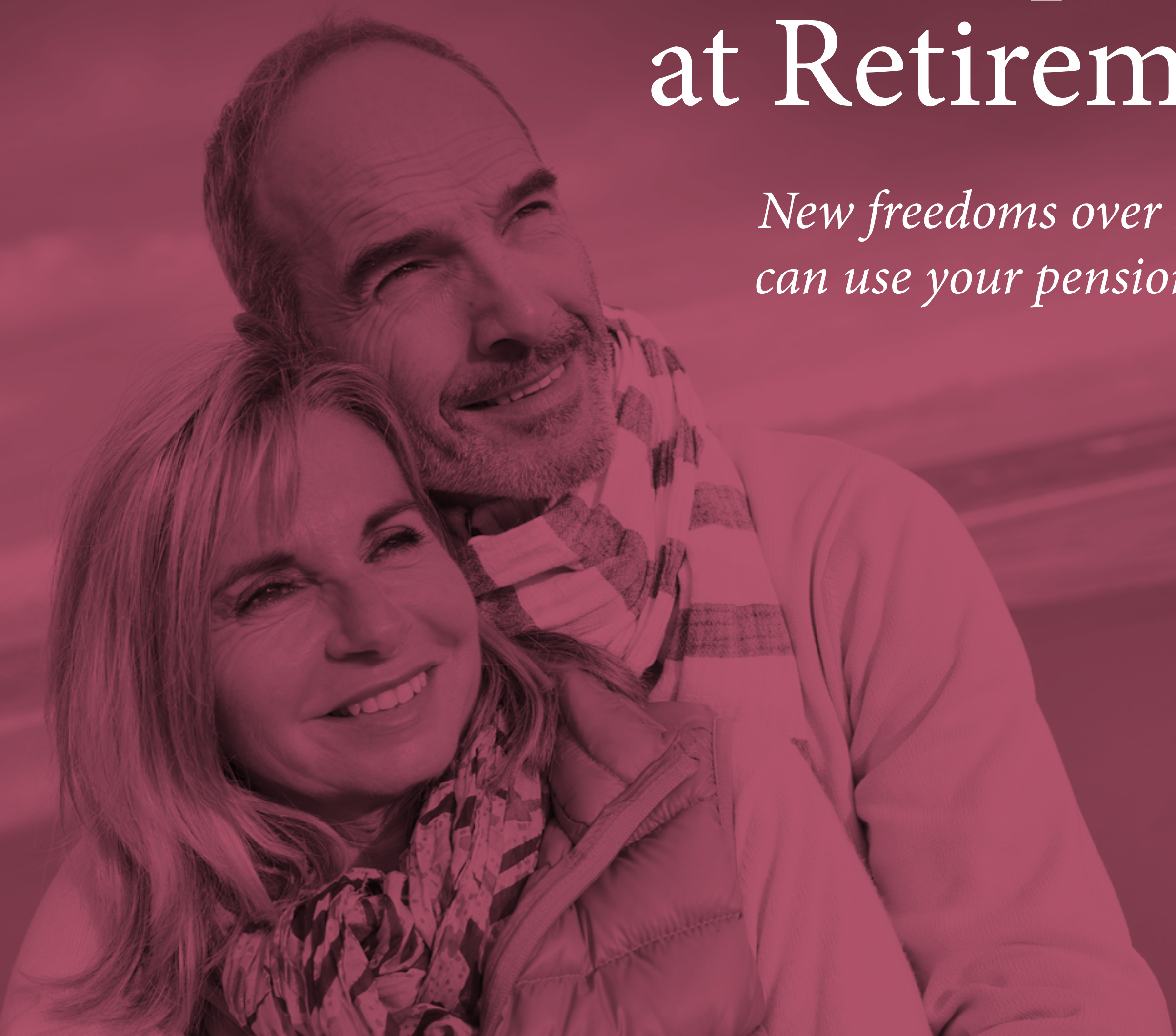
Capital Manor
FINANCIAL ADVISORS LIMITED

Guide to Your Options at Retirement

New freedoms over how you can use your pension money



Capital Manor Financial Advisors Limited 17 Manor Road, Caddington, Luton, Bedfordshire LU1 4EE
General Line: 01582 414514 **Mortgage Line:** 01582 414636 **Fax:** 01582 414507 **Email:** info@capitalmanor.co.uk

Guide to Your Options at Retirement

New freedoms over how you can use your pension money

Deciding what to do with your pension savings is an important step we will all have to take, and the importance of shopping around and taking independent financial advice can not be underestimated. 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. These changes give you freedom over how you can use your pension pot(s) if you're 55 or over and have a pension based on how much has been paid into your pot (a defined contribution scheme).

WHEN AND HOW YOU USE YOUR PENSION

Whether you plan to retire fully, reduce your hours gradually or to carry on working for longer, you can now tailor when and how you use your pension – and when you stop saving into it – to fit with your particular retirement plans.

