Whitechurch
Financial Consultants
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Retirement Options

- A Useful Guide

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Introduction

This guide aims to give you an awareness of the options available on taking benefits from a pension scheme for retirement income.

Whilst this information cannot be taken as a recommendation of any of the options, it should help you understand the options on offer, the advantages, disadvantages and what you should consider. If you are uncertain after reading this guide we recommend that you contact us for full financial advice.

The retirement options listed in this guide concern benefits taken from the following:

- Stakeholder Pension Plans
- Money Purchase AVC
- Personal Pension Plans
- Free Standing AVC
- Group Personal Pension Plans
- Money Purchase Company Schemes
- Retirement Annuity Contracts
- Section 32 Buy-out Bond

Please note that this guide does not cover the options available from a Defined Benefit (Final Salary) Occupational Scheme.

Timing the taking of your benefits

Anyone who has a pension plan will eventually have to make a decision. The time of the decision could be:

- at retirement to replace earnings
- before or after retirement
- part now and part later
- at age 75

The timing of the decision to use your pension fund for income can determine how much you get. The current minimum age at which benefits can be taken is 55.

Taking benefits later

It is possible to retire or take benefits later than normal retirement age. Under the new rules, your pension plan does not have to be taken by the age of 75 and can be deferred until a later date or even death. However, after the age of 75 upon death there is a tax charge against the fund, which can be paid to any beneficiary, at their marginal rate, as a lump sum, annuity or as a drawdown pension.

Taking benefits earlier

Taking your benefits early or earlier than you need them will mean that your income from an annuity will be lower. This is because:

- Your pension fund can provide an income for the rest of your life via a series of lump sums or it can be withdrawn in one lump sum (subject to tax). At younger retirement ages the fund is likely to have to pay you for many years so the income will be lower but if you start your income at an older age, meaning it will be needed for fewer years, then the income will be higher. The income is based on average life expectancy at your age.
- The pension fund that is used to buy an income through an annuity will cease to be invested. If the start is delayed by, say, five years, the pension could benefit from:
    - an extra five years growth, making a larger fund available (although investments can go down as well as up).
    - a higher annuity rate due to your older age (although it is impossible to predict future annuity rates).

It is for these reasons that serious consideration should be given to the advantages and disadvantages of taking benefits early. Many people have taken benefits at a younger age only to find that their income later in retirement is insufficient for their needs.

Pension Income

Pension Commencement Lump Sum (tax-free lump sum)

All pension funds allow you to take a Pension Commencement Lump Sum.

It is often worth taking the maximum tax free lump sum – although we would urge you to seek advice before making this decision. If additional income is needed, the lump sum can be used to buy an income, similar to a pension. This type of income, known as a Purchased Life Annuity, is treated more favourably under the taxation rules than income from a pension fund. Another option is that the lump sum could be invested to provide income, growth or a mixture of the two.

Regular income

There are three ways of converting your pension fund into retirement income:

1. Buy an annuity
2. Take 'income withdrawal' before buying an annuity
3. Stay in income withdrawal until your death or use flexible income withdrawal

Pension Annuities

An annuity is a method of converting your pension fund into an income payable for the rest of your lifetime. Unless you have made provision for a partner the income usually finishes on your death.

Types of Annuities	
Single Life Annuity	Income ceases on your death
Joint Life Annuity	The income continues to your surviving partner at the full rate or, more commonly, at 2/3rds or half the rate
Level Annuity	The income is fixed at the outset and never changes
Impaired/Enhanced Annuity	The amount of income is increased if you have a lower than average life expectancy
Escalating Annuity	The income could be increased each year by either RPI or a fixed rate which is set at the start of the annuity
Guaranteed Period	This is not an annuity but may be added to an annuity to guarantee that the income will be paid for the first 5 or 10 years or even longer in retirement even if you die earlier
Phased Retirement	Only a part of your pension fund is used to provide income; the other parts are used at intervals over the years
Capital Protected	This is another option that can be added to an annuity that can ensure if you die before the age of 75 that part of your pension fund is returned to your estate
Investment Linked Annuity	The level of income is determined by the investment performance of the remaining fund
Alternatives to Annuities	
Third Way Pension Plan	This is an option where you can guarantee the income or the fund value. With these options we feel advice is particulary required to confirm whether it is suitable for clients
Income Withdrawal	Income is taken directly from the pension fund instead of buying an annuity, leaving the remaining funds invested to be used for an annuity later if required. You can remain in income withdrawal until death

Retirement Income Options

Once an annuity is set up it cannot be encashed, your money has been spent and it is extremely unlikely that the annuity can be altered. It is for this reason that full consideration should be given to the decision; take financial advice, if you are unsure. Let's look at retirement income options in some detail.

