

WELCOME

Making the most of the new pension rules to enjoy freedom and choice in your retirement

Welcome to our *Guide to Retirement Planning*. Following the biggest reforms to pensions in recent times, whilst the ability to unlock pension funds is attractive, you need to understand the tax implications of doing this and accept the risk of ensuring that the funds built up are managed effectively to ensure that they last for life, however long that may be.

If you have a pension that is on a Defined Contribution (DC) basis and plan to retire in the coming year, it's

important to get to grips with the reforms and review your plans for your retirement income accordingly. And if you're due to retire in the next few years, you should also make yourself aware of all the options and opportunities open to you. Even younger people, whether they're already saving through a pension or not, might find that the reforms change the way they think about their retirement planning.

Is it time to review your retirement plans?

These reforms present people with an exciting opportunity to take control of their pensions like never before, but the reforms highlight the need to obtain professional financial advice to consider your overall position. Although it may seem counter-intuitive, accessing your pension fund in many cases may be the last asset you call on, given the tax-efficiencies. To review your situation, please contact us – we look forward to hearing from you.





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TAX RELIEF ON PENSION CONTRIBUTIONS

Annual and lifetime limits to consider

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 2015/16 the standard rule is that you'll get tax relief on pension contributions of up to 100% of your earnings or a £40,000 annual allowance, whichever is lower.

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

Any contributions you make over this limit will be subject to Income Tax at the highest rate you pay.

However, you can carry forward unused allowances from the previous three years, as long as you were a member of a pension scheme during those years.

But there is an exception to this standard rule. If you have a Defined Contribution pension, the annual allowance reduces to £10,000 in some situations.

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

The Money Purchase Annual Allowance (MPAA)

In the tax year 2015/16, if you start to take money from your Defined Contribution pension, this can trigger a lower annual allowance of £10,000 (the MPAA). That means you'll only receive

tax relief on pension contributions of up to 100% of your earnings or £10,000, whichever is lower.

Whether the new lower £10,000 annual allowance applies depends on how you access your pension pot, and there are some complicated rules around this.

As a basic guide, 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

And you won't trigger it 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 £10,000 only applies to contributions to Defined Contribution pensions. So, if you also have a Defined Benefit pension (this pays a retirement income based on your final salary and how long you have worked for your employer and includes final salary and career average pension schemes), you can still receive tax relief on up to £40,000 of contributions a year.

Tax relief if you're a non-taxpayer

If you are not earning enough to pay Income Tax, you can still receive tax relief on pension contributions up to a maximum of £3,600 a year or 100% of earnings, whichever is greater, subject to your annual allowance. For example, if you have relevant income below £3,600, the maximum you can pay in is £2,880 and the Government will top up your contribution to make it £3,600.

How much can you build up in your pension?

A lifetime allowance puts a top limit on the value of pension benefits that you can receive without having to pay a tax charge. The lifetime allowance is $\mathfrak{L}1.25$ million for the tax year 2015/16 (falling to $\mathfrak{L}1$ million in April 2016). Any amount above this is subject to a tax charge of 25% if paid as pension or 55% if paid as a lump sum.

Workplace pensions, automatic enrolment and tax relief

Since October 2012, a system is being gradually phased in requiring employers to automatically enrol all eligible workers into a workplace pension. It requires a minimum total contribution, made up of the employer's contribution, the worker's contribution and the tax relief.



With a Defined Contribution (DC) pension you build up a pot of money that you can then use to provide an income in retirement.

DEFINED CONTRIBUTION PENSION SCHEMES

Providing an income in retirement

With a Defined Contribution (DC) 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 DC scheme depends on factors including the amount you pay in, the fund's investment performance and the choices you make at retirement.

What is a Defined Contribution pension?

DC 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.

While you are working

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.

When you retire

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

You can:

- Take your whole pension pot as a lump sum in one go. 25% will be tax-free and the rest will be subject to Income Tax and taxed in the usual way. Bear in mind that a large lump sum could tip you into a higher tax bracket for the year.
- Take lump sums as and when you need them. A quarter of each lump sum will be tax-free and the rest will be subject to Income Tax and taxed in the usual way. Bear in mind that a large lump sum could tip you into a higher tax bracket for the year.
- Take a quarter of your pension pot (or of the amount you allocate for drawdown) as a tax-free lump sum, then use the rest to provide a regular taxable income.
- Take a quarter of your pot as a taxfree lump sum and then convert some or all of the rest into a taxable retirement income (known as an 'annuity').