Currently, the minimum age you can take any workplace or personal pension is age 55. You need to check with your scheme provider or insurance company to make sure the scheme will allow this. This is proposed to increase to age 57 by 2028.

From 2028 onwards, the proposal will be for the minimum pension age to increase in line with the State Pension age. This means there will be a 10-year gap between when you can take your own pensions and any State Pension you are eligible for.

There's a lot to consider when working out which option or combination will provide you and any beneficiaries with a reliable and tax-efficient income throughout your retirement.

LEAVE YOUR PENSION POT UNTOUCHED

Once you reach the age of 55, you have the right to take as much of your pension fund as you like as cash – but that doesn't mean that you have to do so.

You may be able to delay taking your pension until a later date and may wish to leave your money where it is so that it still has the potential to grow – though your fund could also go down in value, of course. Equally, you might just want some time to consider all your options before deciding whether to take cash from your pension fund – and, if so, how much.

USE YOUR POT TO BUY A GUARANTEED INCOME FOR LIFE – AN ANNUITY

You can choose to take up to a quarter (25%) of your pot as a one-off, tax-free lump sum, then convert the rest into a taxable income for life called an 'annuity'. There are different lifetime annuity options and features to choose from that affect how much income you would get. You can also choose to provide an income for life for a beneficiary after you die.