Single Life Annuity

This type of annuity pays income throughout your lifetime and ceases on your death. This is suitable if you do not have a partner or your partner has adequate income or pension to maintain the standard of living even after your death and your income has ceased.

Because of the shorter time this type of annuity is likely to pay out, the starting income is higher than a joint-life annuity. If your partner will need some or all of your income after you die then you should consider a joint-life annuity.

Joint Life Annuity

If your partner is dependent on your income or part of it, on your death your partner could find it difficult if your income ends. A joint-life annuity continues to be paid, on your death, to your partner at the full rate or it may be reduced by a third or a half.

The level of income at the outset is lower than a single-life annuity but the joint-life annuity could continue to be paid for many years after your death.

You need, however, to understand that if your partner dies first then no spouse's pension is payable and the income ceases on your death. If your partner is a significant number of years younger the potential longer payment period could mean quite a low starting income.

Level Annuity

The income level is fixed at the outset. This means the same amount is paid year after year.

Level annuities pay a higher starting income compared to escalating annuities. However, the effect of inflation could mean that the level of income in real terms is much lower later on in retirement. If your pension fund is going to provide your main income in retirement then an increasing annuity should be considered instead.

Impaired/Enhanced Annuity

It is possible to get a higher annuity rate if you have a health problem that could reduce your life expectancy to below the average for your age. The more life threatening your condition is considered to be, the higher will be the annuity rate paid.

Some companies may enhance rates by taking account of certain lifestyle aspects such as smoking, being overweight, where you live or the work that you did.

Please note that the providers of these types of annuities are all looking to make further changes to the way they set up annuities and therefore these options will change in the future.

Escalating Annuity

To protect your income from rising prices you can choose an annuity that increases each year. The income level at the outset would be lower than a level annuity. It would be some years before your income reaches and goes beyond the rate of a level annuity. It does mean, though, that your income is protected, to a large extent, from the effect of inflation and helps to keep realistic value in real terms. There are two main choices:

1. Fixed rate increases – your income is increased each year by the rate agreed at the outset, for example 3% or 5%.
2. RPI linked increases – your income increases yearly by the amount of increase in the Retail Prices Index (RPI). If the RPI did not rise then neither would your income.

If you rely heavily on the amount of income you get from your pension fund, you should consider an increasing annuity.

Level and escalating annuities are also known as Conventional Annuities.

Retirement Income Options

Guaranteed Period

Many people are concerned that after many years of contributing to a pension their early death, only one or two years into retirement, would mean that a small amount had been paid out and would represent poor value – particularly in the case of a single life annuity.

By taking a small reduction in the level of income it is possible to guarantee that the income would be paid for at least an initial period into retirement. The more common options are a 5 or a 10 year period. This means, with a 10 year guaranteed period, that should you die within the first 10 years of retirement the income would be payable in full for the remainder of the 10 year period. So if you died after two years the full amount would be payable, probably into your estate, for a further eight years. More commonly it is commuted into a one off lump sum. At 10 years, in this example, the payments on a single-life annuity would cease; on a joint-life annuity the payments would continue as a spouse's pension at the agreed rate, unless, of course, your partner died earlier. Following the changes to annuities, since 6th April 2015, longer guaranteed periods are now available.

If you live beyond the guaranteed period the income will continue to be payable for the rest of your life.

Capital Protected Options

If you die before the age of 75 you can arrange for your estate to receive a return of part of the pension fund tax free. For example if you retire with a pension pot of £100,000 and have received income of £50,000, the remaining £50,000 will be returned tax free. If you die after the age of 75 the lump sum will be returned less tax at the beneficiaries' marginal rate of tax. This option is currently only available on enhanced annuities.

Investment linked Annuity

The level and escalating annuities are linked to fixed interest assets such as gilts (loans to the Government) and bonds (loans to companies). By using fixed interest assets the level of income can be guaranteed for life. Investment linked annuities differ in that they are linked to the stockmarket and in return for the increased risk there is the chance of a higher income.

This does mean that your income is not guaranteed. This risk may not be acceptable to some as your income is likely to change each year, based on the performance of the investment, and could go down as well as up. It is impossible to predict the size of any increase.

Types of investment linked annuities are:

- With profits annuities
- Unit linked annuities

We would expect a customer to take advice before setting up either type.

With Profits Annuity

Initially your income is set at a low level. This amount can include an assumption of no bonus additions or an assumption of bonuses, usually up to 5%.

