



ROTHESAY BENNETT
FINANCIAL PLANNING

GUIDE TO

**PLANNING
FOR YOUR
RETIREMENT**

AM I READY FOR LIFE BEYOND WORK?

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GUIDE TO

PLANNING FOR YOUR RETIREMENT



Am I ready for life beyond work?

WELCOME

Welcome to our Guide to Planning For Your Retirement. When it comes to planning for retirement, the earlier you start, the more potential your money has to grow. Retirement planning is not simply about paying regularly into your pension and forgetting about it. Instead, it is essential to review your progress against your retirement goals and take account of changes that may affect your plans.

A critical aspect of retirement planning is structuring your affairs to ensure that you can meet your desired level of income when you stop working. With ever-changing pension legislation and increasing life expectancy, it makes sense to use all the tax-efficient options available to create a flexible retirement plan.

The Ancient Greek historian Thucydides wrote that ‘the secret to happiness is freedom’ – and now you have more options than ever when it comes to your retirement savings. In our guide, we consider what these are and the revolution in pensions that transformed the retirement prospects for millions following the passing of the Pension Schemes Act 2015. April 2019 was the fourth

anniversary since the introduction of the pension freedoms – a fundamental change in the approach to retirement savings.

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

Start planning for your future, today

Retirement planning is a long-term commitment. But wherever you sit in your retirement journey, we’re here to support you, whether it’s starting a pension, saving more into your plan or helping with your options for retirement. 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ONCE MONEY IS PAID INTO A PENSION, IT CANNOT BE WITHDRAWN UNTIL YOU ARE AGED AT LEAST 55 (INCREASING TO 57 FROM 2028).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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SAVING ADEQUATELY FOR THE FUTURE

How much should you try to save to have a comfortable retirement?

The good news is that the number of people saving enough for a comfortable retirement has hit its highest ever level, with almost three in five Britons (59%) now saving adequately for the future^[1]. This is a significant improvement from the 55% proportion recorded 12 months ago, suggesting this April's auto-enrolment step-up had an immediate positive impact on saving habits.

However, research^[2] shows that the proportion of people not saving at all for later life remains static at 17%. Meanwhile, more than a fifth of UK adults (22%) – equating to almost eight million people – expect they'll never be able to afford to retire.

Just how much is enough?

If you're decades away from retirement, you may not think it's necessary to start saving yet, as your money can be better spent elsewhere. But how much should you try to save to have a comfortable retirement? Just how much is enough? As a rule of thumb, you are likely to need in the region of 70% of what you were earning at the peak of your career to maintain that standard of living in your retirement.

Those who think they'll never be able to retire^[3] are more likely to have no pension savings at all (35% of this group versus 26% national average), with over half (51%) expecting to rely solely on the State Pension in later life.

Financially vulnerable

In fact, 'never-retirers' are those who are already financially vulnerable. They have an

average income of £21,500 a year – significantly below the UK average salary of £27,396 – and are much more likely to have faced a financial emergency in the past, from an unexpected bill to a sudden drop in income (86% of this group versus 67% national average).

One of the concerns 'never-retirers' face is making sure their money lasts as long as they do. They are understandably anxious about making ends meet: 85% of them worry about running out of money in retirement (compared to 53% of the wider population), and almost three in five (63%) are worried they will have to work when they are no longer fit and healthy.

Comfortable retirement

The number of under-30s not saving for retirement has fallen dramatically thanks to auto-enrolment: almost half a million under-30s started saving for the first time in the last two years^[4], with four in ten (40%) 22-29-year-olds now saving adequately. This is a significant uplift from the 30% recorded in 2017. However, this still leaves three in five young people saving below the recommended level for a comfortable retirement, with 14% of 22-29-year-olds not saving anything.

The research highlights progress over the last 15 years. The proportion of people who are not in a defined benefit scheme and saving something for retirement has risen from an average of just 43% in 2007 to 55% today. The biggest gains have been among younger people,

with an 18% rise in 22-29-year-olds saying that they save for later life.

Poverty in later years

One in five people say they'll never be able to retire. With no further step-ups in auto-enrolment contributions planned, this is a timely reminder that bold action must be taken to ensure no one has to face the spectre of poverty in their later years.

