WATERMARK

Financial Planning

FINANCIAL GUIDE

GUIDE TO

RETIREMENT PLANNING

SHAPING YOUR RETIREMENT PLANS TO BEST MEET YOUR INDIVIDUAL NEEDS AND CIRCUMSTANCES

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WELCOME

Shaping your retirement plans to best meet your individual needs and circumstances

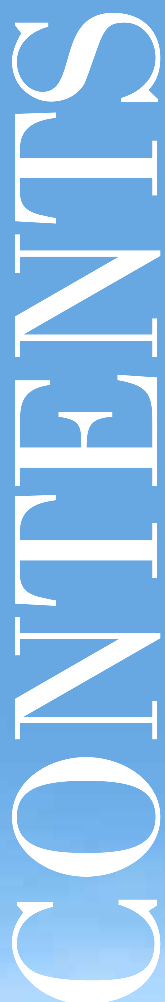
Welcome to our *Guide to Retirement Planning*. Pension freedoms have transformed the pension landscape, giving more choice than ever before in shaping retirement plans to best meet our individual needs and circumstances.

Once you've decided to start saving for retirement, you need to choose how to do so. Pensions have a number of important advantages that will make your savings grow more rapidly than might otherwise be the case. Following the biggest reforms to pensions in recent times, whilst the ability to unlock pension pots is attractive you also need to understand the tax implications of doing this and accept the risk of ensuring that the funds built up are managed effectively to ensure that they last for life, however long that may be, and don't rely on the State Pension to keep you going in retirement. The maximum basic State Pension is £155.65 per week (effective from 6 April 2016).

What is a pension pot?
'Pension pot' refers to a type of pension you build up with pension contributions you and/or your employer make. You'll have one if you have a 'defined contribution' pension which includes workplace, personal and stakeholder pension schemes.

If you're planning to retire in the next couple of years – or to start drawing your pension so you can reduce your working hours – then you'll be aware that there are some major choices to be made. In our *Guide to Retirement Planning*, we look at this complex area and what you need to think about.

What does pension freedom mean to you?
The pension freedoms announced by the Chancellor, George Osborne, in Budget 2014 and introduced on 6 April 2015 mean that instead of being required to buy an annuity with your pension pot, people aged 55 and over now have more flexibility to take their pots how they wish. However, this is a highly complex area and professional financial advice should be obtained to consider the appropriate options. If you would like to review your situation, please contact us – we look forward to hearing from you.



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The pension freedoms announced by the Chancellor, George Osborne, in Budget 2014 and introduced on 6 April 2015 mean that instead of being required to buy an annuity with your pension pot, people aged 55 and over now have more flexibility to take their pots how they wish.

PENSION FREEDOMS

The most radical changes to pensions in almost a hundred years

In April 2015, the Government introduced the most radical changes to pensions in almost a hundred years. From April last year, individuals from the age of 55 with a defined contribution pension can now access their entire pension flexibly if they wish.

The pension freedoms announced by the Chancellor, George Osborne, in Budget 2014 and introduced on 6 April 2015 mean that instead of being required to buy an annuity with your money purchase pension pot, if you are aged 55 and over you now have more flexibility to take your money how you wish. Generally, 25% of the pot is tax-free, and the remainder is subject to Income Tax at your current rate.

Defined contribution (or money purchase) scheme

A defined contribution (or money purchase) scheme is the most common type of pension. This involves you making regular payments to build up a pot of money. Your payments into the pension pot are enhanced by tax relief at your highest rate of Income Tax. If the scheme is a workplace pension, you may also receive contributions into the pot from your employer. You can also set up a private pension such as a stakeholder pension.

The majority of people at retirement prior to the introduction of pension freedoms had only one realistic option, which was to buy an annuity. Today you have a much greater choice about how you spend your pension – but there are also greater risks involved if you get it wrong.

Make sure your pension savings last

Pension freedom means the responsibility is up to you to make sure your pension savings last as long as you need them to. Typically this could be between 20 and 30 years, or even longer, which is why it is essential to obtain professional financial advice. Retirement has always been one of the biggest financial decisions you will make in your lifetime, and it is now much more complicated.

In April 2015, the Government introduced the most radical changes to pensions in almost a hundred years. From April last year, individuals from the age of 55 with a defined contribution pension can now access their entire pension flexibly if they wish.

If you earn £50,000 a year and you contribute £12,000 to your defined contribution pension for the tax year 2016/17, you'll receive tax relief on just £10,000 (and the other £2,000 will be subject to Income Tax).

TAX RELIEF AND PENSIONS

Annual and lifetime limits

Tax relief means some of your money that would have gone to the Government as tax goes into your pension instead. You can put as much as you want into your pension, but there are annual and lifetime limits on how much tax relief you get on your pension contributions.

Tax relief on your annual pension contributions

If you're a UK taxpayer, in the tax year 2016/17 the standard rule is that you'll get tax relief on pension contributions of up to 100% of your earnings or a £40,000 annual allowance, whichever is lower.