The size of your pension pot and amount of income you get 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.

What you need to think about

If your work gives you access to a pension that your employer will pay into, staying out is like turning down the offer of a pay rise. The amount your employer puts in can depend on how much you're willing to save, and may increase as you get older.

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.

DEFINED BENEFIT PENSION SCHEMES

A secure income for life

A Defined Benefit (DB) 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 DB pension.

How Defined Benefit pensions work
Defined Benefit (DB) 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

The pension income they pay is based on:

when you die.

- 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.

How much will my income be?

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 (usually 65).

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.

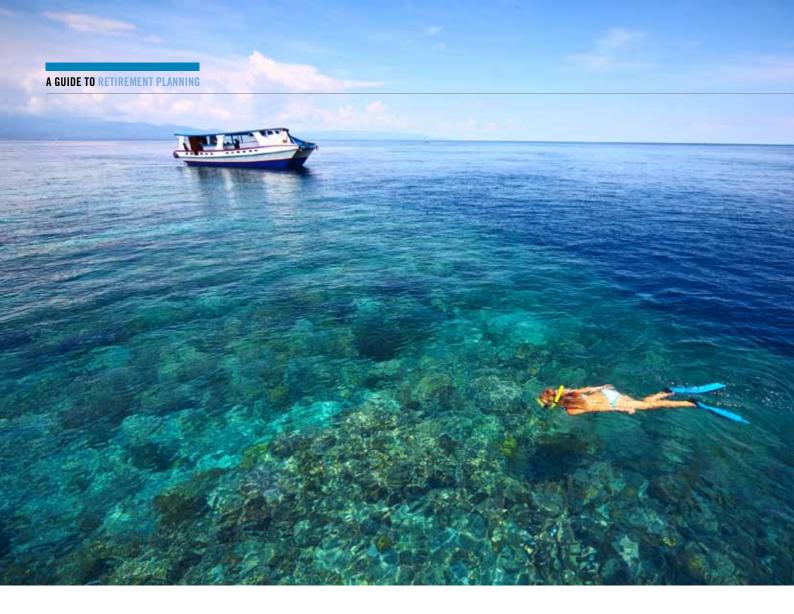
When you take your pension, you can usually choose to take up to 25% of the value of your pension as a tax-free lump sum. With most schemes, your pension income is reduced if you take this tax-free cash. The more you take, the lower your income. But some schemes, particularly public sector pension schemes,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

When can I take my Defined Benefit pension?

Most DB 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.

Once you 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, civil partner and/ or dependants. This is usually a fixed percentage (for example, 50%) of your pension income at the date of your death.

Taking your pension as a lump sum

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 do this from age 55 (or earlier if you're seriously ill) and in the following circumstances:

- You can take the whole of your pension as cash if the total value of all your pension savings is less than £30,000
- You can take your pension as cash if it's worth less than £10,000, regardless of how much your other pension savings are. You can do this for up to three different pensions

Transferring your Defined Benefit pension

If you're in a private sector DB pension scheme or a funded public sector scheme, you can transfer to a Defined Contribution (DC) pension as long as you're not already taking your pension. DC pensions can be accessed flexibly from age 55, so this may seem like an attractive option.

However, in most cases you may be worse off in a DC pension, and for this reason it's rarely a good idea to transfer even if your employer offers incentives for you to switch.

If you're in an unfunded DB pension scheme (these are mainly public sector pension schemes), you will not be able to transfer to a DC pension scheme but will still be able to transfer to another DB pension scheme.

Protection for your Defined Benefit pension

DB schemes are protected by the Pension Protection Fund. This pays some compensation to scheme members whose employers become insolvent and where the scheme doesn't have enough funds to pay members' benefits. The compensation may not be the full amount, and the level of protection varies between members already drawing benefits, those who are still contributing to the scheme and deferred members who have left the scheme but have built up an entitlement.

A personal pension is a type of Defined Contribution (DC) 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.

PERSONAL PENSIONS

A good way of saving for retirement

A personal pension is a type of Defined Contribution (DC) 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.

Tax relief

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.

How they work

Your pension pot builds up in line with the contributions you make, investment returns and tax relief.

While you are working

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. Remember that the value of investments may go up or down.

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.