While the past 15 years have proved that things have been changed for the better, auto-enrolment alone won't avert a pension crisis in the UK. Government and industry need to take the next step together and stop pretending the long-term savings challenge can be solved in isolation. ■

Source data:

[1] *Scottish Widows deems minimum adequate retirement savings as 12% of an individual's income.*

[2] *The research was carried out online for Scottish Widows by YouGov Plc across a total of 5,036 adults aged 18+. Data is weighted to be representative of the GB population. Fieldwork was carried out 11–29 April 2019.*

[3] *Almost 8 million (7,826,626) calculated as 22% of the GB adult population (50,744,595) who do not expect they'll ever be able to afford to retire*

[4] *Almost half a million under-30s (473,920) started saving for the first time calculated as: 20% were non-savers in 2017, reducing to 14% in 2019.*

This difference is calculated as 6% of 22-31-year-olds (who were 29 in 2017) (7,898,680), were 29 in 2017) (7,898,680).

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 2019/20 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.

There is an exception to this standard rule, however. 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 – this is called the 'tapered annual allowance'.

The Money Purchase Annual Allowance (MPAA)

In the tax year 2019/20, 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 £1,055,000 for the tax year 2019/20. Any amount above this is subject to a tax charge of 25% if paid as pension, or 55% if paid as a lump sum.

Workplace pensions, automatic enrolment and tax relief

Since October 2012, a system has been gradually phased in requiring employers to automatically enrol all eligible workers into a workplace pension.

It requires a minimum total contribution, made up of the employer's contribution, the worker's contribution and the tax relief. ■





PENSION LIFETIME ALLOWANCE

Putting a value on your pension savings in the future

The pension lifetime allowance is a limit on the value of payouts from your pension schemes – whether lump sums or retirement income – that can be made without triggering an extra tax charge. The lifetime allowance for most people is £1,055,000 in the tax year 2019/20.

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

The foundation of most people's retirement plans

Data for people qualifying for the full new State Pension following its introduction in April 2016 reveals that almost two in five pensioners (365,290 people, or 38% of claimants) receive less than £150 a week, while a further 314,290 people (33% of claimants) receive more than £150 a week^[1].

The new State Pension is a regular payment from the Government that most people can claim in later life. You can claim the new State Pension at State Pension age if you have at least ten years' National Insurance contributions and are a man born on or after 6 April 1951, or a woman born on or after 6 April 1953. The earliest you can receive the basic State Pension is when you reach State Pension age.

Benefits built up over the old and new systems

The full amount you can get under the new State Pension is £168.60 per week (in 2019/20), but this depends on your National Insurance (NI) record. If you have 35 years or more of NI contributions, you will get the full amount; between 10 and 34 years of contributions, you will receive a proportion of the pension; and less than ten years of NI contributions, you aren't eligible for the new State Pension.

The data also shows 282,447 pensioners (29% of claimants) are receiving a new State Pension from April 2016 with a 'protected payment', which essentially means they receive more than the new full State Pension, as benefits built up over the old and new systems are worth more than the new flat rate.

Foundation of most people's retirement plans

People can receive less than the full flat-rate State Pension when their NI record is incomplete or have paid less than the 35 qualifying years required under the new rules (usually through periods of contracting out).

The State Pension is the foundation of most people's retirement plans, and yet this data shows more than half of those eligible to claim the State Pension under the new flat-rate system receive less than the full amount. Given the various changes that have been introduced over the years, it's not surprising people find the whole system difficult to understand.

State Pension tips

- Go online or contact the Department for Work and Pensions (DWP) for an up-to-date State Pension forecast. DWP will use your NI record under old and new State Pension rules to calculate your State Pension
- Your 'starting amount' can be less than, more than or equal to the new full State Pension
- Consider paying voluntary NI contributions if there are gaps in your records (you can only usually go back six years)
- There is no benefit in paying voluntary NI contributions if you've built up 30 years under the old system before April 2016
- Ensure you've claimed credits for periods where you've not worked, for example, when unemployed or looking

after children. This should happen automatically, but mistakes can and do happen, especially if you are self-employed

