 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 £1,030,000 in the tax year 2018/19.

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 standard pension lifetime allowance increases annually in line with the Consumer Prices Index (CPI).

CHARGES IF YOU EXCEED THE LIFETIME ALLOWANCE

It's important to think about what the value of your pension savings could be in the future. If the cumulative value of the payouts from your pension pots, including the value of the payouts from any defined benefit schemes, exceeds the pension 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.

State Pension

New changeover arrangements designed to be simpler than the old system

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 changeover arrangements which you need to know about if you've already made contributions under the old system.

You can claim the new State Pension at State Pension age if you have at least ten years National Insurance contributions and are:

- A man born on or after 6 April 1951
- A woman born on or after 6 April 1953

If you were born before these dates, you will receive the old State Pension instead.

HOW MUCH STATE PENSION WILL I GET?

The full amount you can get under the new State Pension will be £164.35 per week in 2018/19, but this depends on your National Insurance (NI) record.

If you have:

- 35 years or more of NI contributions, you will get the full amount
- Between ten and 34 years of contributions, you will receive a proportion of the pension
- Less than ten years of NI contributions, you aren't eligible for the new State Pension

HOW IS MY PENSION AMOUNT WORKED OUT?

If you have already built up NI contributions under the pre-2016 system, you'll be given a 'starting amount'.

This will be whichever of the following that's higher:

- Either the amount you would have received under the pre-2016 system, including basic and additional pension
- Or the amount you would get if the new State Pension had been in place at the start of your working life

If your 'starting amount' is more than the full amount of the new State Pension, any amount over that level will be protected and paid on top of the full amount when you start to claim the new State Pension.

If your starting amount is less than the full amount of the new State Pension, you may be able to build up a higher level of new State Pension through contributions and credits you make between 6 April 2016 and when you reach State Pension age.

WHAT HAPPENS IF I WAS IN A 'CONTRACTED OUT' SCHEME?

When working out the 'starting amount' for your State Pension, a deduction will be made if you have been in a 'contracted out' personal or workplace pension scheme – for example, if you have been a member of a public sector pension.

The deduction is made because in this case, normally you will have paid NI contributions at a lower rate because you were paying into a contracted out pension instead.

CAN I USE MY PARTNER'S CONTRIBUTIONS?

The State Pension is based on your own contributions, and in general you will not be able to claim on your spouse or registered civil partner's contributions at retirement or if you are widowed or divorced. However, if you're widowed, you may be able to inherit part of your partner's additional State Pension already built up.

If you are a woman who paid the reduced rate 'married woman's contributions', you may be able to use these contributions towards the State Pension.

CAN I INCREASE MY STATE PENSION?

If you're not on course to get a full State Pension, there may be some things you can do to help boost your pension.

IF YOU DON'T CLAIM THE STATE PENSION STRAIGHT AWAY

You don't have to claim your State Pension when you reach State Pension age. This is known as 'deferring', and could mean that you get extra State Pension when you do claim.

How much extra you get will depend on how long you defer claiming it. During 2018/19, eligible pensioners will be nearly £250 better off by the end of the tax year. Their annual income will be increased from £8,296.60 to £8,546.20.

IF YOU'RE A CARER

If you're a carer and don't work, this could affect your NI record and impact your State Pension amount. If you care for someone at least 20 hours per week, you could get Carer's Credit to help maintain your NI record.

IF YOU LIVE ABROAD OR USED TO

If you live abroad or used to, you may have a gap in your NI record which could affect the amount of State Pension you'll get.

You may be able to get a pension from the country you live/lived in. Contact the department responsible for State Pensions in that country. If the country is in the European Economic Area or Switzerland, then the DWP may be able to help you contact them.

If you reach State Pension age after 6 April 2016, you might be able to use the time you worked abroad to make up some of the qualifying years that you need to get the new State Pension. This depends on the country you lived in though.

IF YOU HAVE GAPS IN YOUR NI RECORD

If you have gaps in your record and want to boost your State Pension, you could make voluntary NI contributions. How much these are and if you are eligible will depend on your individual circumstances.

A large, vibrant hot air balloon in shades of orange and red is shown rising into a bright, hazy sky at sunrise. Below the balloon, the silhouettes of a city with many spires and domes are visible against the low sun. The overall scene is warm and atmospheric.

