PENSION FLEXIBILITY

Understanding your options

The Government has removed many of the restrictions in law on what you can do with your pension savings. More options are available which may better suit your needs, but pension decisions may be harder to make and it is important to consider seeking help.

This leaflet is intended to outline how you can use your pension savings from different types of pension scheme. We have included some issues you need to take into account, but it is not tailored to your personal circumstances and does not cover every possibility. It is important you read this leaflet taking account of how your decision might affect your retirement income.

You have a choice about how you use your pension savings

The "traditional" option of taking a regular retirement income for life and a tax-free retirement lump sum is still available but other flexible options may also be available to you. These can include taking some of your pension savings as a taxed lump sum and options on how pension savings may be passed on after your death.

For most people the earliest age from which you can take your pension and/or lump sum is currently age 55 and the choices you have will depend on the type of the pension arrangements you have and on their rules.

Defined benefits (DB) pensions

A pension where the level of benefit you receive is set by the rules of the scheme, usually based on your salary and service. Examples include "final salary" and "career average" schemes.

Defined contribution (DC) savings

Savings in a pension scheme where the funds eventually available to provide your benefits depend on the contributions paid in and the investment growth over time. This may include any additional voluntary contributions (AVCs) that you have paid.

The new flexibilities apply largely to DC savings. Different pension schemes and providers offer different options and features. Speak to your scheme administrator to check your current options.

Transfer

If you have a DB pension or if your scheme does not provide the flexibility you want on retirement or death, you may wish to consider a transfer to a DC arrangement that offers you more flexibility. If you have DB and DC savings in the same scheme (typically from paying AVCs), you may be able to take all your DC savings as cash without transferring. If not, you normally have the right to transfer both, or just the DB or DC parts of your savings.

- **Some important considerations are set out in the following pages.**
- **Transferring your pension may not be good value or in your best interests and can lead to the loss of valuable protections and options.**
- **A decision to transfer cannot be reversed.**

What are my options?

A traditional pension income

This option of a regular retirement income for life is typically provided by a DB pension scheme, often with a lower income continuing after your death to a surviving spouse or dependant, and the option to take a tax-free retirement lump sum within certain limits.

The option of a regular retirement income for life can also be achieved with DC savings where pension income is provided by an **"annuity"** - normally bought through an insurance company.

Some things to consider when buying an annuity from DC savings:

- Once you have purchased an annuity, and the short "cooling-off" window has ended, it is unlikely that you will be able to reverse that decision at a later date.
- It's important to shop around. Different providers might pay a higher income. Remember it is a lifetime commitment and **there's no rush to make a final decision**.
- Different types of annuities are available and it is worth considering which best suits your needs.
- If you have a medical condition, are in poor health, smoke or are overweight, you may be able to get a higher income through taking an "enhanced annuity". You would need to answer questions about your health and lifestyle, and it's important you answer these questions honestly.
- You should think about what benefits are payable on death and whether you want to provide an income for a partner or another dependant.
- "Level" annuities provide a higher income to start with than annuities that increase but the payments will then stay the same for life. This means that the purchasing power of the annuity income will reduce over time, due to inflation.

A more flexible pension income

There are three other options available from DC savings:

Flexible retirement income ("flexi-access drawdown")	This option allows you to take your tax-free lump sum and set up the rest of your DC savings in a way that allows you to either delay taking any income or start to draw an income as and when you like with the remaining balance.
Taking your DC savings in cash in stages ("uncrystallised funds pension lump sums")	This option allows you to withdraw a series of lump sums from your DC savings over a period of time. The balance of your savings remains invested. Normally, one-quarter of each lump sum taken is tax-free and the rest is taxed as income.
Taking all your DC savings in cash in one go	This option allows you to withdraw all your DC savings in one go. Normally, one-quarter is tax-free and the rest is taxed as income.

Death benefits

The new rules on inherited pension assets mean you may wish to consider how these might affect you and your family. These rules increase the scope to whom you can pass on DC pension savings on death and can generally be used to reduce the tax payable, particularly if you were to die before age 75. No changes are currently being made for DB pensions.