- You can claim for NI credits if you are caring for parents or grandchildren
- If you've been contracted out for any period before April 2016, you will have paid lower NI and therefore receive a smaller State Pension. Your private pension will have an element of 'Contracted Out Pension Equivalent' (or 'COPE') which will allow for this
- Consider deferring your State Pension (although this is less financially generous than previously)

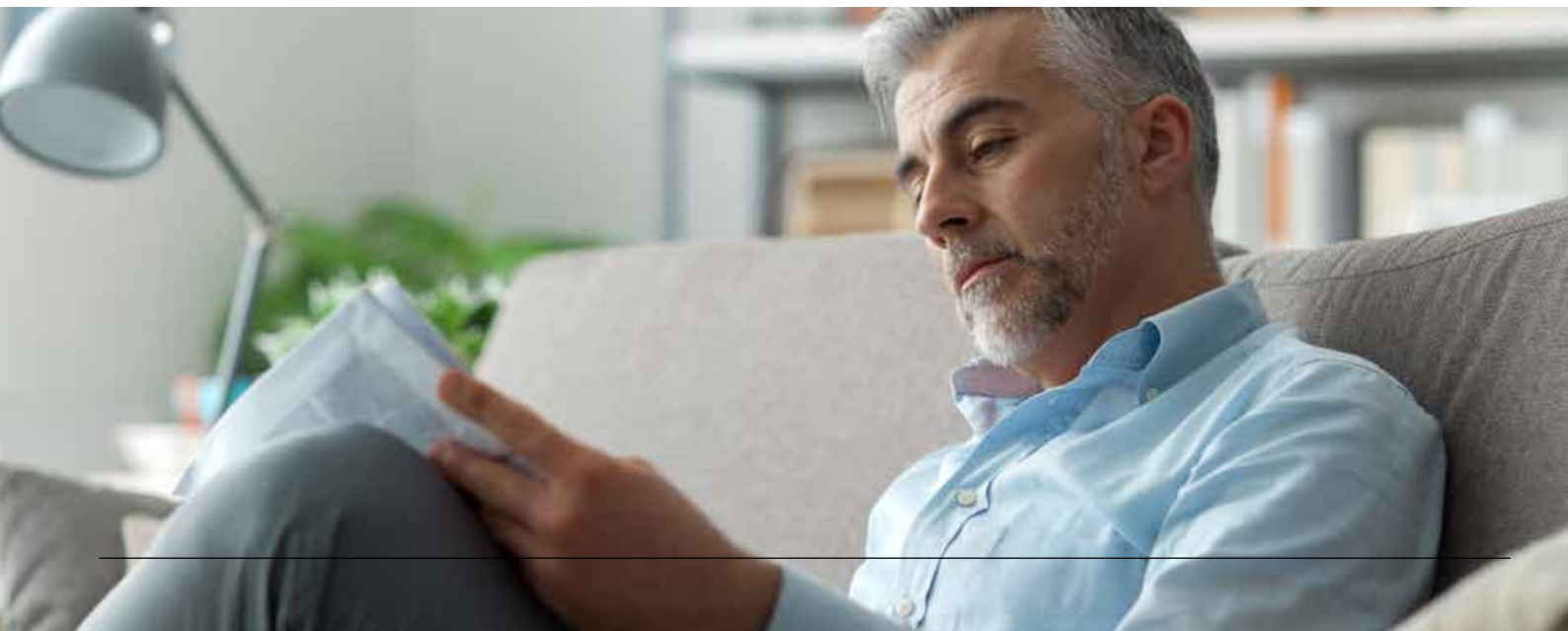
Spend the longest time on preparing for retirement

The State Pension can be a minefield. And remember, it is only really there to provide a basic standard of living when you retire. Of all the life events to plan for, you should spend the longest time on preparing for retirement.

If you're in your 50s or early 60s, you may increasingly be thinking more about retirement and how to plan for it. One of the most common dilemmas for people of this age is how best to fund their lifestyle once they've stopped work and maintain their pre-retirement standard of living. ■

Source data:

[1] Freedom of Information request, Canada Life – 6 June 2019





WOMEN'S STATE PENSION AGE CHANGES

Government's bid to ensure 'pension age equalisation'

On 3 October, campaigners lost a significant legal battle against the Government's handling of the rise in women's State Pension age. Up until 2010, women received their State Pensions at the age of 60, but that has been increasing since then.

