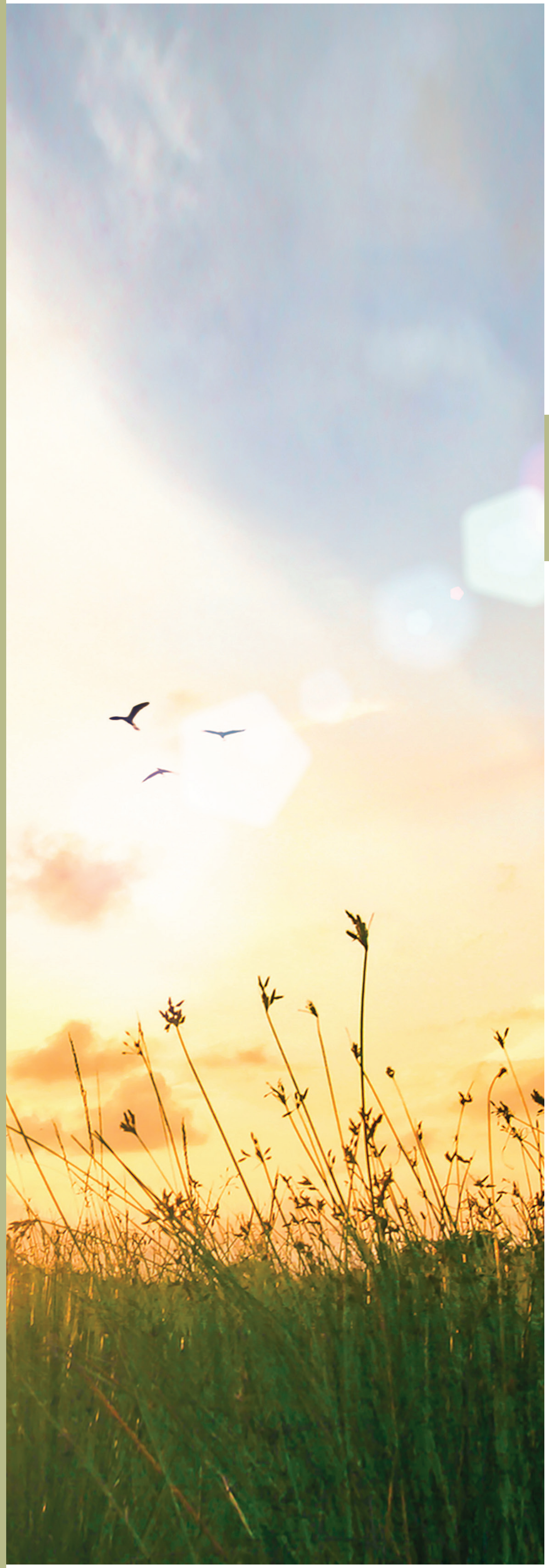
generating your retirement income.

my wealth
part of the Wealth at Work group

"it is essential to consider all your savings as well as your pension to generate income in retirement."

Paul Morton,
Investment Planning Director.
my wealth



introduction.

The pension changes introduced from April 2015 allow individuals with a defined contribution (DC) scheme more freedom and choice in how they access their pension funds. Whilst these freedoms are a positive change, the options available can seem complicated when planning for the future.

Retirement is no longer a set date and many people prefer to continue to work either full or part-time. Therefore, retirement planning needs to be flexible and able to adapt to potential changes in your circumstances.

The first step is to understand your ongoing income requirements such as how much money you need to meet day-to-day living expenses and things you may want to do such as hobbies and travel. Understanding your income requirements will help you focus on what you need from your savings to provide the retirement you want.

With all assets essentially becoming fully accessible from age 55, it is important to take a holistic view of retirement planning to generate a tax efficient income; taking into consideration your pension savings and other lifetime savings such as cash deposits, ISAs and shares. If you can reduce the amount of tax you pay, your savings can continue to grow more efficiently and they may last you longer.

It is important to note that everyone's circumstances are different, so you should seek regulated financial advice before making a decision. We can help you with this.

We work with many of the UK's leading companies and pension schemes to help their employees and members understand their personal financial situation, whether they're saving for their future or looking how best to maximise income at the point of retirement.

In particular, we help those approaching retirement to ensure their savings and investments are appropriately managed.