Personal pensions at work

A personal pension may be offered through your employer. These are called 'Group Personal Pensions' (GPPs) and are a type of DC pension which some employers offer to their workers. As with other types of DC scheme, members in a GPP build up a personal pension pot, which they then convert into an income at retirement.

Changing jobs

If you change jobs, check when your new employer will enrol you into a workplace pension scheme. You can continue paying into an existing personal pension, but you may find you'll be better off joining your employer's workplace pension scheme, especially if your employer contributes. Compare the benefits available through your employer's scheme with your personal pension.

If you decide to stop paying into a personal pension, you can leave the pension pot to carry on growing, but check if there are extra charges for doing this.

If you decide to stop paying into a stakeholder pension, you can leave the pension fund to carry on growing, mainly through investment growth, but check to see if there are extra charges for doing this.

STAKEHOLDER PENSIONS

Minimum standards if you don't want too much choice

Stakeholder pensions are a form of Defined Contribution personal pension. They have low and flexible minimum contributions, capped charges, and a default investment strategy if you don't want too much choice. Some employers offer them, but you can start one yourself.

How stakeholder pensions work

Minimum standards

Stakeholder pensions must meet minimum standards set by the Government.

These include:

- · Limited charges
- · Low minimum contributions
- · Flexible contributions
- · Charge-free transfers
- A default investment fund your money will be invested into this if you don't want to choose

While you are working

Your contributions are 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. Remember though that the value of investments may go up or down.

When you retire

Once you stop working and retire, you can access money in your stakeholder pension. In fact, you don't have to retire to take money out of your pension as you can do this from the age of 55. There's a lot to weigh up when working out which option or combination will provide you and any dependants with a reliable and tax-efficient income throughout your retirement.

Setting up a stakeholder pension

If a stakeholder pension is offered through your employer, it will have chosen the pension provider and may also arrange for contributions to be paid from your wages or salary. The employer may contribute to the scheme. The pension provider claims tax relief at the basic rate and adds it to your fund. If you are a higher or additional-rate taxpayer, you'll need to claim the additional rebate through your tax return.

You can also set up a stakeholder pension for yourself. Their flexibility, low minimum contributions and capped charges can be of particular benefit if you're self-employed or on a low income.

Changing jobs

If you change jobs, you should check to see if your new employer offers a pension scheme. You can continue paying into an existing stakeholder pension, but you may find you'll be better off joining your new employer's scheme, especially if the employer contributes. Compare the benefits available through your employer's scheme with your stakeholder pension.

If you decide to stop paying into a stakeholder pension, you can leave the pension fund to carry on growing, mainly through investment growth, but check to see if there are extra charges for doing this.



SELF-INVESTED PERSONAL PENSIONS (SIPPS)

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.

How it works

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.

What you can and can't invest in

Most SIPPs allow you to select from a range of assets, such as:

- 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.

How you access money in your SIPP New rules introduced in April 2015 mean you can access and use your pension pot

in any way you wish from age 55.

SIPPs aren't for everyone, and you should seek professional financial advice if you are considering this option.

NATIONAL EMPLOYMENT SAVINGS TRUST PENSIONS

Low-cost option through your workplace

The National Employment Savings Trust (NEST) is a low-cost pension you may be able to join through your workplace or if you are self-employed. Once a member, you can carry on saving this way even if you change jobs or stop working.

What is NEST?

NEST is a pension scheme set up by the Government mainly to help employers with automatic enrolment. Between 2012 and 2018, employers must automatically enrol most of their workers in a workplace pension scheme and pay in contributions on your behalf. Your employer chooses the scheme, but it must meet minimum standards. Many employers are likely to choose NEST.

The main features of NEST are:

- Defined Contribution scheme, so you build up your own pension pot
- · Flexible contributions
- Low charges

Who can save with NEST?

You can save with NEST if:

- · Your current employer enrols you
- · A previous employer enrolled you
- · You are self-employed
- You are given a share of a NEST pension following divorce or the end of a registered civil partnership

How NEST works

NEST is a Defined Contribution (DC) scheme. This means that the contributions paid in by you, your employer and anyone else are invested and build up your own pension pot. You use this pot to provide yourself with an income in retirement.

Flexible contributions

If you are automatically enrolled into NEST, your employer must contribute, and usually you must pay in a minimum amount too. You can pay in extra if you want to. If you are self-employed, you choose whether to join and how much to save. Tax relief is added to your contributions.