For example, if you earn £20,000 but put £25,000 into your pension pot (perhaps by topping up earnings with some savings), you'll only get tax relief on £20,000.

Similarly, if you earn £60,000 and want to put that amount in your pension scheme in a single year, you'll normally only get tax relief on £40,000.

Any contributions you make over this limit will be subject to Income Tax at the highest rate you pay.

However, you can carry forward unused allowances from the previous three years, as long as you were a member of a pension scheme during those years.

But there is an exception to this standard rule. If you have a defined contribution pension, the annual allowance reduces to £10,000 in some situations.

From 6 April 2016, the £40,000 annual allowance is now reduced if you have an income of over £150,000, including pension contributions.

The Money Purchase Annual Allowance (MPAA)

In the tax year 2016/17, if you start to take money from your defined contribution pension, this can trigger a lower annual allowance of £10,000 (the MPAA). That means you'll only receive tax relief on pension contributions of up to 100% of your earnings or £10,000, whichever is lower.

Whether the lower £10,000 annual allowance applies depends on how you access your pension pot, and there are some complicated rules around this.

The main situations when you'll trigger the MPAA are typically:

- If you start to take ad-hoc lump sums from your pension pot
- If you put your pension pot money into an income drawdown fund and start to take income

You will not trigger it if you take:

- A tax-free cash lump sum and buy an annuity (an insurance product that gives you a guaranteed income for life)
- A tax-free cash lump sum and put your pension pot into an income drawdown product but don't take any income from it

You can't carry over any unused MPAA to another tax year.

The lower annual allowance of £10,000 only applies to contributions to defined contribution pensions. So, if you also have a defined benefit pension (this pays a retirement income based on your final salary and how long you have worked for your employer and includes final salary and career average pension schemes), you can still receive tax relief on up to £40,000 of contributions a year.

For example, if you earn £20,000 a year and you contribute £8,000 to your defined contribution pension for the tax year 2016/17, you'll receive tax relief on these contributions, plus you can still receive tax relief on up to £12,000 of contributions to your defined benefit pension.

If you earn £50,000 a year and you contribute £12,000 to your defined contribution pension for the tax year 2016/17, you'll receive tax relief on just £10,000 (and the other £2,000 will be subject to Income Tax). In addition, you can contribute up to £30,000 to your defined benefit pension and claim tax relief on this.

Tax relief if you're a non-taxpayer

If you are not earning enough to pay Income Tax, you can still receive tax relief on pension contributions up to a maximum of £3,600 a year or 100% of earnings, whichever is greater, subject to your annual allowance. For example, if you have relevant income below £3,600, the maximum you can pay in is £2,880, and the Government will top up your contribution to make it £3,600.

How much can you build up in your pension?

A lifetime allowance puts a limit on the value of pension benefits that you can receive without having to pay a tax charge. The lifetime allowance is £1m for the tax year 2016/17. Any amount above this is subject to a tax charge of 25% if paid as pension or 55% if paid as a lump sum.

Workplace pensions, automatic enrolment and tax relief

Since October 2012, a system has been gradually phased in requiring employers to automatically enrol all eligible workers into a workplace pension. It requires a minimum total contribution, made up of the employer's contribution, the worker's contribution and the tax relief.

If you wish to avoid the lifetime allowance charge, it's important to monitor the value of your pensions, and especially the value of changes to any defined benefit pensions as these can be surprisingly large.

LIFETIME ALLOWANCE

Value of payouts from pension schemes

The lifetime allowance is a limit on the value of payouts from your pension schemes – whether lump sums or retirement income – that can be made without triggering an extra tax charge. The lifetime allowance for most people is £1m in the tax year 2016/17.

It applies to the total of all the pensions you have, including the value of pensions promised through any defined benefit schemes you belong to, but excluding your State Pension.

From 6 April 2018, the standard Lifetime Allowance will be indexed annually in line with the Consumer Prices Index (CPI).

Protecting your lifetime allowance

If your total pension savings exceeded £1m on 5 April 2016, you may be able to apply for protection under the Individual Protection 2016 and Fixed Protection 2016 schemes.

For those who had total pension savings that exceeded £1.25m on 5 April 2014 (before the threshold reduced), you may be able to apply for protection under the Individual Protection 2014 and Fixed Protection 2014 schemes. You have until 5 April 2017 to submit your application to Her Majesty's Revenue & Customs (HMRC) for these schemes.

Working out if this applies to you

Every time a payout from your pension schemes starts, its value is compared against your remaining lifetime allowance to see if there is additional tax to pay.

You work out the value of pensions differently depending on the type of scheme you are in. For defined contribution pension schemes, including all personal pensions, the value of your benefits will be the value of your pension pot used to fund your retirement income and any lump sum.