Defined contribution pension schemes

Building up a pot of money to provide 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, but you don't have to take this, and it isn't your only option.

Defined benefit pension schemes

Paying out a secure income for life which increases each year

A defined benefit pension scheme is one where the amount paid to you is set using a formula based on 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'), or 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.

CALCULATING 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.

OPTIONS FOR TAKING YOUR PENSION

When you take your pension, you can usually choose to take up to a 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.

TAKING YOUR PENSION WITHOUT RETIRING

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.

PENSION INCOME AT THE DATE OF YOUR DEATH

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.

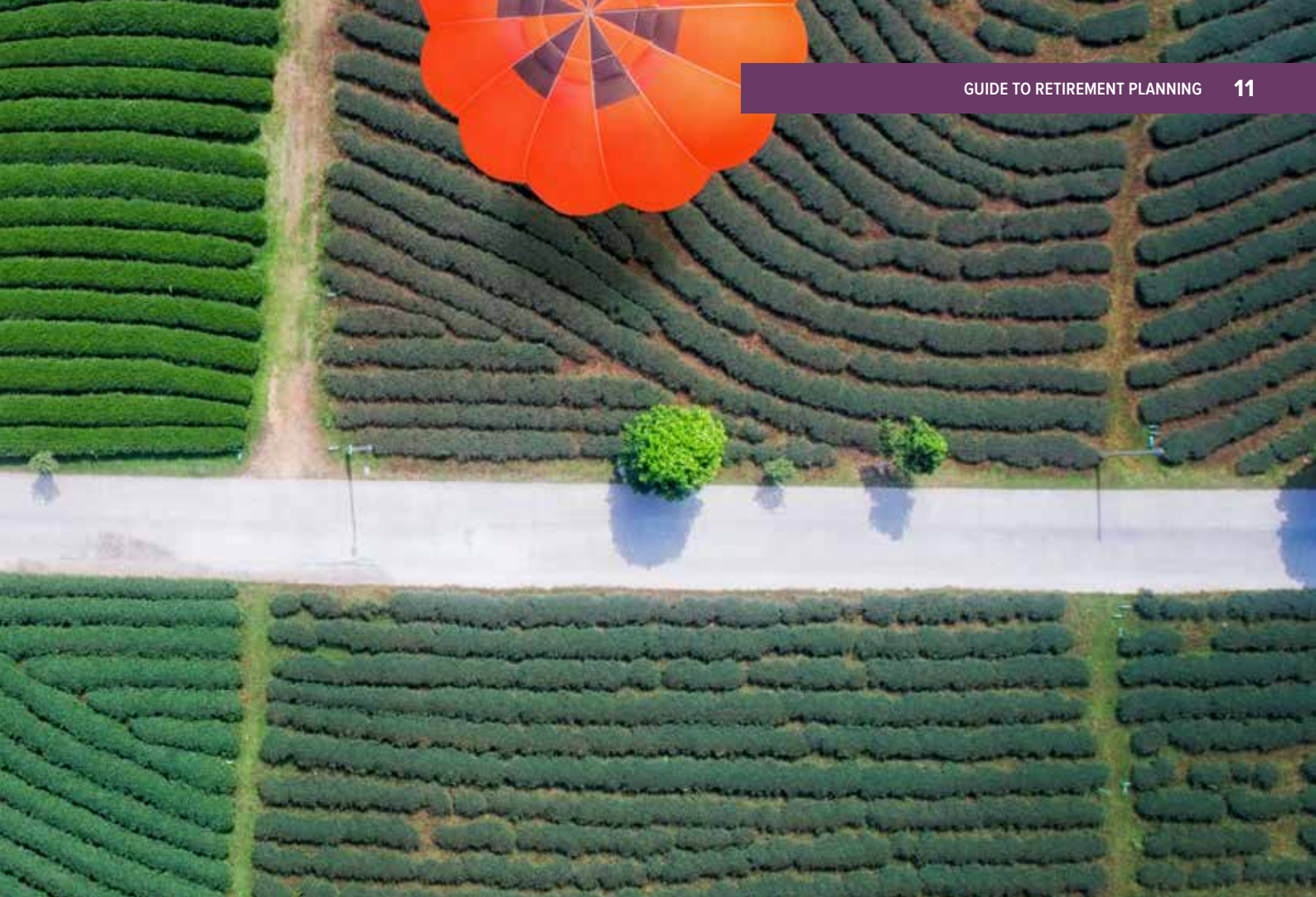
Your pension provider will claim tax relief at the basic rate and add it to your pension pot. If you're a higher-rate taxpayer, you'll need to claim the additional rebate through your tax return. You also choose where you want your contributions to be invested from a range of funds offered by your provider.