You can stop and start contributions when you like, and pay in regular amounts or single lump sums as long as they are within the NEST limits. The minimum contribution is £10. Total contributions, including those from your employer, must not come to more than a yearly limit, currently £4,700 (2015/16 tax year).

Low charges

NEST has two types of charge:

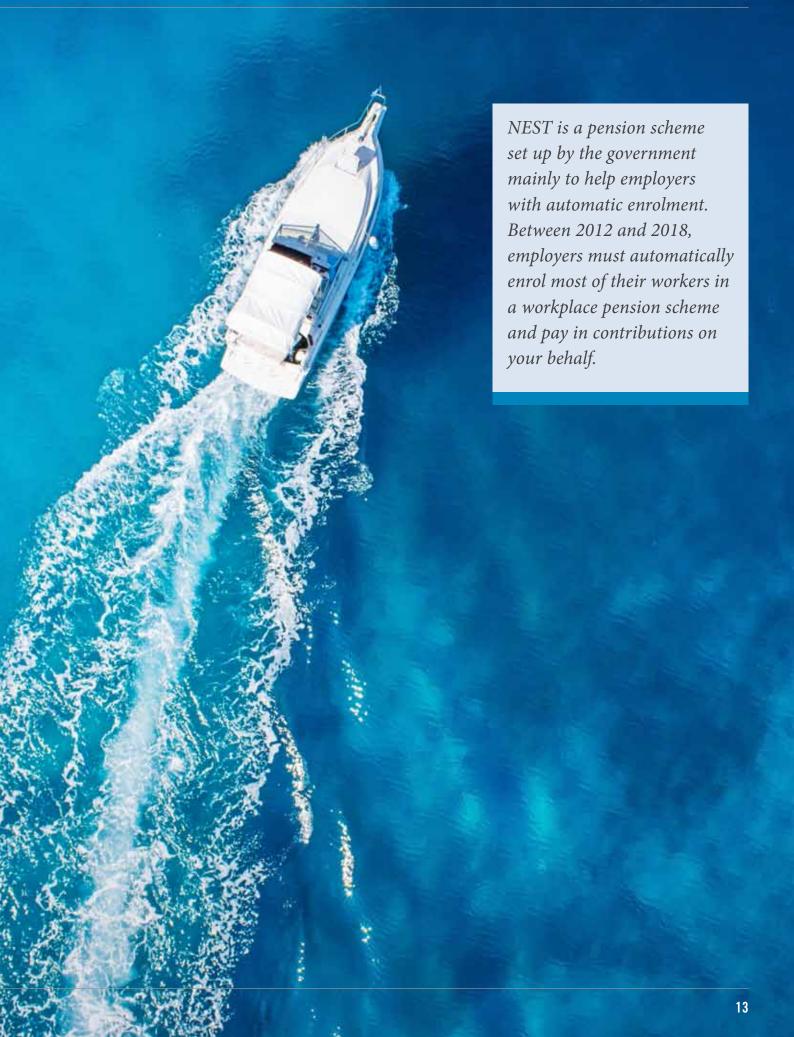
 A contribution charge set at 1.8% of whatever is paid in. So, if you contribute £10, after the charge £9.82 goes into your pot An annual charge of 0.3% of your pension pot. For example, if your pot is worth £1,000 this year, the annual charge will take away £3, leaving £997 invested in the pot for next year

These charges are lower than most personal pensions and much lower than the maximum charges allowed for stakeholder pensions (1.5% annual charge for the first 10 years and 1% a year after that).

Changing jobs

Once you are a member of NEST, you can carry on paying in even if you change jobs or stop work. If your new employer offers NEST, then both you and your employer can pay into your existing pension pot.

You cannot transfer any previous pensions you have built up into NEST or transfer your NEST savings to a different scheme.



PENSIONS FOR THE SELF-EMPLOYED

Building funds for your retirement

If you're self-employed, saving into a pension can be a more difficult habit to develop than it is for people in employment. There are no employer contributions, and irregular income patterns can make regular saving difficult. But preparing for retirement is crucial for you too.

Don't rely on the State Pension

If you're self-employed, you're entitled to the basic State Pension in the same way as anyone else. The full basic State Pension is currently set at £115.95 a week. The amount of State Pension you receive depends on your National Insurance contributions, and sometimes those of your current or former spouse or registered civil partner. To get the full amount, you need 30 qualifying years of National Insurance contributions or credits (more if you reached State Pension age before 6 April 2010).