For defined benefit pension schemes, you calculate the total value by multiplying your expected annual pension by 20. In addition, you need to add to this the amount of any tax-free cash lump sum if it is additional to the pension. In many schemes, you would only get a lump sum by giving up some pension, in which case the value of the full pension captures the full value of your payouts. So you are likely to be affected by the lifetime allowance in 2016/17 if you are on track for a final salary pension (with no separate lump sum) of more than £50,000 a year or a salary-related pension over £37,500, plus the maximum tax-free cash lump sum.

Note that certain tax-free lump sum benefits paid out to your survivors if you die before age 75 also use up lifetime allowance. Whenever you start taking money from your pension, a statement from your scheme should tell you how much of your lifetime allowance you are using up.

Charges if you exceed the lifetime allowance

If the cumulative value of the payouts from your pension pots, including the value of the payouts from any defined benefit schemes, exceeds the lifetime allowance, there will be tax on the excess – called the 'lifetime allowance charge'.

The way the charge applies depends on whether you receive the money from your pension as a lump sum or as part of regular retirement income.

Lump sums

Any amount over your lifetime allowance that you take as a lump sum is taxed at 55%. Your pension scheme administrator should deduct the tax and pay it over to HMRC, paying the balance to you.

Income

Any amount over your lifetime allowance that you take as a regular retirement

income – for instance, by buying an annuity – attracts a lifetime allowance charge of 25%. This is on top of any tax payable on the income in the usual way.

For defined contribution pension schemes, your pension scheme administrator should pay the 25% tax to HMRC out of your pension pot, leaving you with the remaining 75% to use towards your retirement income.

For example, suppose someone who pays tax at the higher rate had expected to get £1,000 a year as income, but the 25% lifetime allowance reduced this to £750 a year. After Income Tax at 40%, the person would be left with £450 a year. This means the lifetime allowance charge and Income Tax combined have reduced the income by 55% – the same as the lifetime allowance charge had the benefits been taken as a lump sum instead of income.

For defined benefit pension schemes, your pension scheme may decide to pay the tax on your behalf and recover it from you by reducing your pension.

If you wish to avoid the lifetime allowance charge, it's important to monitor the value of your pensions, and especially the value of changes to any defined benefit pensions as these can be surprisingly large.

You may also wish to consider applying for protection if your pension savings are expected to exceed the lifetime allowance threshold.

Individual Protection 2016

Availability
Individual Protection 2016 (IP2016) is only available if the value of your pension savings on 5 April 2016 is over £1m.

IP2016 is also available to individuals who already have Enhanced Protection, Fixed Protection 2012, Fixed Protection 2014 or Fixed Protection 2016. However, you cannot hold both Primary Protection and IP2016.

Level of protection
IP2016 will give you a protected lifetime allowance equal to the value of your pension savings on 5 April 2016 – subject to an overall maximum – of £1.25m.

The protection rules are complicated, and the ways in which the protection can be lost differ depending on whether your retirement income (including lump sums) is provided from a defined contribution or a defined benefit pension scheme.

Can you continue saving into a pension?
Yes, you can continue saving into a pension, but any pension savings above the protected lifetime allowance will be liable for tax on the lifetime allowance charge.

Fixed Protection 2016

Availability
Fixed Protection 2016 (FP2016) is only available if the value of your pension savings on 5 April 2016 was over £1m.

Unlike IP2016, FP2016 is not available to any individual that holds Primary Protection, Enhanced Protection or Fixed Protection 2012/2014.

Level of protection
FP2016 will fix an individual's lifetime allowance at £1.25m instead of the new reduced £1m allowance.

It is possible to lose this protection in certain circumstances. To avoid losing this protection, you must:

- Make sure you opt out of automatic enrolment promptly – you usually have a one-month window to do this and get your contribution refunded
- Not make any further payments into any defined contribution pension scheme – if you do, you'll automatically lose your protection and revert back to the current limit
- Think carefully before continuing as an active member of a defined benefits scheme – opting out of active membership and becoming a deferred member significantly reduces the risk of losing your protection. You may wish to discuss your options with a financial adviser

Can you continue saving into a pension?
No, you will have needed to stop saving into a pension or accruing benefits since 6 April 2016.

STATE PENSION

New rule changes

The State Pension changed on 6 April 2016. If you reached State Pension age on or after that date, you'll now receive the new State Pension under the new rules. The aim of the new State Pension is to make it simpler to understand, but there are some complicated changeover arrangements which you need to know about if you've already made contributions under the previous system.

Key changes

For many retired people, the State Pension forms the core of their income, together with any workplace or personal pension provision that they have. The new State Pension is a regular payment from the Government that you can claim if you reach State Pension age on or after 6 April 2016. You will receive the new State Pension if you're eligible and a man born on or after 6 April 1951, or a woman born on or after 6 April 1953.

If you reached State Pension age before 6 April 2016, you'll receive the State Pension under the old rules. You can still get a State Pension if you have other income such as a personal pension or a workplace pension.

The basic and additional State Pensions have been replaced by a flat-rate, single-tier new State Pension with a full level of £155.65 per week, and depending on your personal circumstances this may be subject to tax. Your National Insurance record is used to calculate your new State Pension, and you'll usually need ten qualifying years to get any new State Pension.