The retirement age for women has increased from 60 to 65, in line with men, and will go up to 66 by 2020, and to 67 by 2028. Nearly four million women have been affected by these changes. Women born in the 1950s claim the rise is unfair because they were not given enough time to make adjustments to cope with years without a State Pension.

Fast-tracked changes

Plans to increase the State Pension age were first announced in the Pensions Act 1995, but the changes were fast-tracked as part of the Pensions Act 2011. The Government decided it was going to make the State Pension age the same for men and women as a long-overdue move towards gender equality. Campaigners have argued the changes are discrimination, but the judges disagreed.

In a summary of the High Court's decision, the judges said: 'There was no direct discrimination on grounds of sex, because this legislation does not treat women less favourably than men in law. Rather it equalises a historic asymmetry between men and women and thereby corrects historic direct discrimination against men.'

Pension age entirely lawful

The court also rejected the claimants' argument that the policy was discriminatory based on age,

adding that even if it was, 'it could be justified on the facts.' The State Pension age has been increased by successive governments in a bid to ensure 'pension age equalisation' – so that women's State Pension age matches that of men.

A spokesman for the Department for Work and Pensions said: 'We welcome the High Court's judgment. It has always been our view that the changes we made to women's State Pension age were entirely lawful and did not discriminate on any grounds.'

Financial hardship for many

Up until 2010, women received their State Pensions at the age of 60, but that has been rising since then. While most campaigners support pension age equality, they argued that the Government was discriminatory in the way it has introduced it. The judges said there was nothing written into the law that ordered specific notification about the pension age changes.

The result has been that some women who thought they would retire and receive a State Pension at 60 found that they would have to wait longer – for some, a wait of more than five years, which has resulted in financial hardship for many.

Focus of much of the campaign

Those affected were born in the decade after 6 April 1950, but those born from 6 April 1953 were particularly affected and have been the focus of much of the campaign.

In June, the judicial review in the High Court heard the claim from two members of the Backto60 group who said that not

receiving their State Pension at the age of 60 had affected them disproportionately. They argued that many women took time out of work to care for children, were paid less than men and could not save as much in occupational pensions, so the change had hit them harder.

Disadvantaged millions of women

The Backto60 group is seeking repayment of all the pensions people born in the 1950s would have received if they had been able to retire earlier. It argues that the speed of the change and what it calls the 'lack of warnings' has disadvantaged millions of women.

However, the Government has estimated that a reversal of the pension changes in the Acts of Parliament of 1995 and 2011 would cost £215 billion over the period 2010/11 to 2025/26. About £181 billion of that would be money potentially owed to women, and the rest to men.

'Bridging' pension to cover the gap

The Backto60 group has taken this legal action to demand 'the return of their earned dues.' The separate Women Against State Pension Inequality (WASPI) group is calling for a 'bridging' pension to cover the gap from the age of 60 until their State Pension is paid.

Commenting, the group said: 'We can't simply follow in our parents' footsteps as the social norms that worked for them are unlikely to work over longer lives. We will all have to start doing things differently. This is particularly apparent in retirement planning.' ■

DEFINED CONTRIBUTION PENSION SCHEMES

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

With a defined contribution pension, you build up a pot of money that you can then use to provide an income in retirement. Unlike defined benefit schemes, which promise a specific income, the income you might get from a defined contribution scheme depends on factors including the amount you pay in, the fund's investment performance and the choices you make at retirement.

Defined contribution pensions build up a pension pot using your contributions and your employer's contributions (if applicable), plus investment returns and tax relief. If you're a member of the scheme through your workplace, then your employer usually deducts your contributions from your salary before it is taxed. If you've set the scheme up for yourself, you arrange the contributions yourself.

The fund is usually invested in stocks and shares, along with other investments, with the aim of growing it over the years before you retire. You can usually choose from a range of funds to invest in. Remember, though, that the value of investments can go up or down.