But that's the extent of your entitlement to the State Pension – you can only claim the additional State Pension if you've had periods of employment during your working life.

On its own, the basic State Pension is unlikely to provide you with anything like your current standard of living. So it's crucial that you plan how to provide yourself with the rest of the retirement income you'll need.

An efficient way to save for retirement One big attraction of being self-employed is that you don't have a boss. But, in terms of pensions, that's a disadvantage. Workplace schemes can be a convenient way for employees to start contributing to a pension, and in many cases their

employers will make contributions too.

If you're self-employed, you won't have an employer adding money to your pension in this way. But you'll still get Income Tax relief on your contributions. If you're a basic-rate taxpayer, for every £100 you pay into your pension, HM Revenue and Customs will add an extra £20.

Start as early as possible

The earlier you start saving into a pension, the better. It gives you more time to contribute to your fund before retirement, more time to benefit from tax relief, and more time for growth in your fund's value due to investment returns and the power of compounded returns.

Starting early could double your pension fund. Someone saving £100 a month for 40 years (say from age 25 until 65) would put the same amount into their pension fund as someone starting 20



years later and putting £200 a month in. But the early starter would have a much bigger fund on retirement. Assuming 5% investment growth and a product charge of 0.75% throughout the term:

- The person starting at age 25 would build a fund of around £123,000
- The later starter's fund would grow to around £75,000

What kind of pension should you use?

There's a range of different types of pension scheme you can consider, including stakeholder pensions, personal pensions and SIPPs (self-invested personal pensions).

How much can you save?

You can save as much as you like



towards your pension each year, but there's a limit on the amount that will get tax relief. The maximum amount of pension savings that benefit from tax relief each year is called the 'annual allowance'. The annual allowance for 2015/16 is £40,000. If you go over £40,000, you won't get tax relief on further pension savings. You can usually carry forward unused annual allowance from the previous three years.

- If your income varies significantly from year to year, unused allowances can allow you to maximise your pension savings in years when your income is high
- You must have been a member of a pension scheme during the years

- you want to carry forward your unused allowance
- Even with unused annual allowance carried forward, your tax relief is limited by your annual earnings for the year in question
- If you save more than your annual allowance, you may have to pay a tax charge

Pension 'input periods'

Pension payments are made over 12-month periods called 'input periods' – but these don't always follow the tax year and may differ if you pay into different schemes.

 The tax year in which an input period ends determines the annual allowance that is applied

- So, any pension savings for input periods starting before 6 April 2015 but ending in the 2015/16 tax year will count towards the annual allowance limit of £40,000
- Your pension scheme administrator can tell you what your pension input periods are

OPTIONS FOR USING YOUR PENSION POT

You now have more choice and flexibility than ever before

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. It's important to take your time to understand your options and seek professional financial advice, as what you decide now will affect your retirement income for the rest of your life.

Taking your pension from April 2015

Changes introduced from April 2015 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).

Whether you plan to retire fully, to cut back 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 journey.

Your options at a glance

Leave your pension pot untouched

You may 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.

Use your pot to buy a guaranteed income for life – an annuity

You can choose to take up to 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 dependant or other beneficiary after you die.

Use your pot to provide a flexible retirement income – flexi-access drawdown

With this option, you take up to 25% 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 may 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.

Take small cash sums from your pot

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, the first 25% 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.

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 than with the previous two options.

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. The first 25% will be tax-free and the rest will be taxed at your highest tax rate – by adding it to the rest of your income.

There are many risks associated with cashing in your whole pot. For example, it's highly likely that you'll be landed with a large tax bill – 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.

Be sure to obtain professional financial advice before cashing in your entire pot.

Option combinations

You don't have to choose one option when deciding how to access your pension – you can opt for a combination, 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:

- When you stop or reduce your work
- Your income objectives and attitude to risk
- Your age and health
- The size of your pension pot and other savings
- Any pension or other savings your spouse or partner has, if relevant
- Whether you have financial dependants
- Whether your circumstances are likely to change in the future

ANNUITIES

Regular retirement income for life or for a set period

An annuity is a type of retirement income product that you buy with some or all of your pension pot. It pays a regular retirement income either for life or for a set period.

Annuities - the basics

Annuities are retirement income products sold by insurance companies.

