Your options at retirement

Your Retirement Options

From age 55, there are a number of options available to you including:

- The ability to draw your benefits available from the existing provider
- Purchase an annuity with a different provider on the open market, this could potentially increase the payments to you
- Transfer to Flexi-access Drawdown (or a third way plan)
- Use the Uncrystallised Fund Pension Lump Sum (UFPLS) rules
- Transfer to phased retirement
- Transfer the full amount to any/a combination of the above
- Undertake a partial transfer to any/a combination of the above

Draw your benefits from your current scheme

Pension arrangements can usually provide an immediate tax-free lump sum, commonly known as Pension Commencement Lump Sum (PCLS), sum of 25% with the remaining fund generating an income which is subject to Income Tax. Some schemes/providers also allow partial transfers to facilitate added flexibility.

Purchase an annuity with a different provider on the open market

Transferring funds from the existing provider and shopping around on the open market can considerably increase the level of your income. This is because some providers offer better rates than others.

Buying an annuity means using your built-up pension fund to buy the guarantee of an income for life from a company. Before you buy your annuity with another provider, you will still have the option to receive the PCLS from the original pension scheme, but the remaining fund value is passed to the new provider to secure your guaranteed income. The value of your pension income in these circumstances depends on several factors such as your age, current interest rates, the value of your pension fund and the type of pension you choose. Enhanced annuity terms may be available if, for example, you have a life-impairing medical condition.

Flexi-access Drawdown (FAD)

Under the option of FAD you can choose to immediately take 25% PCLS tax-free from your plan. Instead of buying an annuity with the remainder of the fund, the money remains invested and can continue to benefit from investment performance in a tax-efficient environment. There will be no limit on the income taken which is taxed at marginal rate.

After you have taken your entitlement to the PCLS at outset, you can choose to take as much or as little of the remaining pot as you wish, and it will be added to any other income you have in that tax year to determine the Income Tax rate that will apply. If you draw any income from this plan, any future money purchase pension contributions are limited to a £4,000 maximum Annual Allowance, and these will be no ability to make use of any carry forward. (i.e. topping up any unused annual allowance in future.)

As the rest of your pension fund remains invested in a tax-efficient environment, your final pension – and the income you may withdraw each year – will be determined by the continued investment performance of your funds. Careful attention, therefore, needs to be given to investment management whilst in Flexi-access Drawdown, to try to ensure that your income can continue for as long as possible and, if you do finally buy an annuity, you would be in a similar situation to that if you had bought an annuity at the start.

You can vary your income each year and the level of income you choose to take will have an effect on the value of your invested fund which will influence both future levels of income as well as the amount of any annuity income you may choose to buy.

Whilst in the short term many clients wish to consider drawing large amounts of income from their funds, in the medium to long-term it is important that you balance your income requirements with the investment policy to ensure the annuity purchasing power of your pension fund is maintained.

With this type of contract (together with the UFPLS option shown below):

(1) The capital value of the fund may be eroded;

(2) The investment returns may be less than those shown in the illustrations;

(3) Annuity or scheme pension rates may be at a worse level in the future;

(4) When large amounts of income are taken or the maximum short-term annuity is purchased, high levels of income may not be sustainable;

(5) Be aware that some state benefits are means tested by the DWP.

Draw your benefits as an UFPLS payment from your current scheme

Your current pension arrangement could provide you with multiple or a one-off lump sum. 25% of this would be tax-free, with the remaining pot initially taxed at emergency rate then falling to marginal rate in the future. There is no limit on the size of the lump sum you choose to draw. This type of payment will limit any future money purchase pension contributions to a £4,000 maximum Annual Allowance.

Phased Retirement

This option allows you to retire gradually. It can make the most tax-efficient use of your pension fund and it also allows you to build up the value of your pension when it suits you.

Generally, your pension fund is split up into 1,000 equal segments, and these segments can be phased in over a number of years. Every time you phase in some segments, you can choose to receive a PCLS of up to 25% of the value of these segments, and the remainder of the fund will be used to buy you an annuity. The pension bought will be guaranteed to be paid to you for life, and you can choose one that increases in value each year and whether payments should continue for your spouse if you die first. The remaining segments will continue to be invested in a tax-efficient environment, thus providing you with the possibility of higher future income.

A Combination Plan

A Phased Flexi-access Drawdown / Combination plan consists of two distinct parts. Firstly, the funds are transferred into the plan. The plan is split into a large number of identical “mini-plans”, from which benefits can be taken at different times. This provides a large degree of control over the amount and timing of the income to be taken.

Income is released by “opening” sufficient numbers of these mini-plans to produce the required level of income. This is achieved by transferring the funds to the FAD element of the plan. When each mini-plan is opened, 25% of its fund value is released as tax-free cash. The residual fund from each mini-plan then remains invested in real assets and an income is drawn directly from this remaining fund. The income that is drawn from the FAD funds can be varied. Each income payment that you receive is therefore made up of part tax-free cash and part (taxable) income from the FAD element of the plan.

Important Note:

HMRC has advised that, where an individual flexibly accesses their pension benefits and takes an income stream, they then have a duty to tell the scheme administrators of

any ‘live’ (where contributions are still being made) or future pension schemes they join in the future, that they have done so. This is your own personal responsibility. This is because the money purchase Annual Allowance falls to £4,000 where an UFPLS payment is made and scheme administrators have a duty to inform HMRC if they think someone has paid pension contributions which exceed this limit.

You should note that, if you do not inform other scheme administrators that you have drawn income from your FAD within 91 days, you will be liable for a penalty of up to £300. Where information is not provided after the initial penalty, a further penalty of up to £60 per day may be applied until the information is provided. If incorrect information has been provided a penalty of up to £3,000 may be due where that incorrect information has been negligently or fraudulently provided.

Pensions are a long-term investment. You may get back less than you put in. Pensions can be and are subject to tax and regulatory change; therefore, the tax treatment of pension benefits can and may change in the future.