The size of your pension pot and amount of income you receive when you retire will depend on:

- How much you pay into your pot
- How long you save for
- How much your employer pays in (if a workplace pension)
- How well your investments have performed
- What charges have been taken out of your pot by your pension provider
- How much you take as a cash lump sum
- The choices you make when you retire
- Annuity rates at the time you retire – if you choose the annuity route

When you retire, your pension provider will usually offer you a retirement income (an annuity) based on your pot size, but you don't have to take this, and it isn't your only option. ■





DEFINED BENEFIT PENSION SCHEMES

Paying out a secure income for life which increases each year

A defined benefit pension scheme is one where the amount paid to you is set using a formula based on how many years you've worked for your employer and the salary you've earned, rather than the value of your investments. If you work or have worked for a large employer or in the public sector, you may have a defined benefit pension.

Defined benefit pensions pay out a secure income for life which increases each year. They also usually pay a pension to your spouse or registered civil partner and/or your dependents 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 dependents. This is usually a fixed percentage (for example, 50%) of your pension income at the date of your death.

You may be able to take your whole pension as a cash lump sum. If you do this, up to 25% of the sum will be tax-free, and the rest will be subject to Income Tax. You can usually do this from age 55, or earlier if you're seriously ill. ■

PERSONAL PENSIONS

Saving tax-efficiently for retirement

A personal pension is a type of defined contribution pension. You choose the provider and make arrangements for your contributions to be paid. If you haven't got a workplace pension, getting a personal pension could be a good way of saving for retirement.

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

Your pension pot builds up in line with the contributions you make, investment returns and tax relief. The fund is usually invested in stocks and shares, along with other investments, with the aim of growing the fund over the years before you retire. You can usually choose from a range of funds to invest in.

When you retire, the size of your pension pot 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. ■

FREEDOMS TO TURN 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?

Cashing out

Unadvised retirees who are now able to dip into their pension are having to return to work

to cope with juggling their finances, according to a new report^[1].

Pension freedoms have given individuals control over how to spend their retirement savings, but a number of unintended consequences have emerged. Since rules governing how pensions can be taken were dramatically relaxed in 2015, more than a million over-55s have gone on a freedom-fuelled spending spree.

New options to consider

The pension changes brought a whole new range of options to consider. Individuals now have to think about whether they want an annuity, drawdown, cash or a combination of options (when to access their pension; if it is better to use savings first before drawing their pension; and so on).

However, it seems many don't really understand the consequences of these options. As a result, more than £23 billion has been 'cashed out' from the nation's pension pots via more than 5 million individual payments. The findings show the increase in retirees returning to the workforce since the introduction of pension freedoms four years ago is due to the number of options available and the lack of professional financial advice.

Facing financial pressure

A quarter of retirees who have returned to work since April 2015 say they were faced with financial pressure. Figures from HM Revenue and Customs show around one million over-55s withdrew a 25% tax-free lump sum from

their pension in the last year, up 23% points from the 12 months prior.

There is a lot to think about when you're planning for retirement, and your circumstances will change over time, which is why it is important to obtain professional financial advice. There's no doubt the pension freedoms have been hugely popular, but for some retirees they have come at a high price. People now face more complicated decisions in retirement, and it's clear not everyone is getting it right.

Scale of the problem

The figures also show other reasons for returning to work that include reigniting a sense of purpose and boosting social relationships. A report from the Pensions Policy Institute shows women particularly are continuing to struggle with pensions savings. The average pension for a woman is currently £100,000 lower than for men.

Women's pension savings have historically been impacted by a combination of the gender pay gap, part-time working and the increased burden of childcare costs, but this figure lays bare the scale of the problem. ■

Source data:

[1] All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 2,028 adults, who have accessed their DC pension since 1 April 2015. Fieldwork was undertaken between 18 and 29 April 2019. The survey was carried out online for Zurich.





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 2019/20), 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) by delaying your retirement date.

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 £1,055,000 tax year 2019/20), 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.

However, you have to be comfortable with the risk that your income could fall if the investments don't do as well as expected. All investment-linked annuities guarantee a minimum income if the fund's performance is weak.

With investment-linked annuities, you can also opt for 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 – this 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 dependent 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 dependent 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 you can 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 because 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 £1,055,000 when you access your pot (2019/20 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 2019/20 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. ■

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 reinvested into new funds specifically chosen to pay you a regular income, and it won't provide for a dependent 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 £1,055,000 2019/20 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 2019/20, 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 dependent 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, your spouse or any other dependent 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 2019/20 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 circumstances 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. ■



PENSION SCAMMERS

Make sure you spot the warning signs

Don't let scammers enjoy your hard-earned pension proceeds. Anyone can be the victim of a pension scam, no matter how savvy they think they are. It's important that everyone can spot the warning signs.