For ten years, at least one or more of the following must have applied to you:

- You were working and paid National Insurance contributions
- You were receiving National Insurance credits, for example, due to unemployment, sickness or as a parent or carer
- You were paying voluntary National Insurance contributions

If you've lived or worked abroad, you may still be able to get some new State Pension. You may also qualify if you've paid married women's or widow's reduced rate contributions, but you'll need 35 qualifying years to get the full new State Pension.

Higher or lower

The amount you receive can be higher or lower depending on your National Insurance record, and it will only be higher if you have over a certain amount of Additional State Pension. You don't have to stop working when you reach State Pension age, but you'll no longer have to pay National Insurance, and you can also request flexible working arrangements.

Deferring the new State Pension means that you may receive extra State Pension when you do claim it. The extra amount is paid with your State Pension (for example, every four weeks) and may be taxable. Deferring your State Pension could affect your other benefits and tax credits.

You'll need to defer for at least nine weeks – your State Pension will increase by 1% for every nine weeks you put off claiming. This works out at just under 5.8% for every full year you put off claiming. After you claim, the extra amount you get because you deferred will usually increase each year. The rules for deferring are the same if you live in the EU and EEA, Gibraltar or Switzerland, or a country that the UK has a social security agreement with.

Different rules

There are different rules if you live in another country. The extra amount you get for deferring is calculated by taking your State Pension rate at the time you reach State Pension age, or when you move abroad. The extra amount also won't increase after you claim.

You can claim your new State Pension even if you carry on working. However, you have the option to defer, which can increase the amount you get. If you're eligible for a State Pension from the Isle of Man, you'll need to claim it separately from your new UK State Pension.

On 6 April 2016, these rules changed so that if you were contracted out, you'll no longer be contracted out and you'll pay more National Insurance (the standard amount).

Contracted out

The new system sees the end of the Additional State Pension (or State Second Pension [S2P]) and the State Earnings-Related Pension Scheme (SERPS). You should check your previous payslips to see if you have been contracted out. You will have been contracted out if the National Insurance contributions line has the letter D or N next to it, and remain contracted in if it has a letter A. If there's a different letter, you should check this with your employer or pension provider. You will have paid National Insurance at a lower rate if you were contracted out.

You're more likely to have been contracted out if you worked in the public sector, for example, the NHS, local councils, fire services, the civil service, teaching, police forces or the armed forces.

You may also be able to inherit an extra payment on top of your new State Pension if you're widowed, but you will not be able to inherit anything if you remarry or form a new registered civil partnership before you reach State Pension age.

Deferring the new State Pension means that you may receive extra State Pension when you do claim it. The extra amount is paid with your State Pension (for example, every four weeks) and may be taxable.

DEFINED CONTRIBUTION PENSION SCHEMES

Providing an income in retirement

With a defined contribution pension, you build up a pot of money that you can then use to provide an income in retirement. Unlike defined benefit schemes, which promise a specific income, the income you might get from a defined contribution scheme depends on factors including the amount you pay in, the fund's investment performance and the choices you make at retirement.

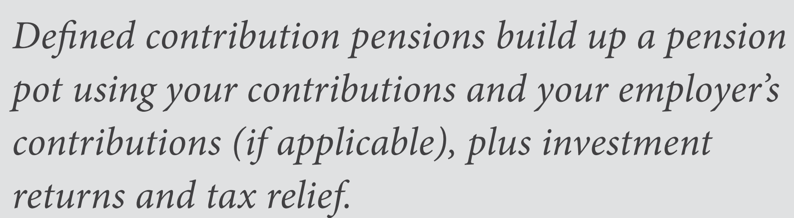
Defined contribution pensions build up a pension pot using your contributions and your employer's contributions (if applicable), plus investment returns and tax relief. If you're a member of the scheme through your workplace, then your employer usually deducts your contributions from your salary before it is taxed. If you've set the scheme up for yourself, you arrange the contributions yourself.

The fund is usually invested in stocks and shares, along with other investments, with the aim of growing it over the years before you retire. You can usually choose from a range of funds to invest in. Remember though that the value of investments can go up or down.

The size of your pension pot and amount of income you receive when you retire will depend on:

- How much you pay into your pot
- How long you save for
- How much your employer pays in (if a workplace pension)
- How well your investments have performed
- What charges have been taken out of your pot by your pension provider
- How much you take as a cash lump sum
- The choices you make when you retire
- Annuity rates at the time you retire – if you choose the annuity route

When you retire, your pension provider will usually offer you a retirement income (an annuity) based on your pot size, but you don't have to take this and it isn't your only option.



Defined contribution pensions build up a pension pot using your contributions and your employer's contributions (if applicable), plus investment returns and tax relief.

DEFINED BENEFIT PENSION SCHEMES

Secure income for life

A defined benefit pension scheme is one where the amount paid to you is set using a formula based on how many years you've worked for your employer and the salary you've earned rather than the value of your investments. If you work or have worked for a large employer or in the public sector, you may have a defined benefit pension.

