GUIDE TO

RETIREMENT PLANNING

PLANNING AHEAD FOR THE FINANCIAL FUTURE YOU WANT

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WELCOME

Living for another 30 years after work isn't just a possibility, it's a probability. Whether retirement is many years away or just around the corner, unless you start planning for retirement now, there is a great danger that you could outlive your savings. The earlier you start planning, the easier it will be to create the retirement lifestyle you want.

As the UK's population is living longer, planning in advance for retirement is becoming even more important. For most of us, the State Pension will not provide adequate funding in retirement to maintain the lifestyles we have become accustomed to during our working lives. Putting in place the right provision will ensure that you enjoy a comfortable retirement, free of money worries and with peace of mind that you will not outlive your funds.

It's never too early – or too late – to think about your retirement. For many people, the savings that are accumulated during their working lives are directed at helping them to become financially secure in retirement. But, too often, some people continue to save without a clear view of how much money they will need to live the life they desire for the entirety of their retirement. This can create uncertainty around when they can retire in alignment with their financial goals

START PLANNING FOR YOUR FUTURE, TODAY

Retirement planning is a long-term commitment, so it's essential to incorporate regular reviews of your arrangements to make sure that they remain on track and are meeting your needs.

To find out more or to discuss how to maximise your retirement opportunities, please contact us.

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.

ONCE MONEY IS PAID INTO A PENSION, IT CANNOT BE WITHDRAWN UNTIL YOU ARE AGED AT LEAST 55 (INCREASING TO 57 FROM 2028).

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.

PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.






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START PLANNING EARLY

Things you can do to increase your chances of success

The future may seem far away, but you need to start planning early. Regardless of your goals, there are things you can do to increase your chances of success! It is important to look objectively at your plans and adapt them as your priorities change over the years and you go through different life events.

Many of us have got things in mind we'd like to do when we retire, whether it's travelling the world or simply doing more of what you love. But how can you save enough for a decent retirement without having to give up what makes life good today?

Eagerness to retire

According to research[1], almost three quarters (73%) of people aged 45 or over are longing for the day when their life is no longer confined by their working routine. Yet, despite an eagerness to retire, the research shows that almost half (46%) of over-45s with a pension have no idea how much it is currently worth, and that more women (52%) than men (41%) don't know the value of their own pension savings.

Shift in lifestyle

A fifth (19%) of those aged 45-plus don't have a pension in place yet. Two thirds of those aged 45-plus (67%) are hoping for a shift in lifestyle, keen to retire early before the State Pension age kicks in. But only one in ten of them (12%) has proactively increased how much they are investing in their pension when they've been able to, in order to help make this happen.

Pension freedoms benefits

Once people reach the age of 55 (age 57 from 2028), they can benefit from pension freedoms which allow them to start withdrawing money from their pension savings if they need to. It's a point at which some key decisions can be made, and the importance of knowing the value of their pension should come sharply into focus. But, even among this group of people aged 55–64, some 45% still have their eyes shut and don't know what their pension savings are worth. ■

Source data

[1] The research was carried out online for Standard Life by Opinium. Sample size was 2,001 adults. The figures have been weighted and are representative of all GB adults (aged 18+). Fieldwork was undertaken in November 2017.

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 FREEDOMS

Fundamental change in the approach to retirement savings

A revolution in pensions transformed the retirement prospects for millions following the passing of the Pension Schemes Act 2015. April 2019 is the fourth anniversary since the introduction of the pension freedoms, a fundamental change in the approach to retirement savings.

Announced by the then Chancellor, George Osborne, in Budget 2014, pension freedoms gave over-55s full control of their retirement savings. The changes which commenced on 6 April 2015 gave individuals with a defined contribution pension the freedom to access their pension as they wished from age 55. Under these changes, those with a defined contribution pension scheme are no longer required to purchase an annuity.

Income in retirement

With a defined contribution pension, you build up a pot of money that you use to provide an income in retirement. Unlike defined benefit schemes, which promise a specific income when you retire, the income you receive from a defined contribution pension depends on the amount you contribute, how investments perform and the choices you make at retirement to take an income.

