Whitechurch
Financial Consultants
A Division of Whitechurch Securities Ltd

Retirement Options

- A Useful Guide

Head Office: The Old Chapel, 14 Fairview Drive, Redland, Bristol, BS6 6PH.

Telephone: 0117 452 1208

Website: www.whitechurch.co.uk

Qualified Member
Personal Finance Society

Contents

30 YEARS AGO

STATUS:

- Single Life Annuity
- Joint Life Annuity
- Dependent Annuity

PROTECTION IN PAYMENT

- 5 years
- 10 years

PAYMENT TYPE

- Fixed
- Increasing

ANNUITY PROVIDER CONSIDERED

- Age

PRESENT DAY...

STATUS:

- Single Life Annuity
- Joint Life Annuity
- Dependent Annuity

PROTECTION IN PAYMENT

- Up to 30 Years
- Value Protected

PAYMENT TYPE

- Fixed
- Increasing

ANNUITY PROVIDER CONSIDERED

- Age
- Postcode
- Lifestyle

ANNUITY PROVIDERS OFFER

- Enhanced
- Investment Linked
- With Profits
- Variable
- Fixed
- Conventional

ADDITIONAL OPTIONS

- Phased Retirement
- Pension Fund Withdrawal
- Uncrystallised Fund Pension Lump Sum (UFPLS)

How retirement choices have changed

Introduction

This guide aims to give you an awareness of the options available on taking benefits from a pension scheme for retirement income whether at the time of full retirement or partial or phased retirement.

Whilst this information cannot be taken as a recommendation of any of the options, it should help you understand the options on offer, the advantages, disadvantages and what you should consider. If you are uncertain after reading this guide we recommend that you contact us for full financial advice.

This is a guide to provide you with a general understanding of the main retirement options available. We recommend that you contact us for a full financial planning assessment to ensure that the most suitable option/s are recommended to meet your specific retirement needs.

RISING STATE PENSION AGE

The current state pension age is 66 for men and women and it's likely to keep rising. When you reach this age, you don't have to give up work altogether but you no longer have to pay national insurance contributions and if you delay your retirement you may be eligible for more money when you do decide to retire. Many people consider partial retirement and consider how they can bridge the gap between that date and their state retirement age.

Personal pensions, including your employer's pension, are usually accessible from the age of 55, but this too will continue to increase. From 2028 the minimum age will increase to 57 in line with the state pension age increasing to 67. From this age onwards, you can withdraw the funds in their entirety or take out some funds as cash whilst leaving the rest invested to provide you with regular income. We would urge you to talk to your financial adviser about how you wish to use your pension funds when you retire as there is a range of options available to you.

Using Your Pension

Anyone who has a pension plan will eventually have to make a decision. The time of the decision could be:

» At retirement to replace earnings

» Before or after retirement

» Part now and part later

» At age 75

The timing of the decision to access your pension fund for income can determine how much you get. The current minimum age at which benefits can be taken is 55.

Taking benefits later

It is possible to retire or take benefits later than the normal retirement age. Under the current rules, your pension plan does not have to be taken by the age of 75 and can be deferred until a later date or even death. However, not all providers will allow you to do this and after the age of 75 upon death there is a tax charge against the fund, which can be paid to any beneficiary, at their marginal rate, as a lump sum, annuity or as a drawdown pension.

Taking benefits earlier

Taking your benefits early or earlier than you need them will mean that your income from an annuity will be lower or any income you take via a Drawdown plan would be lower or could exhaust the fund. This is because:

» With an annuity your pension fund provides an income for the rest of your life. The younger the age you start to draw benefits the longer your life expectancy. So, the income will be lower since the annuity is based on average life expectancy at the date of purchase.

» The pension fund that is used to buy an income through an annuity will cease to be invested or if via Drawdown remains invested. If the start is delayed by, say, five years, the pension could benefit from:

» An extra five years growth, making a larger fund available (although investments can go down as well as up).

» A higher annuity rate due to your older age although it is impossible to predict future annuity rates).

It is for these reasons that serious consideration should be given to the advantages and disadvantages of taking benefits early and the level of income taken.

Retirement Checklist

Retirement is one of the most significant lifestyle changes that you will ever have to go through.