Defined benefit pensions pay out a secure income for life, which increases each year. They also usually pay a pension to your spouse or registered civil partner and/or your dependants when you die.

The pension income they pay is based on:

- The number of years you've been a member of the scheme – known as 'pensionable service'
- Your pensionable earnings – this could be your salary at retirement (known as 'final salary'), or salary averaged over a career ('career average') or some other formula
- The proportion of those earnings you receive as a pension for each year of membership – this is called the 'accrual rate', and some commonly used rates are 1/60th or 1/80th of your pensionable earnings for each year of pensionable service

These schemes are run by trustees who look after the interests of the scheme's members. Your employer contributes to the scheme and is responsible for ensuring there is enough money at the time you retire to pay your pension income.

Check your latest pension statement to get an idea of how much your pension income may be. If you haven't got one, ask your pension administrator to send you one. Statements vary from one scheme to another, but they usually show your pension based on your current salary, how long you've been in the scheme and what your pension might be if you stay in the scheme until the scheme's normal retirement age.

If you've left the scheme, you'll still receive a statement every year showing how much your pension is worth. In most cases, this pension will increase by a set amount each year up until retirement age. Contact your pension administrator if you're not receiving your annual statement.

When you take your pension, you can usually choose to take up to 25% of the value of your pension as a tax-free lump sum. With most schemes, your pension income is reduced if you take this tax-free cash. The more you take, the lower your income. But some schemes, particularly public sector pension schemes, pay a tax-free lump sum automatically and in addition to the pension income.

Make sure you understand whether the pension shown on your statement is the amount you'll get before or after taking a tax-free lump sum. Also, don't forget that your actual pension income will be taxable.

Most defined benefit schemes have a normal retirement age of 65. This is usually the age at which your employer stops paying contributions to your pension and when your pension starts to be paid.

If your scheme allows, you may be able to take your pension earlier (from the age of 55), but this can reduce the amount you get quite considerably. It's possible to take your pension without retiring.

Again, depending on your scheme, you may be able to defer taking your pension, and this might mean you get a higher income when you do take it. Check with your scheme for details.

Once your pension starts to be paid, it will increase each year by a set amount – your scheme rules will tell you by how much. It will continue to be paid for life. When you die, a pension may continue to be paid to your spouse, registered civil partner and/or dependants. This is usually a fixed percentage (for example, 50%) of your pension income at the date of your death.

You may be able to take your whole pension as a cash lump sum. If you do this, up to 25% of the sum will be tax-free, and the rest will be subject to Income Tax.

You can usually do this from age 55 (or earlier if you're seriously ill) and in the following circumstances:

- You can take the whole of your pension as cash if the total value of all your pension savings is less than £30,000
- You can take your pension as cash if it's worth less than £10,000, regardless of how much your other pension savings are. You can do this for up to three different pensions

PERSONAL PENSIONS

Saving tax-efficiently for retirement

A personal pension is a type of defined contribution pension. You choose the provider and make arrangements for your contributions to be paid. If you haven't got a workplace pension, getting a personal pension could be a good way of saving for retirement.

Your pension provider will claim tax relief at the basic rate and add it to your pension pot. If you're a higher rate taxpayer, you'll need to claim the additional rebate through your tax return. You also choose where you want your contributions to be invested from a range of funds offered by your provider.

Your pension pot builds up in line with the contributions you make, investment returns and tax relief. The fund is usually invested in stocks and shares, along with other investments, with the aim of growing the fund over the years before you retire. You can usually choose from a range of funds to invest in.

When you retire, the size of your pension pot when you retire will depend on:

- How much you pay into your pension pot
- How long you save for
- How much, if anything, your employer pays in
- How well your investments have performed
- What charges have been taken out of your pot by your pension provider

Following changes introduced in April 2015, you now have more choice and flexibility than ever before over how and when you can take money from your pension pot.

SELF-INVESTED PERSONAL PENSIONS

Providing greater flexibility with the investments you can choose

A self-invested personal pension (SIPP) is a pension ‘wrapper’ that holds investments until you retire and start to draw a retirement income. It is a type of personal pension and works in a similar way to a standard personal pension. The main difference is that with a SIPP, you have greater flexibility with the investments you can choose.

With standard personal pension schemes, your investments are managed for you within the pooled fund you have chosen. SIPPs are a form of personal pension that give you the freedom to choose and manage your own investments. Another option is to pay an authorised investment manager to make the decisions for you.

SIPPs are designed for people who want to manage their own fund by dealing with, and switching, their investments when they want to. SIPPs can also have higher charges than other personal pensions or stakeholder pensions. For these reasons, SIPPs tend to be more suitable for large funds and for people who are experienced in investing.