If the company's bonus rate, announced each year, matches your level of assumed bonus then your income remains the same. If the bonus rate is higher your income increases but if it is lower then your income falls. If you set your income at a higher level, for example assuming a 3% bonus and the bonus declared each year is 3% then the income stays the same. If it is different the income will rise or fall accordingly.

If you set your income with an assumption of no bonuses (the lowest amount) and each year the company declares a bonus then your income will increase each year.

In practical terms your income cannot fall. However, you need to be aware that in exceptionally adverse investment periods the minimum starting income could be cut, unless the annuity, as in some cases, carries a guaranteed minimum.

Unit Linked Annuity

Your income is linked to an investment fund which is selected to suit your attitude to risk. In the same way as With Profits annuities if the investment rises or falls then your income will rise or fall. The riskier the fund chosen the more your income may vary – both up and down.

Unit linked annuities are higher risk than conventional or With Profits annuities. You should avoid this type of annuity if:

- You have little or no other income to rely on
- You could not cope with wide variations in your level of income

Third Way Pension Plan

This type of contract is a new innovation in the UK with its origins in the USA. The plans have the same characteristics and tax treatment as the options outlined above in that they will be either written under Annuity legislation or written under Income Drawdown legislation.

However, they are designed to offer certain guarantees within the plan to ensure that either the income, the capital or in some cases both are protected in the event of there being a downturn in the investment markets.

In offering these guarantees the contracts will have additional charges added to the annual management charge, which can make the contracts more expensive over the longer term.

Retirement Income Options

Phased Retirement

So far, we have considered using your total pension fund to buy an income. It is possible that you may not need the full income initially, perhaps because you continue to work part-time or you have other investments. It is possible to use several pension funds to buy an income over a period, say yearly, to give an increasing income. It would also be possible, if the pension fund allows, to take a tax free lump sum each time a pension fund is used to buy income.

If you have only one pension fund it is still possible to use Phased Retirement. Most personal pension plans are set up as a cluster of policies, known as segments. Each segment is a stand-alone policy so one or more segments can be used to buy an annuity this year leaving the other segments for use over future years. One advantage of this route is that on your death any remaining, unused segments are available for your dependants as an income or a lump sum, depending on the type of plan.

You must remember that by using Phased Retirement you will also phase your tax free cash. You will not be able to take the entire cash sum from your pension at retirement, only the amount attached to the segments when they are used. Nevertheless, many would find a series of lump sums over a period of years extremely useful, albeit the amounts would be smaller.

The unused segments continue to be invested until they are needed. The potential for growth on the remaining funds means that the lump sum on each segment may increase. As a series of annuities are purchased over the years it is possible, as you get older, that the annuity rates on offer at each purchase may be an increase on the previous.

However, it is important to point out that these benefits are subject to investment growth or changes and cannot be guaranteed.

Phased retirement is only suitable if you have a large pension fund or several pension funds with a larger total – a minimum of £50,000 - but it is subject to your circumstances.

Income Withdrawal

If you would prefer not to buy an annuity but do, nevertheless, require income from your pension fund, Income Withdrawal may be suitable for you.

Income withdrawal is available through **Flexi Access Drawdown Schemes**, which replaced the Capped and Flexible drawdown schemes from 6th April 2015. The scheme allows you to take income directly from your pension fund. You then decide when to buy an annuity which can normally be anytime from retirement until you decide to do so, as the age 75 rule has now been removed. You can avoid taking a lower annuity in the hope of getting a better rate when you are older. This, however, is not guaranteed.

Income Withdrawal gives flexibility in the amount of income you can take, within limits.

You could take an income at a level obtainable from an equivalent annuity. There are no maximum income level and the minimum level is zero. However, if you take too high an income it is possible that the remaining fund may not be able to achieve sufficient investment growth to maintain the higher payments.

You can take up to 25% of your pension pot as a tax free lump sum when the plan is set up.

With income withdrawal you can also leave your remaining pension fund to your dependants (which may be taxable). Meanwhile your remaining fund continues to be invested for growth. This presents a risk though, as a fall in investment performance will reduce your fund whereas a conventional annuity might be unaffected.

Income Withdrawal plans should be reviewed annually to ensure that the fund will allow the current income level of payment to continue. If it will not then your income is reduced. There is no doubt that Income Withdrawal offers several benefits but does involve extra costs and extra investment risk. This would only be suitable if you can accept the risk and if you have a sizeable fund of, say, over £100,000.

We strongly recommend you seek professional financial advice before deciding to set up an Income Withdrawal Plan.

Uncrystallised Fund Pension Lump Sum (UFPLS)

Since 6th April 2015, if a client wants to access some or all of their money purchase pensions savings without designating funds as available for drawdown or buying an annuity (or scheme pension), then UFPLS/withdrawal is the way to do this (provided that this option is allowed under the contract).