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.



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.



Pension consolidation

Managing your retirement savings in one place

By the time we have been working for a decade or two, it is not uncommon to have accumulated multiple pension plans. There's no wrong time to start thinking about pension consolidation, but you might find yourself thinking about it if you're starting a new job or nearing retirement.

Consolidating your pensions means bringing them together into a new plan, so you can manage your retirement saving in one place. It can be a complex decision to work out whether you would be better or worse off combining your pensions, but by making the most of your pensions now, this could have a significant impact on your retirement.

RETIREMENT SAVINGS IN ONE PLACE

Whenever you decide to do it, when you retire it could be easier having a single view of all of your retirement savings in one place. However, not all pension types can or should be transferred. It's important that you obtain professional advice to compare the features and benefits of the plan(s) you are thinking of transferring.

Some alternative pension options may offer the potential for a better investment return than existing pensions – giving the opportunity to boost savings in retirement, without saving any more. In addition, some people might benefit from moving their money to a pension that offers funds with less risk – which may not have been available before. This could be particularly important as someone moves towards retirement, when they might not want to take as much risk with their money they've saved throughout their working life.

KEEPING TRACK OF THE CHARGES

If someone has several different pensions, it can be difficult to keep track of the charges they're paying to existing pension providers. By combining pensions into a new plan, lower charges could be available – providing the opportunity to further boost retirement savings. However, it's important to fully understand the charges on existing plans before considering consolidating pensions.

Combining pensions into one pot also reduces paperwork and makes it easier to estimate

the income someone can expect to receive in retirement. However, before the decision is made to consolidate pensions, it's essential to make sure there are no loss of benefits attributable to an existing pension.

Review your pension situation regularly
It's essential that you review your pension situation regularly. If appropriate to your particular situation, and only after receiving professional financial advice, pension consolidation could enable existing policies to be brought together in one place, ensuring they are managed correctly in line with your wider objectives.

Gone are the days of a job for life. So many of us may have several pensions accumulated over the years – some of which we may have left with former employers and forgotten about! Don't forget your pension can and should work for you to provide a better quality of life when you retire. Looked after correctly, it can enable you to do more in retirement, or even start your retirement early.

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 PENSION LIFETIME ALLOWANCE

Extra tax charges or restrictions might apply if your pension savings exceed the lifetime allowance (currently £1,030,000), 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: 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 pension lifetime allowance (currently £1,030,000), 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, and also where you expect to live when you retire could 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 – 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 £1,030,000 when you access your pot (2018/19 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 (called 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 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.

Deciding what to do with your savings in retirement

Make sure you don't run out of money or face a reduced standard of living

Increasingly, more and more pensioners are keeping much of their pension invested after they retire. This means they're faced with two very different risks when deciding what to do with their savings in retirement in a world of 'pension freedoms'. Since April 2015, people who reach retirement have had much greater flexibility over how they use their pension funds to pay for their later years.

A recent report^[1] identified that many savers in retirement are either taking 'too little' risk (the 'risk averse' retiree) or taking 'the wrong sort' of risk (the 'reckless' retiree). Each of these approaches increases the danger of a saver either running out of money during their retirement or having to face a reduced standard of living.

THE RISK-AVERSE RETIREE – HOW CAN YOU TAKE TOO LITTLE RISK?

An example of taking 'too little' risk is the saver who takes their tax-free cash at retirement and invests the rest in an ultra-low risk investment such as a Cash ISA, believing this to be the safe approach. The report points out that 'investing in retirement is still long-term investing' and shows that decades of low-return saving can seriously damage the living standards of retirees.

It highlights the case of someone who retired ten years ago with an illustrative pension pot of £100,000 which they invested in cash.

Assuming they withdrew money at £7,500 per year (in line with annuity rates at the time), they would now be down to £27,000 and likely to run out in around four years' time, less than fifteen years into retirement. By contrast, if the same money had been invested in UK shares, there would still be around £48,000 left in the pot, despite the 2008 stock market crash.