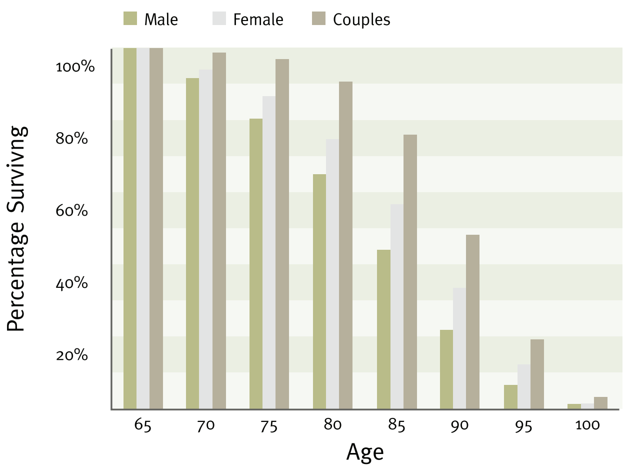
important considerations.

This section highlights the various factors to consider before makinga decision on your retirement income.

Longevity

People are generally living longer. Did you know that, according to the Office for National Statistics, a male retiring today at age 65 can expect to live on average to age 85 and a female to age 87? This means your money may have to provide you with an income for over 20 years!

For some people, this could be much longer as a 65-year-old male and female has a 1 in 4 chance of attaining age 92 and 94 respectively.



Source: Office for National Statistics, 2020

The rising cost of living

We all know that inflation reduces the purchasing power of your money, but do you appreciate how great an impact it has over time?

The table below shows you what £10,000 of retirement income would be worth in today's terms over various timescales.

When you consider how long you might be retired for, if you do not protect yourself against the eroding effects of inflation, you may have to live on much less when you reach your later years.

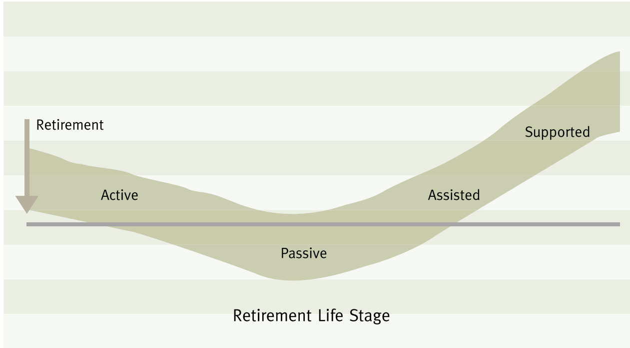
Average inflation	Today	10 years	20 years	30 years
2% per annum	£10,000	£8,203	£6,730	£5,521
3% per annum	£10,000	£7,441	£5,537	£4,120

Health

Your health may influence what you choose to do. If you or your partner suffer from any medical conditions, you may be able to get a higher income from some of the retirement income options available or you may wish to adjust your spending plans.

Changing circumstances

How many of us have the same circumstances we did 20 years ago? It makes sense to plan your retirement with the same degree of flexibility that you have during your working life. We've shown in the diagram below, typical income needs during the most common stages of retirement - from the active years just after retirement, when most people are enjoying more leisure time, or travelling more; to the years when personal health could have a greater impact resulting in the need to fund higher health and social care expenses.



Source: Office for National Statistics, 2020

Attitude to investment risk

In simple terms, this is the risk of an investment return being different to expectations and includes the possibility of losing some or all of the original investment.

Some retirement income options will carry investment risk, so it is important to understand your attitude to risk and also whether you could cope with any drop in the value of your capital and/or income as a result.

Dependants

You may wish to leave assets or provide financially for your loved ones after death. There are options available for passing on pension funds to your family or dependants; in some cases free of all inheritance and income taxes.

State Pension

In April 2016, the State Pension changed to a new single tier State Pension, still based upon National Insurance (NI) contributions. There is a deduction for those who were contracted out of the Additional State Pension. In reality, not everyone is eligible for the maximum amount of the new State Pension. Therefore, it is important to check your State Pension record and NI contribution history early; if you have any gaps you may still be able to make up the difference. You can find out how much State Pension you can expect to receive by going to **www.gov.uk/check-state-pension.**

You don't have to claim the new State Pension as soon as you reach State Pension age, you can defer it so you get extra pension when you do claim it. However, you should consider the cost of deferral i.e. how many years of higher income it will take to recover the pension given up. Your entitlement to the State Pension, together with any pension credits received, need to be factored into your income and expenditure plan.