At the time of the introduction of pension freedoms, the then Minister for Pensions, Steve Webb, said, 'The passing of this Act marks the culmination of a five-year pensions revolution under this coalition government. While for years, successive governments simply watched the slow decline of the final salary scheme, we have responded by giving firms new ways of providing their staff with secure pensions.

'There is a real appetite from employers to offer high-quality pensions for their staff, and the new Defined Ambition pensions made possible by this Act will enable a new generation of better, fairer schemes. The Act also protects the new pension freedoms and

flexibilities, so people have control of their pension pots, and know it is a criminal offence for scammers to pretend to offer official Pension Wise guidance.'

Biggest shake-up

To date, the introduction of pension freedoms has been the biggest shake-up of the pensions market and has given individuals control over how to use their retirement savings, but a number of unintended consequences have emerged. Retirement savers have accessed approximately £17.5 billion through pension freedoms since reforms were introduced in April 2015, according to data from HM Revenue and Customs (HMRC). Its report, Flexible payments from pensions: July 2018, also found that the number of individuals who have received flexible payments from their pensions between the second quarter of 2017 and the first quarter of 2018 is 375,000.

This is compared to 393,000 individuals between the second quarter of 2016 and the first quarter of 2017, and 232,000 between the second quarter of 2015 and the first quarter of 2016. Since the introduction of pension freedoms in April 2015, approximately 1 million individuals have accessed their pension for flexible payments.

Between April and June 2018, 574,000 payments were received by 264,000 individuals, totalling £2.3 billion. This compares to 500,000 payments to 222,000 individuals in the first quarter of 2018, at a total of £1.7 billion. From October to December 2017, 454,000 payments were made to 198,000 individuals, totalling £1.5 billion. Between April and June 2017, 435,000 payments were made to 198,000 individuals, amounting to £1.6 billion.

Reforms gathering pace

Previously, most pensioners purchased an annuity with their retirement pot, which paid a guaranteed income for life. The pension freedoms now allow those over the age of 55 access to their savings and give greater flexibility over retirement funding. Despite some isolated cases of pensioners spending their savings on fast cars and other luxuries, figures from HMRC signal that the reforms are gathering pace.

According to Prudential, around one in ten (11%) workers aged over 55 have found pension freedoms have encouraged them to save more since the rules came into effect. In the last three years, this group said they had started saving into a pension for the first time, encouraged their partner to save more, increased pension contributions or restarted pension saving since the introduction of the pension freedoms rules.

According to the research, which surveyed 1,000 UK adults aged over 55 in February 2018, one in eight (12%) expected to work past their original planned retirement date. How your future looks will ultimately be determined by having the right vehicle in place for your retirement.

Taking your money

As you approach retirement and start thinking about when and how to take your money, it's important to obtain professional advice to check what pensions you have and what they might give you. The rules around pensions are continuously changing, which means receiving regular advice will ensure you're investing your pension effectively.