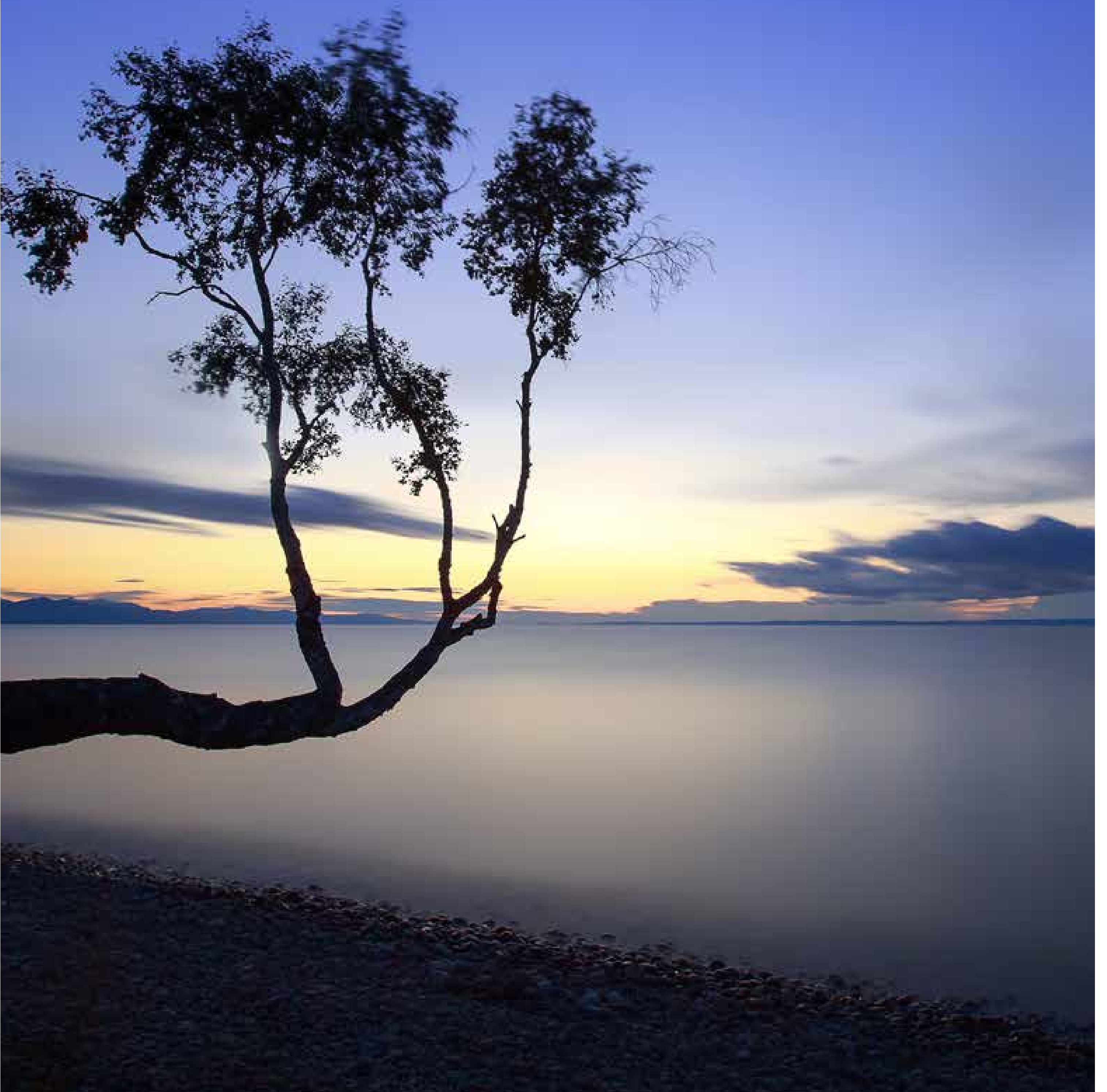
Most SIPPs allow you to select from a range of assets in which to invest, including:

- Individual stocks and shares quoted on a recognised UK or overseas stock exchange
- Government securities
- Unit trusts
- Investment trusts
- Insurance company funds
- Traded endowment policies
- Deposit accounts with banks and building societies
- Some National Savings and investment products
- Commercial property (such as offices, shops or factory premises)

These aren’t all of the investment options that are available – different SIPP providers offer different investment options.

Residential property can’t be held directly in a SIPP with the tax advantages that usually accompany pension investments. But, subject to some restrictions (including on personal use), residential property can be held in a SIPP through certain types of collective investments, such as real estate investment trusts, without losing the tax advantages. Not all SIPP providers accept this type of investment though.

New rules introduced in April 2015 mean you can access and use your pension pot in any way you wish from age 55. However, SIPPs aren’t appropriate for everyone, and you should seek professional advice if you are considering this option.



SIPPs are designed for people who want to manage their own fund by dealing with, and switching, their investments when they want to.

You may be able to delay taking your pension until a later date. Your pot then continues to grow tax-free, potentially providing more income once you access it.

USING YOUR PENSION POT

More choice and flexibility than ever before

Following changes introduced in April 2015, you now have more choice and flexibility than ever before over how and when you can take money from your pension pot, but it's essential to obtain professional advice to decide what the best course of action you should take, as this will be your retirement income for the rest of your life.