To qualify as an UFPLS:

- The lump must be payable from uncrystallised rights under a money purchase arrangement
- The client must have more standard lifetime allowance remaining than the amount of lump sum being withdrawn if the client is under 75
- If the client is over 75, they must have some standard lifetime allowance left
- The client must have reached normal minimum pension age (currently 55), or meet the ill-health conditions, or have a protected early normal retirement age

Changes to the Pension System

Since 6th April 2015			
Since 6th April 2015 you have increased options during retirement. Anyone aged 55 or over can access their pension fund and pay tax at their marginal rate currently 0%, 20%, 40% or 45%. This will offer the highest ever flexibility to pension savers. However, a cautionary note; advice should be sought before a pension pot is accessed. **The access options are simplified here, but it is important to speak to your Financial Consultant for guidance on these changes and which option is most suitable for you.**	**Remain Invested** • Up to 25% of the value of your pension pot can be taken as a tax free lump sum • 75% of the value remains invested and you can take any level of income that you require and there is no maximum income level	**Buy an Annuity** • 100% for guaranteed lifetime income • Up to 25% of the value of your pension pot can be taken as a tax free lump sum • 75% of the value must be used to provide a guaranteed income for the rest of your life	**New Flexible Option** • Up to 25% of the value of your pension pot can be taken as a tax free lump sum • The remaining 75% can be taken in one go or in tranches and will be subject to tax at your marginal rate of tax

Further Information

Annuity quotes

Near retirement your pension provider will provide you with the annuity rate that they can offer you when you retire. However, you are not obliged to purchase your annuity through your pension provider as they may not be offering the best rate available. You can shop around in order to try and secure the highest possible income with your pension plans, by using your open market option.

Whitechurch Financial Consultants can access a quote system to provide you with a range of quotes, to give you some idea of the pension income available from leading annuity providers.

Do you need advice?

We hope that you find this guide useful. However, retirement options and retirement planning can be a very complex area, therefore, if after reading our guide you feel that you need to seek professional, financial advice then we recommend that you contact us and ask to speak to one of our Financial Advisers. Please call 0117 916 6194 or e-mail us at wfc@whitechurch.co.uk.

Retirement Checklist

Retirement is one of the most significant lifestyle changes that you will ever have to go through. Prior to the event, there are numerous questions that need to be considered in order to best prepare you and your family for those potentially long years in retirement.

The most important tasks are to review all of your financial circumstances in order to ensure that you and your family are best placed financially to enjoy a comfortable retirement. What are the key questions you should be asking and what are the things you should be considering? This is why we have produced a Retirement Checklist – which should be read in conjunction with this guide. The checklist is designed to help you in evaluating and examining the key questions and areas that you should be considering and, if necessary altering, so that you can plan effectively for your retirement.

How you use your pension fund depends on your particular circumstances and needs; but don't just look at your circumstances on the day you retire, think about your future needs and those of your family.

Important Notes

This publication was prepared by Whitechurch Financial Consultants using sources believed to be reliable and accurate. The opinions are our judgement at the time of writing (April 2018).

Do you need advice?

This publication contains product specific details only and unless we have complete, up to date, written details of financial circumstances and requirements we cannot and will not offer any opinion as to the suitability of any investment for any client. Any response to this publication will therefore be on the basis that client specific advice has not been given. The products are not suitable for everyone. You should obtain professional advice if you have any doubt about whether they are suitable for you.

Ensure you obtain and read the literature

It is essential before you consider purchasing any of the products mentioned that you obtain, read, and fully understand the Terms and Key Features relating to the specific products(s) in which you are interested, as each have different risk levels and some are more volatile than others, dependent on where and how they are invested. They also set out the risks, charges, cancellation rights and terms of the investment. Do not invest unless you have read this information.

Investments

It is important to always bear in mind that any stockmarket and equity linked investment carries risk and is subject to market and economic forces, and can go down in value as well as up. Past performance is not necessarily a guide to future performance. Investment returns cannot be guaranteed and you may not get back the full amount you invested. The stockmarket should not be considered as a suitable place for short term investment. Where a fund has the holdings in fixed interest securities, these are likely to be impacted by changes in interest rates and/or inflationary expectations. Where the main objective of the fund is to provide an income, the level of income in not guaranteed.

Overseas investments

Exchange rate fluctuations may cause the value of overseas investments to fall as well as rise.

Taxation

Levels and bases of, and reliefs from, taxation are subject to change and values depend on the circumstances of the investor. Please read a product prospectus carefully to ensure you understand how the investment product is taxed and how this may affect your personal tax position.

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