Chartered Financial Planners

Our Guide to your Retirement Options

ArmstrongWatson®
Financial Planning & Wealth Management

www.armstrongwatsonfp.co.uk

The pension landscape changed dramatically on 6 April 2015 and now offers pension savers aged 55 and over significantly greater flexibility when accessing their pension funds.

There is no longer a requirement to buy an annuity and the range of choices now available can be bewildering. Great care should be taken, as the decisions you make now could affect your standard of living for the rest of your life.

Withdrawing some or all of the accrued benefits will mean the payment of Income Tax for the majority of people. In some cases this could be a substantial amount, so careful planning is essential.

Most pension contracts allow you to take up to 25% of the fund free of tax. You can take this up front as a lump sum, or as the tax free element of a pattern of withdrawals. The remaining 75% is then subject to income tax and the amount you pay will depend on how you access this.

There are broadly four options available to savers in a Defined Contribution (money purchase) pension arrangement. Defined Benefit (final salary scheme) members should contact their adviser or scheme administrator for clarification on how the new rules affect them, if at all. Our view is that for many, Defined Benefit schemes remain the most appropriate choice for providing their standard of living in retirement and only when it can be clearly demonstrated to be in the client's best interests, will we consider such a transfer.

It is worth noting that not all existing arrangements can facilitate the retirement options now available, so it's worth checking with your existing pension provider to clarify the options available.

Those with existing capped drawdown arrangements will remain subject to the rules and restrictions limiting their withdrawals. If these limits are breached, the arrangement will be converted to a Flexi Access Drawdown (FAD). All existing flexible drawdown contracts were automatically converted to FAD.

Your retirement options

Flexi Access Drawdown

- Flexi-access drawdown (FAD)
- No need to take whole fund as one lump sum
- 25% of fund can be taken as a lump sum tax free
- Subsequent income payments taxed at marginal rate of income tax
- No restrictions or caps on income withdrawals
- Risk of income withdrawals depleting fund if they exceed investment growth
- Investment risk as fund remains invested
- Underlying fund value can fall as well as rise

Uncrystallised Funds Pension Lump Sum (UFPLS)

- Full access to pension fund not yet brought into payment
- 25% of each lump sum payment is paid tax free
- 75% of each payment taxed at marginal rate of income tax
- Additional pension savings are essential to have a sustainable income later in life
- Assessment of your tax position is strongly advised before this route is taken

A scheme pension

- Provides an income payment from the scheme administrator (or an insurance company selected by the scheme administrator)
- Income payable for life
- Income cannot usually reduce in payment
- Income is taxable at marginal rate of Income Tax

Annuity

- 25% of the fund prior to annuity purchase is paid tax free
- Income is taxable at marginal rate of Income Tax
- Pays an annual income for the lifetime of the purchaser. This can continue after death if a spouse or dependants pension is selected
- Income can remain level, increase or decrease over time
- Level of income based on prevailing annuity rates, which have remained low for some time
- Generally no investment risk (unless investment linked annuity selected)
- Level of security provided as income level is guaranteed

Other Considerations

Tax

For all options, once your tax free payment has been made, the product provider is required to deduct income tax which is processed via the Pay As You Earn (PAYE) system. If they have been provided with your tax code, the tax payable on the income above your personal allowance will be calculated and the net payment paid to you. Without a tax code or P45, they will deduct tax at the emergency month 1 rate, and you'll pay tax on the whole amount above the tax free element. Any refund for an overpayment of tax must be requested from HM Revenue & Customs using one of three new forms.

State pensions

Income from all sources, including State Pension is taken into account to determine the rate of tax you pay. Those who decide to access their pension via a pattern of withdrawals need to plan this carefully, as the timing can have a big impact. Professional financial advice is strongly recommended at this point.

Future funding

Accessing your pension funds via any of the options highlighted on the previous page may restrict the level of future pension savings that you may be able to make, so care needs to be taken especially if you wish to continue saving into a pension.