They include:

- Lifetime annuities which pay you an income for life, and will pay a nominated beneficiary an income for life after you die if you choose this option; they include basic lifetime annuities and investment-linked annuities
- Fixed-term annuities which pay an income for a set period, usually five or ten years, and then a 'maturity amount' at the end that you can use to buy another retirement income product or take as cash

When you use money from your pension pot to buy an annuity, you can take up to a quarter of the amount as tax-free cash. You then use the rest to buy the annuity, and the income you receive is taxed as normal income.

How much retirement income you will get from an annuity – and for how long – will depend on:

- How old you are when you buy your annuity
- · How big your pension pot is
- · Your health and lifestyle
- · Annuity rates at the time you buy
- Which annuity type, income options and features you choose
- Where you expect to live when you retire

Once you buy an annuity you can't change your mind, so it's important to obtain professional financial advice

before committing to one.

Higher income for medical conditions or unhealthy lifestyle

If you have a medical condition, are overweight or smoke, you may 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.

Your other retirement income options An annuity is just one of several options you have for using your pension pot to provide a retirement income.





LIFETIME ANNUITIES

Guaranteeing a regular retirement income for life

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.

How a lifetime annuity works

You choose to take up to 25% of your pension pot – or of the amount you are 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. As a rule of thumb, the older you are when you take out an annuity, the higher the income (annuity rate) you'll get.

There are 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

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 to continue to a nominated beneficiary for a set number of years (for example, 10 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 get, and where you expect to live when you retire may also affect how much income you get.

Higher income for medical conditions or unhealthy lifestyle

If you have a medical condition, are overweight or smoke, you may 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.

Remember, a lifetime annuity is just one of several options you have for taking a retirement income.



INVESTMENT-LINKED ANNUITIES

Values dependent on how well the underlying investments perform

Investment-linked annuities also pay you an income for life, but the amount you get fluctuates 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 joint or single annuity, guarantee periods, value protection and higher rates if you have a short life expectancy due to poor health or lifestyle.

Things to think about

Once you buy an annuity, you can't change your mind, so it's important you obtain professional financial advice before committing to one.

If you have a very limited life expectancy,

an annuity may not be the right option for you. Think carefully about whether you need to provide an income for your partner or another dependant after you die.

What happens when you die?

If you have a single annuity and no other features, your pension stops when you die. Otherwise, the tax rules vary depending on your age.

If you die before age 75

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. Any lump sum payment due from a value protected annuity will be paid tax-free

If you die age 75 or over

 Income from a joint annuity or a continuing guarantee period will be taxable at the beneficiary's highest tax rate

- 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 taxable at 45% if paid before 6 April 2016 and at the beneficiary's highest tax rate if paid after that date



Using your pension pot for a flexible retirement income

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.

How flexi-access drawdown works

You can 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. Most people will use 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 may 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.

Using drawdown funds for other products

To help provide more certainty, 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 may offer guarantees about growth and/or income. What's available in the market will vary at any given time so you'll need to obtain professional financial advice.

Things to think about

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 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
- · You live longer than you've planned for

If you choose flexi-access drawdown, it's important to regularly review your investments. Unless you're an experienced investor, you may well need professional financial advice to help with this.



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 may vary from one provider to another.

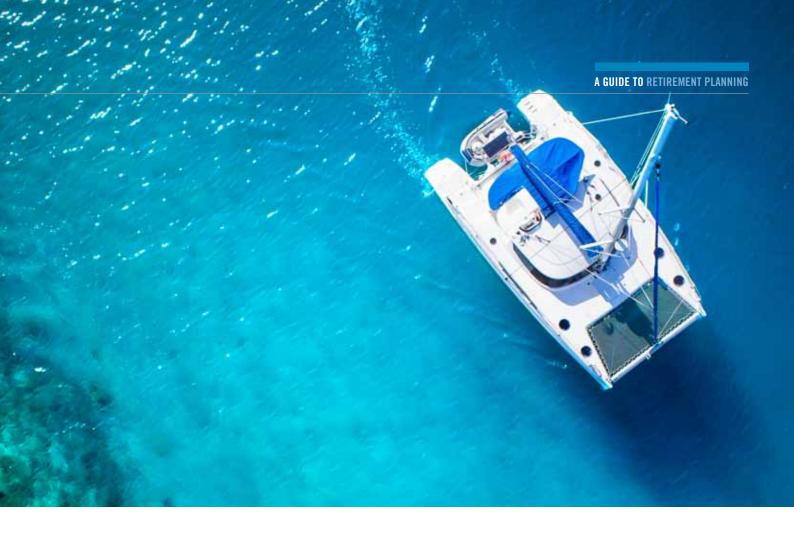
What tax will I pay?