Latest figures show that nearly one in ten over-55s fear they have been targeted by suspected scammers since the launch of pension freedoms, new research^[1] shows. Cold-calling has been used by fraudsters trying to steal life savings or persuade people to invest in high-risk schemes.

Some 10.9 million unsolicited pension calls and messages are made a year, according to Citizens Advice. The new research suggests people could fall for at least one of six common tactics used by pension scammers.

Claims of guaranteed high returns

The tactics include pension cold calls, free pension reviews, claims of guaranteed high

returns and exotic investments. They also include time-limited offers and early access to cash before the age of 55 that can tempt savers into risking their retirement income.

However, exotic or unusual investments are high-risk and unlikely to be suitable for pension savings. But worryingly, nearly a quarter (23%) of the 45-65-year-olds questioned say they would be likely to pursue these exotic opportunities if offered them.

Gaining early access to pension monies

Helping savers to access their pensions early also proved to be a persuasive scam tactic. One in six (or 17%) of 45-54-year-old pension savers say they would be interested in an offer from a company that claimed it could help them gain early access to their pension monies. Of all those surveyed, 23% say they would talk with a cold caller who wanted to discuss their pension plans,

despite the Government's ban on pension cold-calls this January.

The FCA and the Pensions Regulator have warned that 42% of pension savers, equivalent to five million people, could be at risk of pension scams. The study found 9% of over-55s say they have been approached about their pension funds by people they now believe to be scammers since the rules came into effect from April 2015. Offers to unlock or transfer funds are tactics commonly used to defraud people of their retirement savings.

Being defrauded of savings is a major concern

One in three (33%) over-55s say the risk of being defrauded of their savings is a major concern following pension freedoms. However, nearly half (49%) of those approached say they did not report their concerns because they did not know how to report or were unaware of whom they could report the scammers to.



Most recent pension fraud data^[2] from ActionFraud, the national fraud and cybercrime reporting service, shows 991 cases have been reported since the launch of pension freedoms involving losses of more than £22.687 million.

Approached by suspected scammers

The research found that fewer than one in five (18%) of those approached by suspected scammers had reported their fears to authorities. Nearly half (47%) said the approaches involved offers to unlock pension funds or access money early, and 44% said they involved transferring pensions.

About 28% of those targeted by suspected fraudsters were offered alternative investments such as wine, and 20% say they were offered overseas investments, while 13% say scammers had suggested investing in cryptocurrencies. Around 6% believe they have been victims of frauds.

Lucrative opportunity for fraudsters

Pension freedoms, though enormously popular with consumers, have created a potentially lucrative opportunity for fraudsters, and people need to be vigilant to safeguard their hard-earned retirement savings. If it sounds too good to be true, then it usually is, and people should be sceptical of investments that are offering unusually high rates of return or which invest in unorthodox products which may be difficult to understand.

If in any doubt, seek advice from a regulated professional financial adviser. Retirement savers can report suspected frauds on the ActionFraud helpline 0300 123 1047 or online at www.actionfraud.police.uk/report_fraud, and more advice is available at www.thepensionsregulator.gov.uk/pension-scams or by calling the Pensions Advisory Service on 0300 123 1047.

Know the warning signs

It doesn't matter the size of your pension pot – scammers are after your savings. Get to know the warning signs, and before making any decision about your pension, be ScamSmart and check you are dealing with an FCA authorised firm. ■

Source data:

[1] Consumer Intelligence conducted an independent online survey for Prudential between 23 and 25 February 2018 among 1,000 UK adults aged 55+, including those who are working and retired

[2] www.actionfraud.police.uk/fraud-az-pension-liberation-scam

PLAN TODAY TO ENJOY TOMORROW

Whatever you want from retirement, one thing is certain – to give yourself the retirement you want and deserve, you need to plan ahead.

Speak to us to find out how we can help you.

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The law and tax rates may change in the future. These details are based on our understanding of the current 2019/20 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.