State Pension age

The State Pension age is rising, for both men and women. It changed to 66 in October 2020 and there are further plans to increase the age again after 2026.

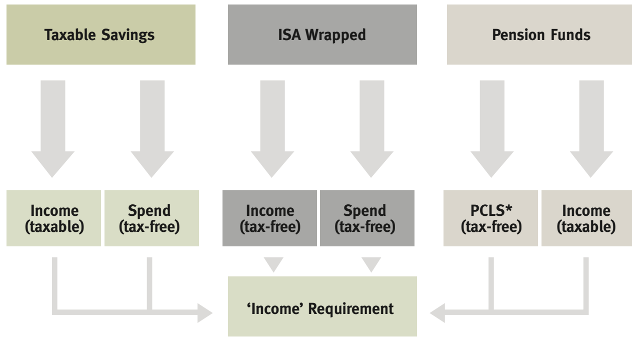
To find out your State Pension age please visit **www.gov.uk/state-pension-age.**

Tax efficiency and income planning

It makes sense to generate your retirement income in a tax efficient manner – this may increase your returns and therefore, potentially extend how long your funds will last.

Pension funds are now far more accessible and you should consider how your capital is invested and how your retirement income needs are addressed. Retaining as much capital as possible in the tax efficient wrappers of a pension and ISA should make the most of your returns and so it may make sense to spend taxable assets before accessing funds held tax-efficiently. Available tax allowances and reliefs should also be utilised where possible.

The diagram below shows the tax effect of drawing money from various savings pots:



*Pension commencement lump sum.

The pension rules allow those aged 55 and over to take as much income as they want from a defined contribution pension fund whenever they want it. Usually up to 25% can be taken as a tax-free lump sum, known as a pension commencement lump sum (PCLS), with the rest being taxable as earned income. You have the option to take all of your PCLS at once, or in stages. The amount of income you withdraw may affect your tax rate, particularly if you are in receipt of other income for that tax year. In fact, it may be beneficial not to access pension funds immediately, instead drawing money from other less tax efficient savings pots. Receipt of tax-free cash lump sums may also have an impact on any means-tested benefits you receive.

pension types.

You may have more than one type of pension, particularly if you have worked for a number of different employers or have been self-employed. The information below explains the most common types of pensions and how they work.

Defined benefit (DB)

This type of scheme is usually an employer sponsored workplace pension scheme and defines the benefits that are payable at retirement. For each year you are a member of the pension scheme, you are allocated a fraction of your pensionable salary – this is known as the accrual rate. For example, 1/60th of your pensionable salary for each year of pensionable service.

The benefits payable therefore depend on the length of service, the accrual rate and your pensionable salary. The accrual rate and definition of pensionable salary are scheme specific.

The main benefit of a DB pension is the fact that your employer provides a guarantee that your pension will be a certain amount, and that your pension will increase at least in line with minimum standards set by legislation.

The employer takes on all of the associated risks; longevity, inflation and investment risk and as such, meets the majority of the cost of providing the level of promised benefits. Note that it is often a requirement of the scheme that the individual will also contribute - perhaps at a rate of 5% of pensionable salary but this can vary between schemes.

These pension schemes are overseen by a board of Trustees whose job is to ensure the scheme is run well and funded properly.

Options at retirement

Take benefits in the format set out in the scheme rules

If you are, or have been, a member of a DB scheme, then details of how your pension benefits will be payable will be laid out in the scheme rules. Your Pension Scheme booklet will provide you with all the necessary details.

You can start receiving your pension from your company scheme when you reach the scheme's Normal Retirement Age (NRA). This is commonly either 60 or 65. You may also be able to retire early, although this is usually at either the company's or Trustee's discretion.

You can also choose to give up some of your pension in exchange for a tax-free lump sum (PCLS).

DB schemes are usually a very secure method of providing income in retirement but it is important to have an awareness of all your options. If death benefits are important to you, check the scheme rules; some schemes may only pay these to a legal spouse while others recognise partners as long as dependence can be proved.

You have a legal right up to 12 months of your NRA to transfer your benefits out of a company pension scheme. Within 12 months of NRA, the decision whether to allow the option of transferring usually becomes a matter of Trustee discretion.

Note!

It is not possible for members of 'unfunded' public sector schemes such as the NHS, Civil Service or the Teachers Superannuation Scheme to transfer.

