ASPIRA

RETIREMENT OPTIONS

FACTSHEET

WHAT IS RETIREMENT?

These days, retirement rarely means giving up work completely on your 65th birthday. It is now common for retirees to cut down their hours and responsibilities gradually, sometimes before age 65, sometimes much later. Indeed, you don't have to retire or stop work to begin drawing on any pension policies. But there are a number of key points to be aware of when planning for retirement:

You can start to take your pension benefits as soon as you reach age 55 (it may be earlier in some cases subject to scheme rules) "From the 6th April 2028 the age you can start to take your pension benefits will rise to 57.

- You do not have to take your pension benefits by a certain age*.
- You may choose to phase in your retirement over a number of years (perhaps by working part-time).
- You will usually be able to take some Tax Free Cash from your fund.
- There are several options for the remaining fund after Tax Free Cash has been taken.
- Free, impartial guidance is available from the government's Money and Pension Service (MaPS).
- Seeking professional advice is worth considering, and can result in a flexible strategy to achieve your goals.

It's important that you do not look at any pension policies you hold in isolation. Amalgamating some or all of the remaining funds could open up some options.

Remember - you can fund for your retirement from a number of sources, quite apart from your State Pension entitlement or other retirement saving arrangements. For example, cashing in investment plans, downsizing your home, full-time, temporary or part-time work.

Key Issues

Retirement can mean gradual withdrawal from work rather than a sudden stop. You can start to draw on pensions without having to stop work.

Your retirement income can come from sources other than pensions, and all should be taken into account when planning.

The way in which you take your income can have significant tax implications.

Shopping around for annuities and other investments for your retirement and obtaining expert advice can make a substantial difference to the amount of income you can achieve.

* Subject to the scheme/plan rules

Pension Freedoms

Defined contribution pensions are those where you and and/or your employer contribute a cash amount, this is invested and (hopefully) grows and when you come to retire, the size of your pot(s) determines how much income you'll get. This is unlike defined benefit schemes under which the amount you receive in retirement depends on your final salary or average earnings.

Since April 2015, over 55s have had much more freedom over how they use defined contribution pension pots built up over their working life. You can now withdraw the whole amount in one go, with 25% being tax free and the remainder taxed as income at a marginal rate. Alternatively you can take just a percentage of the benefits or a regular amount, so you have true flexibilty on how you access your pension.

If accessed early, your overall pension fund may reduce and the amount available in the retirement fund could affect longer term retirement income planning.

Tax Free Cash

When you begin to draw on the pension benefits almost all pension schemes will allow you to take what is more accurately referred to as a 'pension commencement lump sum' of 25% of the pension fund. It is perhaps better known as a Tax Free Cash (TFC) lump sum.

In rare cases a scheme will not offer any TFC lump sum at all. On the other hand, under some older (and generally company) schemes you may be entitled to TFC of more than 25%. Final salary (or defined benefit schemes) will calculate TFC entitlements differently (this should be outlined in the Scheme Rules).

Taking a taxable lump sum from your pension could have an impact on the overall amount of tax you pay – for example, depending on the amount withdrawn, it may put you into a higher tax bracket than you would normally be in, meaning that any income you receive from other sources would be subject to greater tax deductions.

Pension freedoms have allowed over 55s total flexibility in how they draw on the funds built up in their personal pension pots

What are the basic options for retirement income?

Options for small pension funds

For occupational (workplace pension schemes) any number of small pots under £10,000 can be taken.

You may be able to take the whole of your non-occupational pension - such as a Personal Pension Plan (PPP) or Self-Invested Personal Pension (SIPP) - as cash, whether it is defined contribution or defined benefit. You can take up to three small pots of £10,000 or less as cash from non-occupational pensions, providing you meet the following requirements:

For defined benefits pots:

- You're aged at least 55, or you're retiring earlier because of ill-health, and
- The value of all your pension benefits (including defined contribution pensions and pensions already in payment, but ignoring any State Pension entitlement) when added together do not exceed £30,000 in total.
- If you have more than one pot that qualifies for trivial lump sum, you don't have to take them all at once, but you must commute the remaining pots within 12 months of the first. If you fail to do so within this period, you lose this right.

For defined contribution pots:

- You're aged at least 55, or you're retiring earlier because of ill-health

The value of your pension arrangement does not exceed £10,000

Annuities have always been the 'go to', but since Pensions Freedoms people also have the option of using both Annuity and/or Drawdown. On the following page is a table explaining the benefits of each.

Continued over...

Annuities	Drawdown
• An annuity is a promise (usually by an insurance company) to pay you a regular income for the rest of your life in exchange for all or some of your pension fund. • If you require, a spouse or dependant can be paid an income after you die. • The amount of income is determined by annuity rates at the time you crystallise your fund. • Income is guaranteed, and can even increase each year by a fixed rate or in line with inflation to provide peace of mind. • Once the contract is in place you cannot change the terms. • If you are in poor health, you may be able to achieve higher income.	• Enables you to take part or all of your Tax Free Cash, along with some income while the rest of your fund remains invested. • Drawdown always involves a degree of risk to your capital. • Phased/flexi-access drawdown, enables you to incorporate Tax Free Cash in your regular income withdrawal. • If you withdraw funds at too fast a rate you risk running out of money too early.

And finally...

There are so many variations to consider in planning your retirement, it is vital to obtain professional advice. For example if you have any health issues this can result in improved annuity rates. **To speak to an adviser about retirement income from defined contribution schemes please call us on 0800 048 0150**.

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