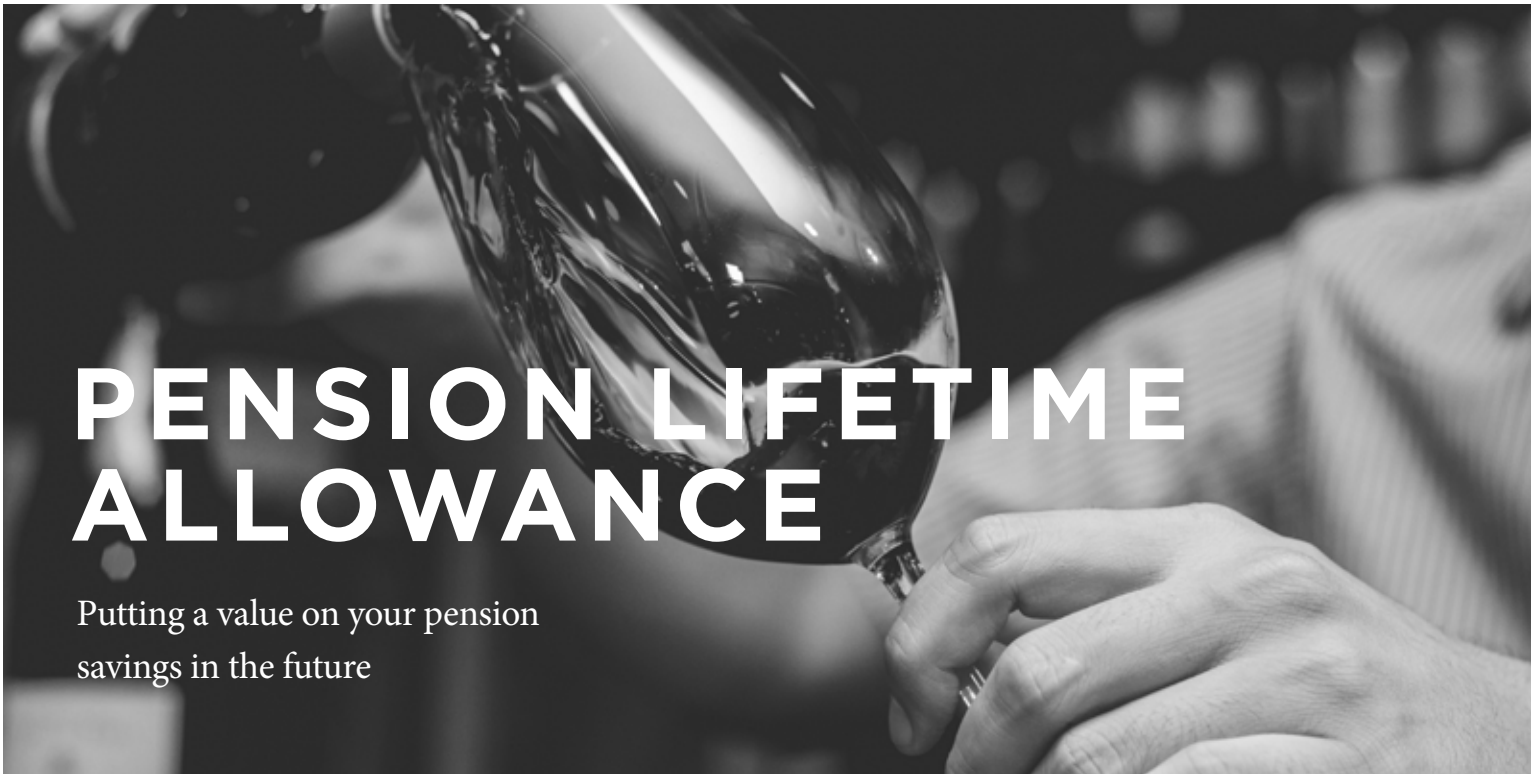
The concept of an 'ageing population' may feel overused, but the fact is that advances in medicine and generally improving living standards are combining to increase how long we can expect to live. The backdrop to this is a tightening of the welfare state, including the basic State Pension.

Retirement should be the best time of your life, when you can relax and enjoy your life by reaping the benefits of what you earn in so many years of hard work. To keep yourself and your finances in good shape, start planning today. We can help create a clear picture of what you need so that the best is yet to come. ■

Source data:

The figures are based on data reported to HM Revenue & Customs. Individual numbers are rounded to the nearest 1,000. The yearly individual totals are lower than the sum of the quarterly individual numbers, as some have taken payments in multiple quarters. Reporting was optional up to April 2016, when it was made compulsory. For this reason, figures prior to this are not comprehensive. This may account for part of the increase in reported payments seen in the second quarter of 2016.

WITH A DEFINED CONTRIBUTION PENSION YOU BUILD UP A POT OF MONEY THAT YOU USE TO PROVIDE AN INCOME IN RETIREMENT.