Transfer the cash equivalent to a personal pension

A DB pension arrangement has valuable 'safeguarded benefits'. It is generally not in your best interest to give up these benefits but before you draw from such an arrangement, you do have the option to transfer the 'cash equivalent value' into a Defined Contribution (DC) pension arrangement, such as a Personal Pension or a Self-Invested Personal Pension (SIPP).

Because these safeguarded benefits are valuable, there are special rules, which apply for your protection.

A regulated financial adviser will be able to provide generic information in relation to a DB scheme, as well as other alternative pension arrangements. This information should allow you to decide whether to ask for a personal recommendation as to which type of arrangement is in your best interests. If you wish to receive a personal recommendation, a Pension Transfer Specialist will prepare a report for you; this is known as Pension Transfer Advice.

Set out below are some general considerations you should take into account if you are considering taking Pension Transfer Advice:

1. It is not generally considered to be in an individual's best interest to leave a scheme with safeguarded benefits.
2. The Pension Protection Fund (PPF) provides an element of protection to members of many DB pension schemes where an employer becomes insolvent and there are insufficient assets to provide the benefits promised by the scheme. It should be noted that the government does not underwrite the scheme.
3. Transferring out means that you are unlikely to have any certainty over future income and/or fund value.
4. These schemes provide a known income for life and very often provide other benefits such as a widow/widowers pension on death as well as protection against the eroding effects of inflation.
5. They place no personal investment risk on you, whereas under most alternative arrangements the investment risk is borne by you personally.
6. They are generally inflexible in that you are unlikely to have any ability to vary the income or influence the pension fund investments.
7. There are unlikely to be any capital sums paid out on your death whereas other schemes allow the fund value to be passed to beneficiaries (albeit these payments may be taxable).
8. Personal circumstances such as health and marital status may influence whether or not a transfer is likely to be in your best interests.
9. Transferring out of a pension scheme with safeguarded benefits is usually irreversible.
10. Investment risk - if you choose to leave money invested following a transfer, these funds will be subject to ongoing investment risk and the value could go down as well as up.
11. Inflation risk - inflation will erode the real value of any income over time, meaning your standard of living could gradually be impacted if, on transferring benefits, you do not account for this. A DB pension scheme usually increases your pension in payment each year relative to a measure of inflation (RPI/CPI).
12. Charges - there will be no additional costs incurred in accessing your pension monies directly from a DB scheme. However if you transfer to a new pension arrangement you should expect to incur fees and charges including charges on the money that remains invested, which will reduce the amount of investment growth and income you receive over time.
13. Pension/investment scams - you need to be aware that many investment scams exist, aimed at those who are taking funds from their pensions. The FCA's website provides details of the type of scams currently occurring and how to avoid them. Please visit: **www.fca.org.uk/consumers/scams.** The Pension Regulator's website also provides useful information about scams. Please visit: **https://www.thepensionsregulator.gov.uk/pension-scams.**
14. Loss of guarantees/tax protections - if you move a DB pension you might lose valuable guarantees and/or protections that are provided by such arrangements. Check carefully the terms offered by your existing scheme.

Key Considerations

- What income will your DB scheme generate?
- Do you require a fixed known income or prefer flexibility to vary your income depending upon your circumstances at the time?
- If this is the right decision for you, you will be able to take a tax-free lump sum from your pension scheme. Taking tax-free cash may result in you receiving a lower starting pension and in the years thereafter.
- What is your marital status and state of health? Your personal circumstances are key to determining the suitability of the benefits available from a DB pension scheme

Defined contribution (DC)

DC (or money purchase) schemes can be set up by an employer, who also normally contributes to the scheme, or by an individual. Contributions are invested into one or more investment fund(s) selected by you. The benefits depend on the amount paid into the scheme and how the selected investments perform up to your retirement date or the date you wish to take money from them. At retirement, a proportion of the fund can be taken as a tax-free cash sum, usually 25% and the remainder provides an income. You have the option to take all of your tax-free cash at once, or in stages.

The main types of DC schemes include:

Workplace DC Scheme

This is usually a pension fund set up by the employer to which both the employer and employee contribute.

Contributions are invested in a fund which provides retirement benefits (cash lump sum and income).

Personal Pension Plan

This is a pension plan in the individual's name to which the individual can contribute.