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 £1.25m when you access your pot (2015/16 tax year), further tax charges may apply.

Tax relief on future pension saving

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 £10,000 (called the 'Money Purchase Annual Allowance' or MPAA). If you want to carry on building up your pension pot, this may influence when you start taking income.



What happens when you die?

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, 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, they will pay tax on it in the normal way. If they take the money as a lump sum before 6 April 2016, they'll pay 45% tax on it

 any lump sum taken on or after this date will be added to their income and taxed in the normal way

Is flexi-access drawdown right for me?

Income drawdown is a complex product, and you should seek professional financial advice to assess whether it's suitable for you. Flexi-access drawdown is just one of several options you have for using your pension pot to provide a retirement income.

Investment-linked annuities also pay you an income for life, but the amount you get fluctuates depending on how well the underlying investments perform.

TAKING SMALL CASH SUMS FROM YOUR PENSION POT

Consider the tax implications and the risk that your money could run out

Under new flexible rules introduced in April 2015, you can now use your pension pot to take out cash as and when you need it. However, there are tax implications and a risk that your money could run out.

How it works

You take cash from your pension pot whenever you need it. For each cash withdrawal, the first 25% will be tax-free and the rest will be taxed at your highest tax rate by adding it to the rest of your income.

There may be charges each time you make a cash withdrawal and/or limits on how many withdrawals you can make each year.

Unlike with the option called flexi-access drawdown, your pension pot isn't reinvested into funds that are actively managed to pay a regular income – this means there's more risk that its value could fall

Things to think about

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. The funds where your existing pot is invested could fall in value and you could run out of money.

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 may 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 also reduce your entitlement to benefits now or as you grow older.

Tax you will pay

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 may pay too much tax and have to claim the money back – or you may owe more tax if you have other sources of income.

Extra tax charges or restrictions may apply if your pension savings exceed the lifetime allowance (currently £1.25m), or if you have less lifetime allowance available than the amount you want to withdraw.

Tax relief on future pension savings

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 £10,000 (called the 'Money Purchase Annual Allowance' or 'MPAA'). If you want to carry on building up your pension pot, this option may not be suitable.

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.

What happens when you die?

- 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
- If you die after the age of 75 or over and your nominated beneficiary takes the money as income, they will pay tax on it in the normal way. If they take the money as a lump sum before 6 April 2016, they'll pay 45% tax on it – any lump sum taken on or after this date will be added to their income and taxed in the normal way

The lifetime allowance charge
If the value of all of your pension
savings is above £1.25m when you die,
further tax charges may apply.

Your other retirement income options
Taking cash sums is just one of several
options you have for using your pension
pot to provide a retirement income.
Because of the risk of running out of
money, we don't recommend using this
method to fund your retirement income.



TAKING YOUR WHOLE PENSION POT AS CASH

A high-risk and non-tax-efficient way to fund your retirement income

Under new rules introduced in April 2015, you can now take the whole of your pension pot as cash in one go if you wish. However, if you do this, you could end up with a large tax bill and run out of money in retirement.

How it works

To take your whole pension pot as cash, you simply close your pension pot and withdraw it all as cash. The first 25% will be tax-free. The remaining 75% will be taxed at your highest tax rate – by adding it to the rest of your income.

Things to think about

This option won't provide a regular income for you – or for your spouse or any other dependant after you die.

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 – it may be more taxefficient 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, and not all pension schemes and providers offer the facility to withdraw cash – if yours doesn't, shop around, as charges will vary. But get guidance or advice before you commit.

You may not be able to use this option if you have received a share of an exspouse or ex-civil partner's pension as a result of a divorce, or if you have certain protected rights with your pension. Check with your scheme or provider.

Tax you will pay

Remember, 75% of the amount you withdraw counts as taxable income. It is highly likely this will increase your tax rate when added to your other income. 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 may pay too much Income Tax and have to claim the money back – or you may owe more tax if you have other sources of income.

Extra tax charges or restrictions may apply if your pension savings exceed the lifetime allowance (currently £1.25 million), or if you have reached age 75 and have less lifetime allowance

available than the value of the pension pot you want to cash in.

Tax relief on future pension savings

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 £10,000 (MPAA). If you want to carry on building up your pension pot, this option may not be suitable.

What happens when 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.