PENSION LIFETIME ALLOWANCE

Putting a value on your pension savings in the future

IT'S IMPORTANT TO THINK ABOUT WHAT THE VALUE OF YOUR PENSION SAVINGS COULD BE 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 now 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 are expected to exceed the lifetime allowance threshold. ■

STATE PENSION

Move to equalise male and female pension ages

The State Pension is a regular payment from the Government that is claimed when you reach your State Pension age. The State Pension is based on your National Insurance record. It takes into account the National Insurance you built up before the new State Pension was introduced in 2016, as well as contributions and credits since then. This means not everyone will receive the same amount.

You normally need at least ten years of National Insurance contributions or credits to obtain any new State Pension. People who don't have a National Insurance record before 6 April 2016 will need 35 qualifying years to get the full amount of new State Pension when they reach State Pension age. These are usually people in the UK who began working after 6 April 2016. You can still receive the State Pension if you have other income such as a personal or workplace pension.

New state pension

People who do have a National Insurance record before 6 April 2016 will have their National Insurance record before then taken into account when their new State Pension is calculated. If you qualify for the new State Pension, the amount you will get for your record up to 6 April 2016 is no less than you would have got under the old rules. National Insurance contributions help towards the State Pension, other benefits and funding for the NHS.

Women now start to qualify for the State Pension at the same age as men, currently set at 65. The move to equalise male and female pension ages began 25 years ago and has been gradually phased in. Your State Pension age is the earliest age you can start receiving your State Pension. It may be different to the age at which you can take a workplace or personal pension.

Undergoing radical changes

The State Pension age has been undergoing radical changes, and more changes are planned for the future. The State Pension age will increase for both men and women, to reach 66 by October 2020. The Government is also planning to increase the State Pension age from 66 to 67 between 2026 and 2028, and has also accepted the findings of the Cridland review, which recommended that the pension age should rise further – to age 68 – by 2039.

Women aged 65 on 6 November 2018 were the first to wait for as long as men. For more than 60 years, women received their pensions at the age of 60, but that has been rising ever since. The equalisation of State Pension age and future planned increases are a further prompt to women to think about how much they'll need to save for a comfortable retirement.

Life expectancy variations

The Government has made a commitment to review the State Pension age every five years. This includes an analysis of life expectancy projections by the Government Actuary's Department, and reports from an independently led body on wider factors that should be taken into account when setting State Pension age, such as variations in life expectancy.

The move to increase the State Pension age is the result of successive governments accepting that unless the qualifying age went up, the State Pension would become unaffordable. This is going to be kept under review, which means that it could change again in the future, depending on different factors, such as changes in life expectancy. ■



DEFINED CONTRIBUTION PENSION SCHEMES

Building up a pot of money to provide an income in 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.

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 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 receive a higher income when you do take it.

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

YOUR PENSION PROVIDER WILL CLAIM TAX RELIEF AT THE BASIC RATE AND ADD IT TO YOUR PENSION POT.

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. A SIPP is a form of personal pension that gives 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 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.

- You are not restricted to pension funds offered by any single pension provider, but instead can invest in a broad range of investments from a range of different providers
- Your returns from investments within a SIPP are protected from Income Tax and Capital Gains Tax
- You'll receive tax relief at your marginal rate on an Annual Allowance, which for most people is £40,000 or 100% of your earnings, whichever is lower
- You can choose from a wide range of options when you take your pension benefits, including a cash lump sum, a flexible or guaranteed income – or you can combine multiple options.

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. ■

A SIPP will only be right for you if you're confident making your own investment decisions and managing your pension payments against the relevant allowances. If you're unsure, please seek professional financial advice.



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!

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 the 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 is 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. ■



TURNING PENSIONS INTO MONEY YOU CAN USE

One of the most important decisions you will make for your future

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 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.

Deciding what to do with your pension pot is one of the most important decisions you will make for your future, and now you can access your pension in more ways than ever before. This leaves retirees with different options, from withdrawing lump sums in cash as and when needed to staying invested and drawing income, or to use how they wish. It is still possible to opt for the traditional route of buying an annuity offering a guaranteed income.