It can also be set up by the employer (workplace pension), who may also contribute.

Contributions are invested in a fund or range of funds, selected by the member, which provides retirement benefits (cash lump sum and income).

These arrangements have various options available such as a Stakeholder or a Self-Invested Personal Pension (SIPP) plan.

Benefits payable on death

- It may be possible to transfer any unused funds to your dependants on your death, either as a lump sum or as income.
- This can be entirely free of inheritance and income taxes in some circumstances.
- You should consider this if you wish to provide pension benefits to your spouse, civil partner or other beneficiaries.

Key Considerations

- You have a legal right to transfer your funds to another pension arrangement. This may increase the amount of income you receive in retirement. Do you know how much your pension could be worth as retirement income?
- All DC pension arrangements give you an option to take up to 25% of the value of your fund as a tax-free cash sum. The balance of the fund must then provide you with income.
- You do not have to take your income immediately, and can defer drawing it until a later date.
- Depending on the terms of your scheme, you don't have to take the income as a fixed amount but can vary it to fit in with your income needs and tax situation.
- It is possible to draw the full value of the remaining fund, subject to tax.

Important!

Some older pension schemes may offer some valuable features such as 'guaranteed annuity rates' which could give you a higher guaranteed income than currently available on the open market. Make sure you are aware of whether any of your money purchase pension schemes include such guarantees and the terms which apply before making any decisions.

retirement income options.

The following information aims to describe the various income options that are generally available to you under DC schemes. These include income drawdown, phased retirement and a lifetime annuity.

Option 1: Do nothing

From age 55 your pension fund is accessible whenever you want it, but just because it is available doesn't mean you should draw benefits immediately. You can wait until it is in your best interests to start drawing benefits and in the meantime, your savings can remain within the tax-efficient pension wrapper. You could also make additional contributions to your pension fund during this time.

Advantages

+ Potential for tax-efficient growth.
+ A potentially larger pension fund in the future.
+ Annuity rates could rise as you get older or if your health deteriorates (see option 3: Buy a lifetime annuity).
+ Flexibility to decide when and how to draw benefits.
+ You can leave any pension pot untouched and pass it on in its entirety to your beneficiaries when you die. This will be tax free if you die before age 75.
+ The older you are when you access your pension, the shorter time it needs to last.
+ Using other savings before your pension can help you make the most your income tax allowances.

Disadvantages

– The value of the pension fund could go down and the value in the future could be lower than the amount originally invested.
– No income and/or tax-free cash lump sum.
– Annuity rates could fall in the future.
– Legislation could change.
– No guarantee that your pension pot will secure you a better income in the future.

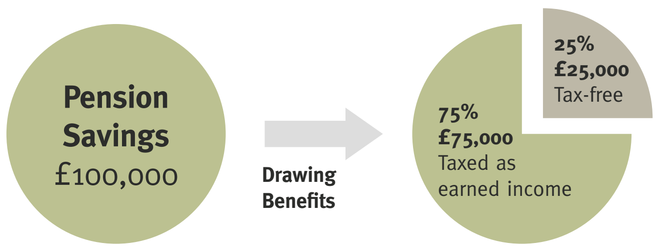
Option 2: Take your pension savings as cash

It is possible to take your entire pension pot as a single payment and most schemes will do this for you. The first 25% you take will normally be tax free and the remainder will be added to your income and taxed at your marginal rate. Cashing in a pension fund may be appealing for some but it is important to consider how you are going to fund your retirement income going forward.

Taking money simply because you can, when you don't need it immediately, is questionable. Why would you take money out of the tax efficient wrapper of a pension and put it in a taxable savings account or a less favourable inheritance tax situation? These are questions that an adviser will discuss with you before you make these important decisions.

It may also be possible to reduce your income tax liability by taking the fund in tranches (see option 5: Phased retirement).

Example:



Advantages

- + You can access the whole fund immediately.
- + It is a straight forward process.
- + If your pension pot is smaller in value, you will avoid having to buy a poor value annuity or pay charges to keep it invested.
- + There is no investment risk.

Disadvantages

- – You will pay tax on 75% of what you withdraw and this can mean you will pay much more tax than you expected, or needed, to.
- – If you are taking it simply to put into a deposit account, you will be losing tax benefits and the opportunity for it to grow in value so leaving you worse off than if you had left it alone.
- – It will form part of your estate for inheritance tax purposes.
- – It may affect any means-tested benefits you receive and be accessible to creditors.
- – Once it is gone, it is gone.