Your other retirement income options

Cashing in your pension pot is just one of several options you have for using your pension pot to provide a retirement income. Because of the risk of running out of money, we don't recommend using this method to fund your retirement income.

LIFETIME ALLOWANCE FOR PENSION SAVINGS

Limiting the value of payouts from pension schemes

The lifetime allowance is a limit on the value of payouts from your pension schemes – whether lump sums or retirement income – that can be made without triggering an extra tax charge.

How much is the lifetime allowance?

The lifetime allowance for most people is £1.25 million in the tax year 2015/16 (reduced from £1.5 million in 2013/14 and falling to £1 million from 6 April 2016). 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.

Protecting your lifetime allowance

If your total pension savings exceed £1.25 million, you may be able to apply for protection – called 'Individual Protection 2014'.

Individual Protection 2014

Availability

Individual Protection 2014 (IP2014) is only available if the value of your pension savings on 5 April 2014 was over £1.25 million.

If you have applied for protection in the

past on other occasions when the lifetime allowance was reduced, you might not be eligible to apply for protection again now.

Level of protection

Completing HM Revenue & Customs (HMRC) form IP2014 will give you a protected lifetime allowance equal to the value of your pension savings on 5 April 2014 subject to an overall maximum of £1.5 million.

Can you continue saving into a pension?

Yes, you can continue saving into a pension, but any pension savings above the protected lifetime allowance will be liable for tax on the excess called the 'lifetime allowance charge'.

How to apply

There is a three-year period in which you can apply for IP2014 (6 April 2014 to 5 April 2017). You will have up to 5 April 2017 to submit your IP2014 application to HMRC.

The protection rules are complicated, and the ways in which the protection can be lost differ depending on whether your retirement income (including lump sums) is provided from a Defined Contribution or a Defined Benefit pension scheme.

Working out if this applies to you

Every time a payout from your pension schemes starts, its value is compared against your remaining lifetime allowance to see if there is additional tax to pay. You can work out whether you are likely to be affected by adding up the expected value of your payouts.

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

- For defined contribution pension schemes, including all personal pensions, the value of your benefits will be the value of your pension pot used to fund your retirement income and any lump sum
- For defined benefit pension schemes, you calculate the total value by multiplying your expected annual pension by 20. In addition, you need to add to this the amount of any tax-free cash lump sum if it is additional to the pension. In many schemes, you would only get a lump sum by giving up some pension, in which case the value of the full pension captures

the full value of your payouts. So you are likely to be affected by the lifetime allowance in 2015/16 if you are on track for a final salary pension (with no separate lump sum) of more than £62,500 a year or a salary-related pension over £46,875, plus the maximum tax-free cash lump sum

- Note that certain tax-free lump sum benefits paid out to your survivors if you die before age 75 also use up lifetime allowance
- Whenever you start taking money from your pension, a statement from your scheme should tell you how much of your lifetime allowance you are using up

Charges if you exceed the lifetime allowance

If the cumulative value of the payouts from your pension pots, including the value of the payouts from any Defined Benefit schemes, exceeds the lifetime allowance, there will be tax on the excess – called the 'lifetime allowance charge'.

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

Lump sums

Any amount over your lifetime allowance that you take as a lump sum is taxed at 55%. Your pension scheme administrator should deduct the tax and pay it over to 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 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 may 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.

How to avoid losing your Fixed Protection

With Fixed Protection (but not Individual Protection), the protection is lost if you build up any new pension savings. Therefore, you should be particularly careful if your employer automatically enrols you into a pension scheme at work. You will need to opt out of the workplace pension scheme or you will lose the Fixed Protection.

To avoid losing this protection you must:

- Make sure you opt out of automatic enrolment promptly – you usually have a one-month window to do this and get your contribution refunded
- Not make any further payments

- into any Defined Contribution
 pension scheme if you do, you'll
 automatically lose your protection and
 revert back to the current limit
- Think carefully before continuing as an active member of a Defined Benefits scheme – opting out of active membership and becoming a deferred member significantly reduces the risk of losing your protection

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.

HOW WILL YOU GENERATE AN INCOME FROM YOUR PENSION SAVINGS?

You now have the complete freedom to use your Defined Contribution pension savings as you see fit once you reach the minimum retirement age of 55, and have total flexibility on how you generate an income from your pension savings. But with so many choices to make, it could be very costly if you get it wrong. To discuss your situation, please contact us – we look forward to hearing from you.

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