As well as understanding the various options for accessing benefits, when you are deciding what to do with your pension pot, you also need to consider your personal financial landscape. How long do you expect your investments and pensions to remain invested for? What do you want to achieve in the future, and how do you see your retirement playing out? How much investment risk are you willing to take? What income sources do you currently have or need to create, and how are they taxed?

DECIDING WHAT TO DO WITH YOUR PENSION POT IS ONE OF THE MOST IMPORTANT DECISIONS YOU WILL MAKE FOR YOUR FUTURE AND NOW YOU CAN ACCESS YOUR PENSION IN MORE WAYS THAN EVER BEFORE.



DELAYING TAKING YOUR PENSION

Restrictions or charges for changing your retirement date

You might be able to delay taking your pension until a later date if your scheme or provider permits this. If you want your pension 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.

Tax-free growth

Your pension continues to grow tax-free, potentially providing more income once you access it. If you want to build up your pension pot further, you can continue to receive tax relief on pension savings of up to £40,000 each year (tax year 2018/19), or 100% of your earnings if you earn less than £40,000, until age 75.

The longer you delay taking your pension, 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. Your pension scheme or provider will inform you if there are any restrictions or charges for changing your retirement date, and the process and deadline for telling them. There may also be a loss of any income guarantees, for example, a guaranteed annuity rate (GAR), by delaying your retirement date.

IN THE EVENT THAT YOU DIE BEFORE AGE 75, YOUR UNTOUCHED PENSION POTS CAN PASS TAX-FREE TO ANY NOMINATED BENEFICIARY PROVIDED THE MONEY IS PAID WITHIN TWO YEARS OF THE PROVIDER BECOMING AWARE OF YOUR DEATH.

Less risky funds

As the value of pension pots can rise or fall, it is essential to review where your pot is invested as you move towards the time you want to retire and arrange to move it to less risky funds if necessary.

In the event that you die before age 75, your untouched pension pots can pass tax-free to any nominated beneficiary, provided the money is paid within two years of the provider becoming aware of your death. If the two-year limit is missed, the money will be added to the beneficiary's other income and taxed at the appropriate rate(s).

Lifetime allowance

If you die after 75 and your nominated beneficiary takes the money as income or as a lump sum payment, they'll pay tax at their appropriate rate(s). This means that the money will be added to their income and taxed in the normal way.

If the total value of all your pension savings when you die exceeds the lifetime allowance (currently £1,030,000 tax year 2018/19), further tax charges will be payable by the beneficiary. ■

PURCHASE AN ANNUITY

Choosing a taxable income for the rest of your life

You can normally withdraw 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 dependent or other beneficiary after you die.

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. 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.

Lifetime annuities

You can normally choose to take up to 25% (a quarter) of your pension pot – or of the amount you're allocating to buy an annuity – as a tax-free lump sum. You then use the rest to buy an annuity, which will provide you with a regular income for life. This retirement income is taxed as normal income.

There are two types of lifetime annuity to choose from: basic lifetime annuities, where you set your income in advance; and 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

Basic lifetime annuities offer a range of income options designed to match different personal circumstances and attitude to risk. You need to 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 can 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 – this is called a 'guarantee period'.

'Value protection' is less commonly used, but is 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 get. Where you expect to live when you retire might also 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. Not all providers offer these, so be sure to shop around if you think you might benefit from one. If you have a single annuity and no other features, your pension stops when you die.

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.

But 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 a joint or single annuity, guarantee periods, value protection, and higher rates if you have a short life expectancy due to poor health or lifestyle. Not all providers will offer these options.

Open Market Option

If you decide an annuity is right for you, it's important to shop around. This allows you to turn your pension pot into an annuity rather than accept the rate offered by your pension provider, and is called an 'Open Market Option'.

Introduced as part of the 1975 Finance Act, the Open Market Option allows someone coming up to retirement to select the best annuity or retirement option from the whole of the market rather than taking the default option from their current pension provider.