Important! It is important to receive regulated financial advice when considering how to generate retirement income, particularly when considering the impact of tax on your withdrawals.

Option 3: Buy a lifetime annuity

An annuity is an insurance policy, which pays a guaranteed income for the rest of your life. The rate is fixed at the time the annuity is purchased. The amount of pension you receive will be based on your individual circumstances such as:

- The size of the pension fund you use to buy the annuity
- Your age
- Interest rates at the time of purchase
- Your health/lifestyle
- The options you select
- Your postcode (on the basis that people in certain areas have been shown to live longer than people in other areas)

Once the annuity has been purchased, it will not be possible to change its terms. In the event of death, there is no return of the pension fund unless a protection option has been selected. However, there are a number of variations on the type of annuity offered.

Types of annuities:

Enhanced annuity

Pays a higher income to an individual if aspects of their lifestyle, such as smoking, drinking alcohol, obesity or medical history may shorten life expectancy.

Impaired life annuity

Pays a higher income than a standard annuity for those who have a significantly lower life expectancy due to an existing medical condition.

Investment-linked annuity

Similar to the lifetime annuity, but instead of the income being fixed, it is linked to the return on the underlying investments e.g. a with profits fund.

Advantages

- + Secure and known level of income for life.
- + Income levels can be enhanced due to poor health or certain lifestyles, e.g. smoking, diabetes, heart disease.
- + 25% of the value of your pension fund can be taken as a tax-free cash lump sum before the pension starts.
- + No investment risk, unless an investment-linked annuity is selected.
- + You can select different features to suit your circumstances such as inflation proofing, a spouse's/partner's pension and a guarantee to return unused capital back to your beneficiaries.
- + Spouse's/partner's income and lump sum death benefits can be passed on to beneficiaries free of inheritance and income tax in some circumstances.

Disadvantages

- – Income levels generated may be low.
- – Inflation could reduce the value of your income unless you protect against it.
- – Additional features reduce the initial income.
- – Once purchased, it is usually not possible to change the terms of the annuity.
- – If you die, your income may stop immediately unless you have selected a joint or protected income. This may mean you receive a lot less income than the purchase price of the annuity or leave your spouse/partner with less income than expected.
- – You may get back less income overall than the original purchase cost.

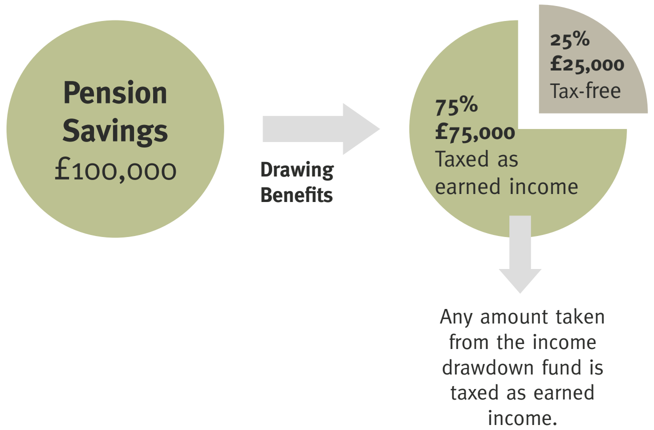
Remember! You may not always receive the best income from your pension provider. Figures from the ABI (Association of British Insurers) show that a third of people do not shop around for an annuity and may be losing out on thousands of pounds of income over the course of their retirement.

Option 4: Utilise income drawdown

Income drawdown is a popular alternative to buying an annuity and since the pension freedoms, it is also known as 'flexi-access drawdown'. It allows you to draw an income from your pension fund while the fund remains invested. This means that the capital value of the fund does fluctuate down as well as up, as it is subject to investment risk.

You can take part of your pension fund as a tax-free cash lump sum, the maximum being 25% of your fund value (unless you have protected pre-6 April 2006 entitlement in excess of 25%). You can then withdraw any amount, over whatever period you choose from the remaining fund (which stays invested). The income is subject to income tax but the remaining part of your invested pension fund continues to enjoy the favourable tax environment offered by pension schemes.

Example:



If you regularly make withdrawals, which are greater than the investment returns generated by the pension fund, you will find that your fund falls in value, which may mean you have to accept a lower income in future or face the risk of running out of money.