Before you decide - consider:

- For “flexi-access drawdown”, what kind of flexibility is being offered? Are there limits on the amount that can be drawn and how?
- Will you have to pay tax at a higher rate than you are used to, depending on how you decide to take a taxable pension income or lump sum?
  This depends on the amount you withdraw when taken together with your other income (see example on page 4)
- Do you expect to make pensions savings in the future?
  Taking one of the flexible options may result in a restriction on any future contributions you can make (or have made for you) to DC arrangements – restricting them to a maximum of £10,000 a year, beyond which a special tax charge will apply.
- How much will you withdraw, how often will you do so and how long does your money needs to last?
  On average people aged 55 today will live to their mid-to-late 80s. Remember that if you take too much money too quickly the amount left could fall drastically or even run out. Also remember stock markets can fall. As with many investments, the value of a pension pot can go up or down.
- What is the impact of charges which may apply:
  - when money is withdrawn;
  - on an on-going basis to the pot left behind;
  - where any new investments are made; and
  - in connection with transferring to a new arrangement.
- Have you shopped around to check whether you have found the best deal for you taking everything into account including your health and lifestyle?
- How might your choice affect what, if anything, is paid to your family after you die whether as a lump sum or as regular income?
- Look at your overall financial position. Taking cash may have important implications for people with debt or those who may be entitled to means-tested benefits.
  People who are concerned about this may want to contact Pension Wise, the Citizens Advice Bureau or the Money Advice Service.

Pension scams

There has been a dramatic rise in pension scams.

If you are taking a transfer or a lump sum from your pension to invest somewhere else, be aware that scammers may operate in these markets.

You can find out more about how to identify scams at:

http://www.thepensionsregulator.gov.uk/docs/pension-scams-booklet-members.pdf

www.pensionsadvisoryservice.org.uk/pension-problems/making-a-complaint/common-concerns/pension-scams

Tax example (2016/17 allowances used)

Joe has DC savings of £40,000. He has a single person's personal tax allowance of £11,000 and the basic rate tax band applies to taxable earnings up to £32,000. If he has earned £25,000 this will use up all of his tax free allowance and £14,000 (£25,000-£11,000) of the basic rate tax band (leaving £18,000 of that band).

If he wants to take all his DC savings as cash in one go in 2016/17, the tax payable on his DC savings is £8,400 as shown opposite.

Were he to delay taking £12,000 of his DC savings into 2017/18 (assuming no other changes) none of it would be taxed at 40% and he would cut his tax bill by around £2,400.

DC savings: £40,000	
Tax free lump sum (normally 25%) = £10,000 leaving £30,000 as taxable	
Basic rate tax of 20% on £18,000	£3,600
40% tax on balance of £12,000 (£30,000 - £18,000)	£4,800
Total tax	(£8,400)
Net cash payable	**£31,600**

What should I do now?

Speak to your scheme administrators to check your options.

Get help from Pension Wise
Pension Wise is a free government-backed service offering impartial guidance on what you can do with your DC savings. This can include information about the tax implications of different options, other important things you should think about and tips on how to shop around to get the best deal.

Online at:
www.pensionwise.gov.uk
On the phone:
030 0330 1001
or face to face
call above for appointment

Seek independent advice
Consider seeking appropriate independent advice before making any decisions. LCP is not authorised to provide you with advice, nor generally are pension scheme trustees managers or administrators.

You may find https://directory.moneyadviceservice.org.uk/en **a useful place to find an adviser authorised by the Financial Conduct Authority (FCA).**

If your scheme is unable to provide the flexibility you require, consider the possibility of transferring to one (or more) that does, but you need to think carefully about the consequences.

In most cases, before you can transfer from DB to DC you will be required to take appropriate independent advice from an adviser authorised by the FCA.

If you have DC savings, review your investment strategy to make sure it remains appropriate.

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