Changes introduced from April 2015 give you freedom over how you can use your pension pot(s) if you're 55 or over and have a pension based on how much has been paid into your pot (a defined contribution scheme).

There's a lot to consider when working out which option or combination will provide you and any dependants with a reliable and tax-efficient income throughout your retirement. Under the new flexible rules, you can mix any of the options below, using different parts of one pension pot or using separate or combined pots.

Leave your pension pot untouched
You may be able to delay taking your pension until a later date. Your pot then continues to grow tax-free, potentially providing more income once you access it. If you already have enough income to live on – either because you are carrying on working or you have other income from savings or investments to live on – you may be able to delay accessing your pension pot beyond your selected retirement date or your scheme's normal retirement date.

Your pot continues to grow tax-free until you need it – potentially providing more income once you start taking money out. If you want to build up your pension pot further, you can continue to get tax relief on pension savings of up to £40,000 each year (tax year 2016/17) until age 75. Be sure to check with your pension scheme or provider whether there are any restrictions or charges for changing your retirement date, and the process and deadline for telling them. Also check that you won't lose any income guarantees – for example, a guaranteed annuity rate (GAR) – by delaying your retirement date.

The value of pension pots can rise or fall. Remember to review where your pot is invested as you get closer to the time you want to retire and arrange to move it to less risky funds if necessary.

The longer you delay, the higher your potential retirement income; however, this could affect your future tax – and your entitlement to benefits as you grow older, for example, long-term care costs.

You could instead delay taking some of your pension. For example, you may be able to arrange to retire gradually, or change to working part-time or flexibly and then draw part of your pension. If you want your pot to remain invested after the age of 75, you will need to check with your pension scheme or provider that they will allow this. If not, you may need to transfer to another scheme or provider who will.

Buying a guaranteed income for life – an annuity
You can choose to take up to a quarter (25%) of your pot as a one-off tax-free lump sum, and then convert the rest into a taxable income for life (an annuity). There are different lifetime annuity options and features to choose from that affect how much income you would get. You can also choose to provide an income for life for a dependant or other beneficiary after you die.

A lifetime annuity is a type of retirement income product that you buy with some or all of your pension pot. It guarantees a regular retirement income for life.

Lifetime annuity options and features vary – what is suitable for you will depend on your personal circumstances, your life expectancy and your attitude to risk.

You choose to take up to 25% of your pension pot – or of the amount you are allocating to buy an annuity – as a tax-free lump sum. You then use the rest to buy an annuity, which will provide you with a regular income for life.

This retirement income is taxed as normal income. As a rule of thumb, the older you are when you take out an annuity, the higher the income (annuity rate) you'll get.

There are two types of lifetime annuity to choose from:

- Basic lifetime annuities – where you set your income in advance
- Investment-linked annuities – where your income rises and falls in line with investment performance, but will never fall below a guaranteed minimum

Flexible retirement income – flexi-access drawdown

With this option, you take up to 25% of your pension pot or of the amount you allocate for drawdown as a tax-free lump sum, then re-invest the rest into funds designed to provide you with a regular taxable income. You set the income you want, though this may be adjusted periodically depending on the performance of your investments. Unlike with a lifetime annuity, your income isn't guaranteed for life – so you need to manage your investments carefully.

With flexi-access drawdown, when you come to take your pension, you reinvest your pot into funds designed to provide you with a regular retirement income. This income may vary depending on the fund's performance, and it isn't guaranteed for life.

You choose funds to invest in that match your income objectives and attitude to risk and set the income you want. The income you receive may be adjusted periodically depending on the performance of your investments. Once you've taken your tax-free lump sum, you can start taking the income right away or wait until a later date.

You can also move your pension pot gradually into income drawdown.

You can take up to a quarter of each amount you move from your pot tax-free and place the rest into income drawdown. To help provide more certainty, you can at any time use all or part of the funds in your income drawdown to buy an annuity or other type of retirement income product that may offer guarantees about growth and/or income. What's available in the market will vary at any given time so you should obtain professional advice to discuss your options.

You need to carefully plan how much income you can afford to take under flexi-access drawdown, otherwise there's a risk you'll run out of money.

This could happen if:

- You take out too much in the early years
- Your investments don't perform as well as you expect and you don't adjust the amount you take accordingly
- You live longer than you've planned for

If you choose flexi-access drawdown, it's important to regularly review your investments. Unless you're an experienced investor, you may well need professional advice with this.

Any money you take from your pension pot using income drawdown will be added to your income for the year and taxed in the normal way. Large withdrawals could push you into a higher tax band, so bear this in mind when deciding how much to take and when. If the value of all of your pension savings is above £1m when you access your pot (2016/17 tax year), further tax charges may apply.