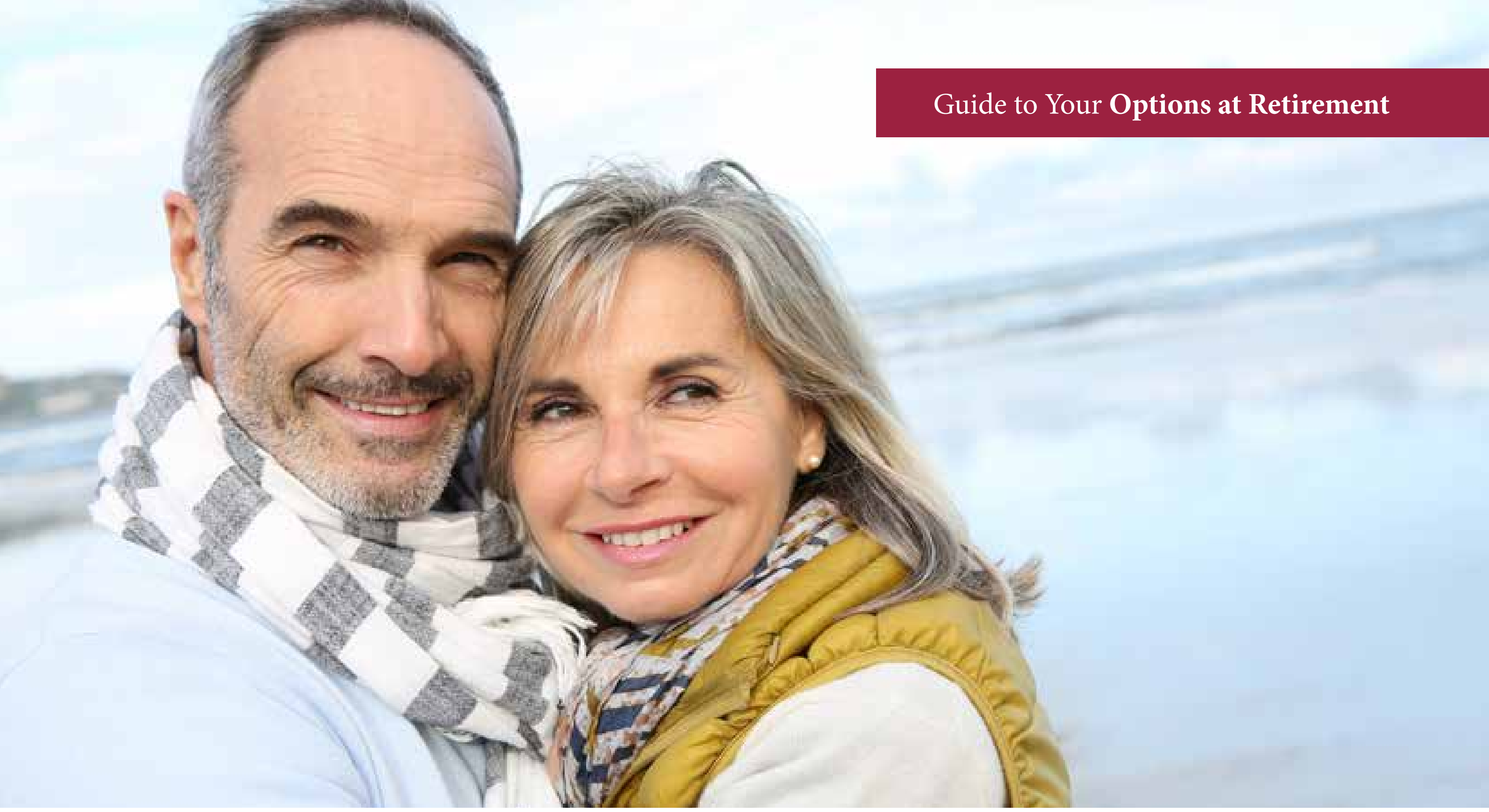
USE YOUR POT TO PROVIDE A FLEXIBLE RETIREMENT INCOME – FLEXI-ACCESS DRAWDOWN

With this option, you take up to 25% (a quarter) of the pension pot that is being crystallised as a tax-free lump sum, then re-invest the rest into funds designed to provide you with a taxable income. You set the income you want, though this may be adjusted periodically depending on the performance of your investments (funds can be left alone to accrue if there is no immediate need for income). Unlike with a lifetime annuity, your income isn't guaranteed for life – so you need to manage your investments carefully.

Previously, there were government limits (known as 'Government Actuary's Department' or GAD limits) on how much income you could withdraw each year. This still applies to existing capped drawdown contracts where taxable income was being taken before 5 April 2015, providing the GAD limit is respected. From 6 April 2015, these restrictions were removed for new flexi-access drawdown contracts.

LIFETIME ALLOWANCE

The Government has introduced comprehensive reforms to the pension rules



over the previous few years. One important change, which may have been overlooked by some savers, is the reduction of the Lifetime Allowance that applies to pension savings. This further reduction means that you may be affected.

Your private pension funds grow tax-free up to certain limits. This applies to most private pension schemes, for example, workplace pensions, personal and stakeholder pensions, and overseas pension schemes that qualify for UK tax relief. The Lifetime Allowance is a limit on the value of payouts from your pension schemes – whether lump sums or retirement income – that can be made without triggering an extra tax charge.

The Government has indicated that this allowance will increase each year in line with inflation (CPI) but only from 6 April 2018. It was reduced from £1.25m down to £1m from 6 April 2016. If you have more than £1m in your pension pot, you can apply to protect it against reductions to the Lifetime Allowance.

Whilst some people may not be affected by the Lifetime Allowance, it's important to take action if the value of your pension benefits are approaching, or are above, the Lifetime Allowance. As pensions are a long-term commitment, what might appear modest today could exceed the Lifetime Allowance by the time you want to take your benefits.

ANNUAL ALLOWANCE

You can receive income tax relief on your own contributions to pension plans. You can contribute up to the greater of £3,600 and 100% of your salary. The standard annual allowance is currently set at £40,000 (higher earners or those who have flexibly accessed their pensions may have a lower figure). If the contributions paid on your behalf (including any employer and personal contributions) exceeds the standard annual allowance, then you may have to pay a tax charge based on the highest rate of Income Tax that you pay.

TAKE SMALL CASH SUMS FROM YOUR POT

If you're not sure how your income needs will change in the future, you may wish to take money from your defined contribution pension pots as and when you need it and leave the rest untouched. For each cash withdrawal, the first 25% (quarter) is tax-free, and the rest counts as taxable income. There may be charges each time you make a cash withdrawal and/or limits on how many withdrawals you can make each year.

TAKE YOUR WHOLE POT AS CASH

You could close your pension pot and take the whole amount as cash in one go if you wish. Anyone over 55 can take their entire pension fund as cash. The first 25% (quarter) will be tax-free, and the rest will be taxed at your highest tax rate – by adding it to the rest of your income.

If you cash in your entire pot, it's highly likely that you'll have to pay a considerable tax bill. If the provider applies an emergency tax code, too much tax will be deducted, in which case you would have to reclaim this from HMRC. In addition, it will not pay you or any beneficiary a regular income, so without very careful planning you could run out of money and have nothing to live on in retirement.

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

Which option or combination is right for you will depend on a number of different factors. Some of the other retirement options we can advise on are:

- Occupational schemes
- Safeguarded rights
- Guaranteed annuity rates
- Minimum income guarantees
- The importance of having your pension checked for these valuable features
- Drawing up a budget
- Salary-related pensions such as final salary schemes

A PENSION IS A LONG-TERM INVESTMENT. THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

YOUR PENSION INCOME COULD ALSO BE AFFECTED BY INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS. 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.

Helping you find your way forward

Wherever you stand on the road to retirement, we can help you find your way forward – shopping around and taking independent financial advice is absolutely vital. If you are approaching retirement and would like to discuss the ways you can take an income from your pension pot, please contact us to review your particular situation – we look forward to hearing from you.

Capital Manor
FINANCIAL ADVISORS LIMITED

Capital Manor Financial Advisors Limited
17 Manor Road
Caddington, Luton
Bedfordshire LU1 4EE

General Line: 01582 414514
Mortgage Line: 01582 414636
Fax: 01582 414507
Email: info@capitalmanor.co.uk