The Money Purchase Annual Allowance (MPAA) came into effect on 6th April 2015 – the allowance itself is just £4,000. There's also a limit set by the Government over how much can be paid into a pension arrangement each year and upon which you can receive tax relief. This is called the Annual Allowance and is currently set at £40,000 but this is linked to your earnings. If you pay in more than the Annual Allowance in a tax year, you won't receive any tax relief on the excess and a tax charge will become due, so it's important to bear this in mind. For anyone who doesn't fully utilise their allowance in the current or any of the previous three tax years, you can legitimately pay in more than the annual limit by utilising Carry Forward.

Carry Forward is especially important for higher earners who will find that their Annual Allowance could be reduced if their earnings exceed a certain limit. Those with 'Threshold Income' above £110,000 and 'Adjusted Income' above £150,000 will find their Annual Allowance is reduced by £1 for every £2 of income in excess of this figure, until it reaches £10,000. This is called the Tapered Annual Allowance and was introduced on 6 April 2016.

Restrictions also apply to those subject to Primary Protection and Enhanced Protection and you must have an available Lifetime Allowance. The Lifetime Allowance is the limit set on the total value of accrued benefits from all your pension schemes which can be paid to you without triggering additional tax charges which depend upon how the payment is taken. The Lifetime Allowance is currently £1,030,000 rising to £1,055,000 on 6 April 2019.

Death

Treatment of benefits on death has changed too. Where death occurs before age 75, any lump sum or income payments to the beneficiary or successor can normally be made tax-free.

If death occurs after the age of 75, any lump sum or income payments will be subject to the recipient's marginal rate of income tax.

Rules now mean that anyone can benefit from your pension when you die, but it's worth noting that not all pension schemes actually allow this rule to be administered. You must check with your provider and importantly, you should ensure that your death benefit nomination (or expression or wish) has been updated to reflect who you would like to benefit from your pension when you die. Whilst this may not guarantee the wish, it will certainly help inform the pension trustees who you want to benefit.

Support

A free and impartial guidance service is available from Pension Wise which was set up by the Government. You can visit www.pensionwise.gov.uk or call them on 030 0330 1001. They won't recommend any products or inform you what to do with your money.

Advice

If guidance alone is not enough for you to make an informed decision about your retirement options, you should seek financial advice from a regulated adviser who can make recommendations based upon your personal circumstances after assessing your needs, requirements and objectives.

You have more protection when using a financial adviser due to the way that they are authorised and regulated.

You don't necessarily have the same level of protection through a guidance service as no advice is being provided or taken.

Pension scams

You should contact your pension provider immediately if you've signed something which you're now unsure about as they may be able to stop the transaction. Be sure to report it to the Action Fraud team on 0300 123 2040. If you aren't sure what to do, you can call The Pensions Advisory Service (TPAS) for help on 0300 123 1047 or visit their website for information.

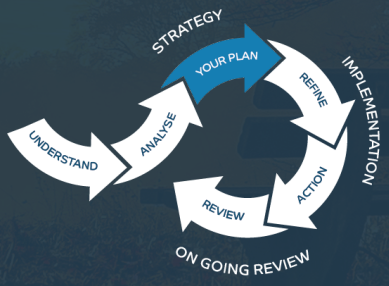
Armstrong Watson Financial Planning & Wealth Management is a Chartered firm of independent financial advisers, with 17 offices across the North of England and the Scotland.

We are experienced at dealing with retirement planning issues and are fully up to speed with the changes and the increasing array of retirement options.

We will make a personal recommendation to you based upon a comprehensive, fair and unbiased analysis of the relevant market. We are not constrained by product providers or solutions and our qualified advisers operate on a no surprises philosophy that puts the needs of our clients first.

We will often use a cash flow modelling tool to help calculate the growth rate required to meet your investment objectives. This rate is then cross referenced with your attitude to risk to ensure your expectations are realistic and compatible with the asset allocation of your investment portfolio. This may be a key consideration at the outset of your investments and at future reviews.

Our usual process is to arrange an initial meeting for which we will not charge. This enables our Financial Planning Consultant to establish your needs and objectives and make an assessment of the work required, including any on-going work. We will explain the costs that will be payable for our advice and services, but we will not charge until we have agreed with you how much and how we are to be paid.



Your retirement options can be complicated so contact us:

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Connect with Armstrong Watson Financial Planning

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