If the value of your pension pot is £10,000 or more, once you start to take income the amount of defined contribution pension savings which you can get tax relief on each year falls from £40,000 (the annual allowance) to £10,000 (the Money Purchase Annual Allowance or MPAA). If you want to carry on building up your pension pot, this may influence when you start taking income.

You can nominate who you'd like to get any money left in your drawdown fund when you die. If you die before the age of 75, any money left in your drawdown fund passes tax-free to your nominated beneficiary whether they take it as a lump sum or as income. These payments must begin within two years, or the beneficiary will have to pay Income Tax on them.

If you die after the age of 75 and your nominated beneficiary takes the money as income or lump sum, they will pay tax at their marginal rate. This means that any income or lump sum taken on or after this date will be added to their income and taxed in the normal way.

Flexi-access drawdown is just one of several options you have for using your pension pot to provide a retirement income.

Withdrawing small cash sums
You can use your existing pension pot to withdraw cash as and when you need it and leave the rest untouched where it can continue to grow tax-free. For each cash withdrawal, the first 25% is tax-free and the rest counts as taxable income. There may be charges each time you make a cash withdrawal and/or limits on how many withdrawals you can make each year.

With this option, your pension pot isn't re-invested into new funds specifically chosen to pay you a regular income, and it won't provide for a dependant after you die. There are also more tax implications to consider than with the previous two options.

However, you need to consider that your pension pot reduces with each cash withdrawal. The earlier you start taking money out of your pot, the greater the risk your money could run out. What's remaining in your pension pot might not grow enough to give you the income you need to last you into old age – most people underestimate how long their retirement will be.

The administration charges for each withdrawal could eat into your remaining pot, and the funds where your existing pot is invested could fall in value and you could run out of money. Because your pot hasn't been reinvested to produce an income, its investments could fall in value – so you'll need to have it reviewed regularly. Charges will apply, and you may need to move or reinvest your pot at a later date.

Once you take money out of your pension pot, any growth in its value is taxable, whereas it will grow tax-free inside the pot – once you take it out, you can't put it back. Taking cash lump sums could also reduce your entitlement to benefits now or as you grow older.

If the value of your pension pot is £10,000 or more, once you start to take income the amount of defined contribution pension savings on which you can get tax relief each year is reduced from £40,000 (the annual allowance) to £10,000 (the Money Purchase Annual Allowance). If you want to carry on building up your pension pot, this option may not be suitable. In addition, if the value of all of your pension savings is above £1m when you die, further tax charges may apply.

Withdrawing your entire pot as cash
You could close your pension pot and

There are many risks associated with cashing in your whole pot. For example, it's highly likely that you could become subject to a significant tax bill; it won't pay you or any dependant a regular income, and without very careful planning you could run out of money and have nothing to live on in retirement.

withdraw the entire amount as cash in one go if you wish. The first 25% will be tax-free and the rest will be taxed at your highest tax rate – by adding it to the rest of your income.

There are many risks associated with cashing in your whole pot. For example, it's highly likely that you could become subject to a significant tax bill; it won't pay you or any dependant a regular income, and without very careful planning you could run out of money and have nothing to live on in retirement.

Prior to taking any action, it is important to obtain professional financial advice, as this option won't provide a regular income for you – or for your spouse or any other dependant after you die. Three quarters (75%) of the amount you withdraw is taxable income, so there's a strong chance your tax rate would go up when the money is added to your other income.

Your pension scheme or provider will pay the cash through a payslip and take off tax in advance – called 'PAYE' (Pay As You Earn). This means you may pay too much Income Tax and have to claim the money back – or you may owe more tax if you have other sources of income.

Extra tax charges or restrictions may apply if your pension savings exceed the lifetime allowance (currently £1m), or if you have reached age 75 and have less lifetime allowance available than the value of the pension pot you want to cash in.

If you exercise this option, you can't change your mind. For many people, it will be more tax-efficient to consider one or more of the other options for taking your pension, and taking a large cash sum could reduce any entitlement you have to benefits now or as you grow older, for example, to help with long-term care needs. Not all pension schemes and providers offer cash withdrawal.

Combining your options
You don't have to choose one option when deciding how to access your pension – you can utilise a combination of options as you like, and take cash and income at different times to suit your needs. You can also keep saving into a pension if you wish, and obtain tax relief up to age 75.

The appropriate option or combination of options that are right for you will depend on:

- When you stop or reduce your work
- Your income objectives and attitude to risk
- Your age and health
- The size of your pension pot and other savings
- Any pension or other savings your spouse or partner has, if relevant
- Whether you have financial dependants
- Whether your circumstances are likely to change in the future

The choices you face when considering taking some or all of your pension pot are very complex, and you should obtain professional advice to assess your best option or combination of options.

WILL YOUR PENSION INCOME LAST FOR THE REST OF YOUR LIFE?

Following the biggest reforms to pensions in recent times, whilst the ability to unlock pension pots is attractive you also need to understand the tax implications of doing this and accept the risk of ensuring that the funds built up are managed effectively to ensure that they last for life. To discuss your situation, please contact us – we look forward to hearing from you.

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