Receiving income payments under income drawdown (including receiving payments from a short-term annuity provided from an income drawdown fund), is a trigger event for the money purchase annual allowance (MPAA) and as such, any ongoing pension contributions will be measured against the MPAA limit.

Advantages

+ 25% of the value of your pension fund can be taken as a tax-free cash lump sum before the pension starts.
+ You can decide when and how to take your income to suit your lifestyle.
+ You can use this flexibility to manage and minimise the amount of income tax you have to pay.
+ You can benefit from growth in your pension fund if your investments perform well.
+ You can pass unused pension funds to your beneficiaries, in some circumstances free of inheritance and income taxes.
+ You can still purchase an annuity either alongside drawdown or at some future point when better annuity rates may be available.

Disadvantages

– You could run out of money in retirement if you withdraw too much too soon or your investments perform badly.
– Fund remains invested and therefore the value could go down as well as up.
– You will still pay charges on the money that remains invested in your pension pot which could reduce the level of income you receive overall.
– Managing your pension pot yourself can be complex and it is easy to make a mistake resulting in a higher than expected or unnecessary tax charge.
– Accessing your pension like this reduces your overall annual allowance into pensions if you want to contribute in future.
– Income withdrawals are taxed at your marginal rate, which could result in you entering a higher tax bracket.

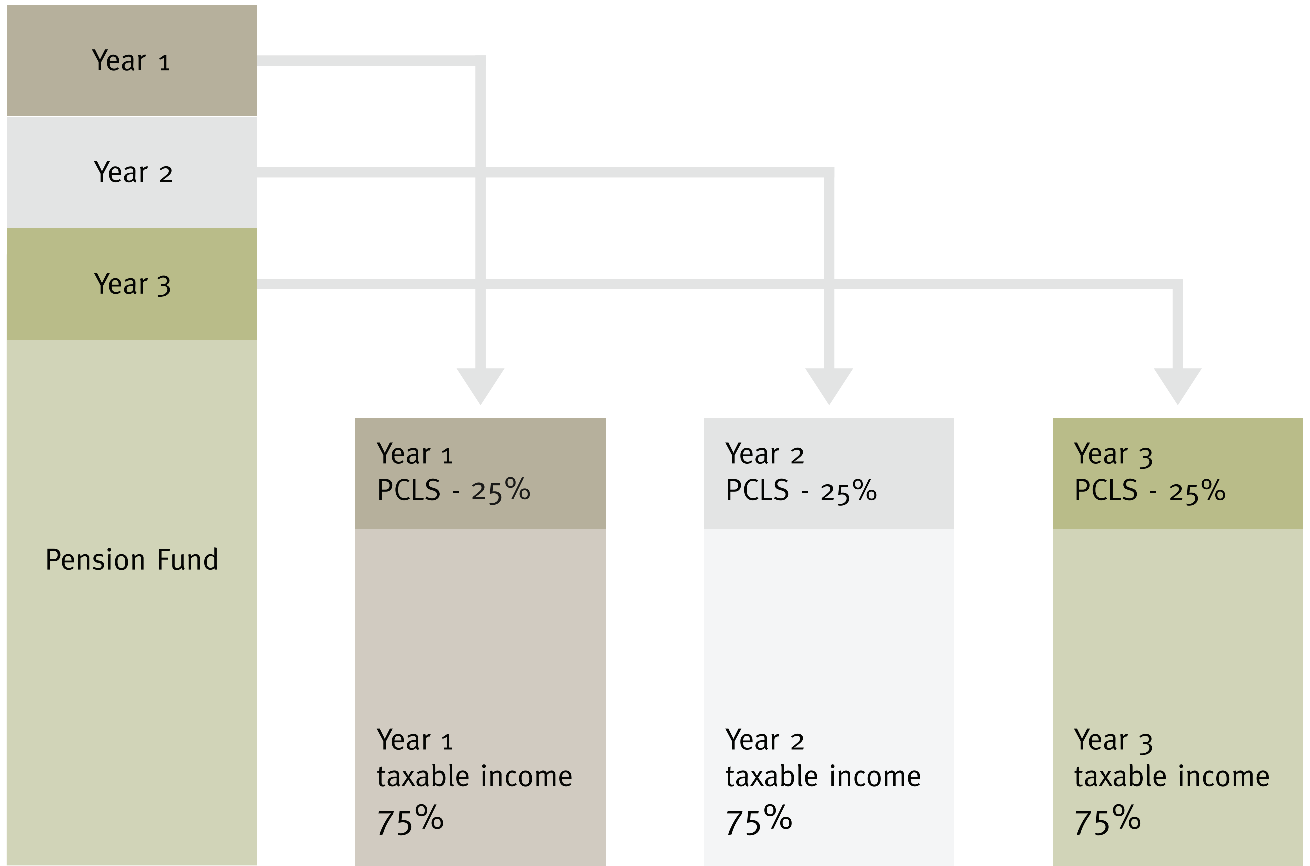
Option 5: Phase your retirement (a combination of options 3&4)