By obtaining professional advice and searching the entire market, this could increase a pensioner's retirement income by as much as 30%. Not automatically choosing your current provider's option can really make a difference and will help to maximise your income in retirement.

If you die before age 75, any lump sum payment due from a value protected annuity will be paid tax-free. Income from a joint annuity will be paid to your dependant or other nominated beneficiary tax-free for the rest of their life. If you die within a guarantee period, the remaining annuity payments will pass tax-free to your nominated beneficiary, then stop when the guarantee period ends.

If you die age 75 or over, income from a joint annuity or a continuing guarantee period will be added to your beneficiary's other income and taxed as normal. Joint annuity payments will stop when your dependant or other beneficiary dies. Any guarantee period payments stop when the guarantee period ends. Any lump sum due from a value protected annuity will be added to your beneficiary's income for that year and taxed as normal. ■

FLEXIBLE RETIREMENT INCOME

Re-investing funds designed to provide you with a regular taxable income

With this flexible retirement income option known as 'flexi-access drawdown', you can normally take up to 25% (a quarter) of your pension pot or of the amount you allocate for drawdown as a tax-free lump sum, then re-invest the rest into funds designed to provide you with a regular taxable income. You set the income you want, though this might be adjusted periodically depending on the performance of your investments. Unlike with a lifetime annuity, your income isn't guaranteed for life – so you need to manage your investments carefully.

Some older policies might allow you to take more in tax-free cash – check with your pension provider. 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. You need to plan carefully 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 or you take out too much in the early years. It could also be a problem if 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 review your investments regularly. 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 take you into a higher tax band, so bear this in mind when deciding how much to take and when. If the value of all your pension savings is above £1,030,000 when you access your pot (2018/19 tax year), further tax charges might apply.

You can normally receive tax relief on pension contributions to a defined contribution pension scheme of up to £40,000 or 100% of taxable salary each year (if lower than £40,000). This is known as your 'annual allowance'.

However, if you start to draw an income from a flexi-access drawdown scheme, the amount you can pay into a pension and still get tax relief reduces. This is known as the 'Money Purchase Annual Allowance' (MPAA). The MPAA for the tax year 2018/19 is £4,000. 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 get 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. The money must be paid within two years of the provider becoming aware of your death. If the two-year limit is missed, payments will be added to the income of the beneficiary and taxed as normal.

If you die after the age of 75, and your nominated beneficiary takes the money as income or a lump sum, the money will be added to their other income and taxed as normal. ■

HM Revenue & Customs (HMRC) published its update on flexible payments from pensions, and this confirmed 585,000 withdrawals were made by 258,000 people in quarter 3, 2018 – with total withdrawals in this quarter nearly £2 billion. During the first three and a half years of pension freedoms, nearly 5 million withdrawals were made by over 1.3 million people, totalling £21.6 billion (April 2015 – Oct 2018).

Source: HMRC Pension schemes newsletter 104 for October 2018.





SMALL CASH SUMS FROM YOUR POT

Taking money from your pension as and when you need it

You can use your existing pension pot to take cash as and when you need it and leave the rest untouched where it can continue to grow tax-free.

For each cash withdrawal, normally the first 25% (quarter) is tax-free, and the rest counts as taxable income. There might be charges each time you make a cash withdrawal and/or limits on how many withdrawals you can make each year.

With this option, your pension pot isn't re-invested into new funds specifically chosen to pay you a regular income, and it won't provide for a dependant after you die. There are also more tax implications to consider with this option.

Your pension pot reduces with each cash withdrawal. The earlier you start taking money out of your pot, the greater the risk your money could run out. What's left in your pension pot might not grow enough to give you the income you need to last you into old age – most people underestimate how long their retirement will be.

The administration charges for each withdrawal could eat into your remaining pot. Because your pot hasn't been reinvested to produce an income, its investments could fall in value – so you'll need to have it reviewed regularly. Charges will apply, and you might need to move or reinvest your pot at a later date.