We have produced a Retirement Checklist designed to help you evaluate and examine the key questions and areas that you should consider and, if necessary alter, so that you can plan effectively for your retirement.

Pensions

Will you need the same, more or less income in the future?
Your retirement could last for 20 years or more, so it is important to think about how your income keeps pace with inflation so that over time you are not worse off in real terms.

When will your state pension start and how much will you get?
We would suggest you obtain a State Pension Forecast by completing the Department for work and Pensions form BR19, by calling the Future Pension Centre on 0345 3000 168 or online via www.gov.uk/check-state-pension. You can defer your State Pension if it is not required when you reach State Pension age and opt for an enhanced pension at a future date.

Have you discussed the various options available to you? *e.g. Flexi Access Drawdown, Phased Retirement, Investment Linked Annuities, Conventional Annuities or a combination.*
These options allow retirees to select those that will suit them in retirement.

Do you require the Pension Commencement Lump Sum (Tax Free Cash Sum)? if so what will you use it for?
Retired people use their tax-free cash in numerous ways, though many use it to boost retirement income. This will need careful planning and probably require professional financial advice.

If the lump sum is to provide you with a more tax efficient income will you require advice on the available investments?
If so, we can offer personal investment advice on the most suitable investment option open to you – whether this is utilising your ISA allowance or buying a Purchased Life Annuity.

Do you have a dependent spouse who will require your pension to continue if they survive you?
Will there be sufficient income for them if you die first and is this something that you need to plan for?

Are you considering taking all of your pensions at the same time?
You do not have to and at retirement you do not necessarily have to buy an annuity.

How much income will you need in retirement?
A difficult question – but you need to think about how your lifestyle may change when you retire. Also, will you have any outstanding liabilities such as a mortgage or long-term loans?

Changes to the Pension System

Anyone aged 55 or over can access their pension fund and pay tax at their marginal rate currently 0%, 20%, 40% or 45%. This offers the highest ever flexibility to pension savers.

The access options are simplified here, but it is important to speak to your Financial Consultant for guidance on these changes and which option is most suitable for you.

Annuity

- Buy an annuity – utilise 100% of your pension pot for a guaranteed lifetime income.
- Up to 25% of the value of your pension pot can be taken as a tax-free lump sum.
- 75% of the value must be used to provide a guaranteed income for the rest of your life.

Income Withdrawal

- Up to 25% of the value of your pension pot can be taken as a tax-free lump sum.
- 75% of the value remains invested and you can take any level of income that you require and there is no maximum income level.

Uncrystallised Funds Pension Lump Sum (UFPLS)

- UFPLS is another way of taking pension benefits without going into drawdown or buying an annuity.
- 25% of any amount taken out will be tax-free and 75% of it will be taxable.
- Any remaining funds in your pension pot can be taken in one go or in tranches.

Investments

Have you had a recent review of your investment portfolio?
Regular investment portfolio reviews are crucial. Financial objectives and attitudes to risk rarely remain static and you could find that your present portfolio is no longer achieving your financial goals.

Will your risk profile change from the current level in retirement?
This will most likely be “yes”. Your priority need will now be in maximising the amount of regular income you receive and ensuring the security of that income.

What level of income do you require and does it have to keep pace with inflation?
How much income do you need? Do you want access to your capital? Such decisions will determine the appropriate investments and we would urge you to seek professional financial advice.

Do you want to continue managing your investment portfolio in retirement?
You may wish to hand over the day to day management of your portfolio to an investment manager to achieve the best results for you. If so, you can ask us about our Discretionary Management Service that could benefit you.

Life Cover, Death and Wills

Do you have an up to date Will?
If your Will is not up to date your estate may not be passed on in accordance with your wishes. If your Will is invalid the government will decide who benefits from your estate which, in the worst case scenario, could be the crown. It is important to ensure that your Will is reviewed at regular intervals.

What changes are required to your Will in retirement?
As your circumstances will change, retirement is probably one of the most important times to reassess your Will to ensure that it accurately reflects your wishes now that you have retired.

Have you made your immediate family aware of who holds your current Will so that they can carry out your wishes?
If not, you could be classed as not having made a Will. If it cannot be produced the Government will make the choice of where your assets are distributed.