Phased retirement is a strategy based on taking some of your money out of your pension savings while leaving the rest invested. This can be done as and when required; you will receive part of the payment tax free (usually 25%) with the balance applied to provide income. This can either be by the purchase of an annuity or income through income drawdown.

Phased retirement can be useful if you want to ease back from work gradually and wish to supplement earnings with pension income. It can also be a useful tax planning tool to ensure only the income and tax-free cash you require is drawn, leaving the remaining fund to grow in the tax efficient environment of a pension.

Not all pension funds allow phased or partial withdrawals, so you will need to check if your existing arrangement allows this strategy.

Example



Advantages

+ You can take out just the funds you require.
+ You can manage the payments to ensure tax efficiency.
+ The residual fund remains invested in a tax efficient environment.
+ If the fund grows, tax-free cash could end up higher than had it all been taken at the outset.
+ Your options remain open giving you flexibility.
+ The remaining fund is usually outside your estate for inheritance tax (IHT) purposes.

Disadvantages

– 75% of the amount taken is subject to income tax.
– The remaining fund is invested and could fall in value.
– If the fund falls in value, tax-free cash could end up lower than had it been taken at the outset.
– If you take too much out in the early years, will the fund be sustainable?

summary.

There are many options and choices open to you and some of these may appear quite complex. Each type of arrangement has a specific purpose and a combination of options may be appropriate to manage your retirement income requirements, whilst minimising your income tax or securing money for your beneficiaries.

It is important to make the right choice for your retirement income; one that is appropriate to you, your individual circumstances and tax position. Our regulated financial advice service will support you through the complexities of retirement income planning and offer expert guidance on annuities, drawdown or a combined approach; depending on which direction you would like your retirement to take.

Choosing the right retirement income option is one of the most important financial decisions you will have to make, as this could affect your standard of living for the rest of your life.

For some, the purchase of an annuity is the correct decision. However you will need to decide whether you wish to protect your spouse or partner by providing a continuing annuity for them on your death, or whether you wish to protect your income against inflation. You may be eligible for an enhanced annuity which could increase your income by up to 40% because of your lifestyle e.g. smoking, or if you have poor health.

For others, the choice of income drawdown can provide a tax efficient way of providing income for you, whilst leaving capital or income to your spouse or partner on your death.

my wealth can guide you through the complexities of annuities and income drawdown and advise you on a retirement income strategy that best suits your needs.

Tracing old pensions

If you believe you are entitled to a pension from a former employer or you have lost track on any former employer's schemes, call The Pension Tracing Service on **0800 731 0193** or visit **www.gov.uk/find-lost-pension.**

Avoid scams

Scammers are targeting savers following the introduction of the pension freedoms. Remember the old saying, 'if something sounds too good to be true, it probably is'. To help protect yourself from scams, you should check that any firm you take advice from is regulated by the FCA and then proceed with caution. Further information can be found at **www.thepensionsregulator.gov.uk/regulate-and-enforce/pension-scams.aspx.**

next steps.

Everyone is different. It may seem an easy thing to say, but no two people are exactly the same when it comes to what they need from their retirement savings.

We can advise you on a retirement strategy that suits you best by providing you with a review of all your retirement savings and investments, in light of your current objectives and circumstances. Our initial meeting will assess your financial needs, attitudes to risk and the suitability of the various options available to create a plan tailored for you.

We can help you understand your retirement options so that you can make an informed decision.

If you would like to meet with an Adviser, or for more information, call us today on **0800 028 3200.**

Call us on 0800 028 3200
Email us at mywealth@wealthatwork.co.uk or visit www.wealthatwork.co.uk/mywealth

my wealth
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