Once you take money out of your pension pot, any growth in its value is taxable, whereas it will grow tax-free inside the pot – once you take it out, you can't put it back. Taking cash lump sums could reduce your entitlement to benefits now or as you grow older.

Three quarters of each cash withdrawal counts as taxable income. This is added to the rest of your income – and depending on how much your total income for the tax year is, you could find yourself pushed into a higher tax band.

So if you take lots of large cash sums, or even a single cash sum, you could end up paying a higher rate of tax than you normally do. 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 tax and have to claim the money back – or you might owe more tax if you have other sources of income.

Extra tax charges or restrictions might apply if your pension savings exceed the lifetime allowance (currently £1,030,000 2018/19 tax year), or if you have less lifetime allowance available than the amount you want to withdraw.

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 on which you can get tax relief each year is reduced from £40,000 (the annual allowance) to a lower amount (the 'Money Purchase Annual Allowance', or MPAA). In 2018/19, the MPAA is £4,000. If you want to carry on building up your pension pot, this option might not be suitable.

If you die before the age of 75, any untouched part of your pension pot will pass tax-free to your nominated beneficiary or estate, provided the money is paid within two years of the provider becoming aware of your death. If the two-year limit is missed, it will be added to your beneficiary's other income and taxed in the normal way.

If you die after the age of 75, any untouched part of your pension pot that you pass on – either as a lump sum or income – will be added to your beneficiary's other income and taxed in the normal way. ■



CASHING IN YOUR ENTIRE PENSION POT

Without very careful planning, you could run out of money and have nothing to live on

You could close your pension pot and take the entire amount as cash in one go if you wish. Normally, 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. Once you've taken all the money, your pension will close and you won't be able to make any further payments into it.

However, there are many risks associated with cashing in your entire pension pot. For example, it's highly likely that you may be subjected to a significant Income Tax bill. Opting for this approach also means that it won't pay you or any dependant a regular income, and without very careful planning, you could run out of money and have nothing to live on in retirement.

If you're planning to put the money you take into savings or other investments, you should compare and think about how it will get treated for Inheritance Tax purposes. If you are considering taking your entire pension pot, you should first obtain professional financial advice to fully understand the impact on you and your financial situation.

Three quarters (75%) of the amount you withdraw is taxable income, so there's a strong chance your tax rate would go up when the money is added to your other income. If you exercise this option, you can't change your mind. Also remember, this option will not provide a regular income for you, or for your spouse or any other dependant after you die.

For many or most people, it will be more tax-efficient to consider one or more of the other options for taking your pension. Taking 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.

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. Another consideration is that you might not be able to use this option if you have received a share of an ex-spouse's or ex-civil registered partner's pension as a result of a divorce, or if you have certain protected rights with your pension.

Your pension scheme or provider will pay the cash through a payslip and take off tax in advance (PAYE). 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.

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 your pension pot is £10,000 or more, once you start to take income, the amount of defined contribution pension savings on which you can get tax relief each year is reduced from £40,000 (the annual allowance) to a lower amount (called the 'Money Purchase Annual Allowance', or MPAA). The MPAA for 2018/19 is £4,000. If you want to carry on building up your pension pot, this option might not be suitable. ■

BLENDING YOUR RETIREMENT OPTIONS

Balance of flexibility and security to suit your circumstances

If you are looking for a balance of flexibility and security to suit your circumstances, you could consider blending your retirement options. You don't have to choose one option when deciding how to access your pension pot – you could set up a combination of options to suit you.

You can usually take up to 25% of your pension money as tax-free cash as you choose which options to take. But remember that with any option, tax benefits are subject to change and depend on your individual circumstances.

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 circumstanes are likely to change in the future
- Any pension or other savings your spouse or partner has, if relevant

Everybody's situation is different, so how you combine the options is up to you.

You could choose to buy a guaranteed income for life with some of your pension money, while leaving some to provide a flexible income or cash lump sums when you need them.