THE RECKLESS RETIREE – WHAT IS 'THE WRONG SORT' OF RISK?

In an era of low interest rates, some retired people may be tempted to seek out more unusual forms of investment with apparently high rates of return but accompanied by much greater risk to their capital. Examples could include peer-to-peer lending, investment in aircraft leasing or even crypto currencies such as bitcoin.

Concentrated exposure to a single, potentially volatile investment can produce very poor outcomes, particularly if bad returns come early in retirement. The pension pot in the previous example would still have £88,000 in it if the bad year for UK shares had happened at the end of the ten-year period we looked at and not at the start.

THE RATIONAL RETIREE – WHAT IS THE BEST WAY TO HANDLE RISK IN RETIREMENT?

Rather than invest in an ultra-low-risk way or chase individual high-risk investments, the report identifies a 'third way' of spreading risk

across a range of assets, including company shares, bonds and property, both at home and abroad. This multi-asset approach can be expected to provide better returns over retirement than cautious investing in cash but also helps to smooth the ups and downs of individual investments.

Pension freedoms open up new possibilities for people in retirement, but they create new dangers as well. There is the danger of being too cautious and not making your money work hard enough – investing in retirement is still long-term investing. There is also the danger of taking the wrong sort of risk, seeking high returns but putting your capital at risk. Spreading money across a range of asset classes and in different markets at home and abroad is likely to deliver better returns in retirement – and a more sustainable income – than remaining in cash, without exposing you to the capital risks that can come from chasing after more exotic or risky types of investment.

Source data:

[1] Research report published 13 January 2018 by mutual insurer Royal London

Embracing the benefits of retirement

New lease of life and new-found time

As with any new life stage, planning often helps a smooth transition from the old to the new. Preparing properly for anything new requires planning and commitment. Spending time on planning now will ensure you enjoy the retirement you've worked hard to achieve.

According to new research^[1], retirement has meant a new lease of life for millions of people who have given up work in the last ten years, with more than one in four (26%) saying they are fitter and healthier since they stopped working. Far from winding down, nearly half of those who have retired since the height of the financial crisis (48%) say they are busier and more active than they anticipated.

EXPERIENCE OF RETIREMENT

Through embracing the benefits of retirement and making the most of the new-found time, more than one in three (35%) say they have more time to make their life more adventurous than they could have hoped while they were still at work.

When asked how else their experience of retirement was exceeding their expectations, many of those who have become pensioners in the last ten years pointed to improvements in their relationships. More than a quarter (26%) believe they now get on better with their partner, while 25% think that their relationship with their family is happier since stopping work. Meanwhile, just under one in four (23%) say their social life has improved more than they expected.

PROFESSIONAL FINANCIAL ADVICE

As people who plan to finish work in the next ten years begin to look forward to their retirement, there's plenty they can still do to make sure they are as comfortable as the people who have become pensioners over the last decade. Most importantly, in the face of changing pension rules, many people will benefit from obtaining professional financial advice in the run-up to retirement.

Retirement will continue to change over the coming years, but for many people the desire to make the most of their new-found free time will remain. Reflecting on their retirement in general, the vast majority who gave up work in the last ten years (86%) said that it had met their expectations or they were happy with how it had panned out so far, while only one in eight (13%) said that it has been a disappointment.

THOUGHTS, FEELINGS, EMOTIONS

Nearly two in five (37%) thought they would have missed work more than they have since retiring, and in fact one in four (26%) wish they had retired earlier. Meanwhile, on reflection, more than one in ten (11%) wish they had been more active or found a job in the early years of their retirement.

It's important to prepare your thoughts, feelings and emotions for the next phase

in your life: a time to look forward to and welcome as a chance to do the things you have been dreaming about, as well as a rest after a long career. There is likely to be a mixture of feelings and thoughts as you start on this new venture into uncharted territory.

Source Data:

[1] Consumer Intelligence conducted an independent online survey for Prudential between 26 May and 5 June 2017 among 751 adults in the UK who had retired within the last ten years.

The law and tax rates may change in the future. These details are based on our understanding of the current 2018/19 tax laws 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.

Looking for a tailored strategy to meet your individual needs?

Whether building a retirement strategy with you from the start or reviewing your existing arrangements, we can provide professional advice to help guide you through the process to defining your retirement goals and recommending a tailored strategy to meet your individual needs that will be flexible enough to adapt as your life changes.

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

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