Or, if you plan to ease into retirement, you may choose to take some money flexibly to start with, and then later buy an annuity to provide a guaranteed income.

Don't forget, in addition, you can usually take up to 25% of your pension tax-free. This can be taken all in one go or over time, depending on the options you choose. ■



MANAGING RISK

Pensioners 'in the dark' over how to protect their pots if markets tumble

Many retirees are at risk of overlooking their pension finances by falling into an avoidable trap, according to new research[1].

A third (36%) of people keeping their pension invested through retirement could be hit harder by falling markets, as they do not have a cash safety net to fall back on, research has found. And even though two thirds (64%) of retirees are holding cash in reserve, fewer than one in ten (8%) would think to use it if there was a 'significant' drop in the stock market.

Diversification across asset classes and regions is important for pensions, not just for good returns but also to manage the risks inherent in different asset classes and geographies.

Buffer of cash

Some retirees in drawdown will hold a buffer of cash which they can call on in volatile markets. By taking income from cash held inside their pension instead of from their invested assets, they are not forced to sell investments at lower prices.

This can help to protect them from 'pound-cost-ravaging' where, as stock prices drop, retirees are forced to sell more investments to achieve the same level of income, depleting the capital of their pot more quickly and reducing its future growth.

DIVERSIFICATION IS ESSENTIAL TO PROTECT YOUR ASSETS IN A MARKET CRASH. AS EVER, PICKING A PORTFOLIO OF NON-CORRELATED INVESTMENTS, DIVERSIFIED BY GEOGRAPHICAL REGION, ASSET CLASS AND SECTOR CAN HELP TO REDUCE A PORTFOLIO'S OVERALL VOLATILITY AND CREATE GREATER STABILITY OF RETURNS.

Safeguard pots

Recent volatility in the market could have left some retirees feeling unnerved, but there are steps you can take to safeguard your pot. It's good to check regularly that you're not taking more income than you need and that your pension is well diversified.

If markets tumble, it pays to be more cautious by scaling back your income or turning off the taps altogether. Alternatively, limiting the level of withdrawal to the 'natural' income from share dividends or bonds leaves the underlying investment intact, giving it a better chance to regain lost ground when markets recover.

Shielding drawdown savings

Diversify to avoid stretching income

Diversification is essential to protecting your assets in a market crash. As ever, picking a portfolio of non-correlated investments, diversified by geographical region, asset class and sector, can help to reduce a portfolio's overall volatility and create greater stability of returns.

Have a safety net

Building up a cash buffer can protect against falling stock markets and means you might not have to reduce your standard of living while the market corrects. Holding two years' cash means you won't be forced to sell when prices are falling, thereby locking in losses. Instead of cashing in funds, you can dip into cash reserves, giving your pot a chance to regain lost ground.

Invest in multi-assets

Multi-assets, as the name suggests, invest in different types of assets, from equities to property. In a downturn, some asset classes may not fall by as much as others, meaning multi-asset funds can help to smooth out the effects of a market crash while offering investors a greater level of protection.



Number of buckets

Having a medium-term investment bucket and longer-term investment bucket can help to manage the mood swings of the stock market. The cash bucket is fed by the medium bucket, which is in turn fed from the long-term bucket.

Rebalance

Rebalancing can help to maintain the overall risk of a portfolio in line with your needs. Rebalancing won't necessarily provide a greater investment return, but it is a protection mechanism against creating undue or unanticipated risk. ■

Save today to enjoy tomorrow

Whatever you want from retirement, one thing is certain – to give you the retirement you want and deserve, you need to plan ahead. Speak to us to find out how we can help you.

Source data

[1] All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 660 adults whose pension is in drawdown. Fieldwork was undertaken between 3rd - 15th October 2018.

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.

WHAT RETIREMENT LIFESTYLE ARE YOU AIMING FOR?

Retirement planning has a reputation for being confusing. We can answer your questions and provide tailored retirement planning advice on the best options for your personal circumstances.

To make the most of future plans, please contact us – we look forward to hearing from you.

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