Do you still require Life Cover in retirement? If so what are your requirements and what is the objective of the cover?
Some people assume that Life Cover is not needed in retirement but more and more people retire with outstanding debt and you may need the Life Cover until they are repaid.

Additional Considerations

What capital expenditure will you incur in retirement? *e.g. Changing cars, planning for long term care; have you thought of provisions for these?*
As part of your emergency buffer you may need to make provisions for capital expenditure. It would be a good idea to know how this expenditure is to be paid.

Will you continue to live in your current home or will you consider downsizing to release capital?
One of the advantages of downsizing could be that you will release capital that can be used to provide additional income. However, always seek professional advice before making this decision.

Is Inheritance Tax (IHT) and gifting an inheritance important to you? If so, have you had any thoughts on how you wish to do this?
More and more estates are now being valued above the IHT nil rate band and suffering tax liabilities. There are ways of mitigating IHT though and we would urge you to seek professional financial advice for this.

Do you have a Lasting Power of Attorney?
If you become unable to make decisions for yourself in the future, someone will need to make decisions for you. If you wish, you can officially appoint someone you trust to decide on financial and property matters for you.

Pension Income

PENSION COMMENCEMENT LUMP SUM (TAX-FREE LUMP SUM)

All salary / Defined Contribution (DC) pension funds allow you to take a Pension Commencement Lump Sum.

It is often worth taking the maximum tax free lump sum – although we would urge you to seek advice before making this decision. This is because:

» Pension income is taxable at your income tax rate.

» If additional income is needed, the lump sum can be used to buy an income, similar to a pension. This type of income, known as a Purchased Life Annuity, and is treated more favourably under the taxation rules than income from a pension fund.

» The lump sum could be invested to provide income, growth or a mixture of the two and via ISAs, tax efficiently.

REGULAR INCOME

There are three ways of converting your pension fund into retirement income:

1. Buy an annuity.

2. Take 'income withdrawal' before buying an annuity or stay in income withdrawal until your death or use flexible income withdrawal.

3. Phased income withdrawal. You take a combination of tax -free cash and income over a period of time. This can be tax efficient.

You can also combine any of these options, for example, utilising part of your fund now, or buying an annuity with part of the fund and using Drawdown for the remainder. If you select the drawdown route, you can purchase an annuity at a later date. However, you cannot go from an annuity to a drawdown agreement.

Pension Annuities

An annuity is a method of converting your pension fund into an income payable for the rest of your lifetime. Unless you have made provision for a partner the income usually finishes on your death. Once an annuity is set up it cannot be encashed, your money has been spent and it is extremely unlikely that the annuity can be altered. It is for this reason that full consideration should be given to the decision; take financial advice if your are unsure.

Types of Annuities

Single Life Annuity	Income ceases on your death
Joint Life Annuity	The income continues to your surviving partner at the full rate or, more commonly, at 2/3rds or half the rate
Level Annuity	The income is fixed at the outset and never changes
Impaired/Enhanced Annuity	The amount of income is increased if you have a lower than average life expectancy
Escalating Annuity	The income could be increased each year by either RPI or a fixed rate which is set at the start of the annuity
Guaranteed Period	This is not an annuity but may be added to an annuity to guarantee that the income will be paid for the first 5 or 10 years or even longer in retirement even if you die earlier
Phased Retirement	Only a part of your pension fund is used to provide income; the other parts are used at regular intervals over the years in the future
Capital Protected	This is another option that can be added to an annuity that can ensure if you die before the age of 75 that part of your pension fund is returned to your estate
Investment Linked Annuity	The level of income is determined by the investment performance of the remaining fund

Phased Retirement

So far, we have considered using your total pension fund to buy an income. It is possible that you may not need the full income initially, perhaps because you continue to work part-time, or you have other investments. It is possible to use several pension funds to buy an income over a period, say yearly, to give an increasing income. It would also be possible, if the pension fund allows, to take a tax-free lump sum each time a pension fund is used to buy income which can be tax efficient.

If you have only one pension fund it is still possible to use Phased Retirement.

Most pension plans allow purchasing an annuity or taking an income from part of a plan, or taking some tax-free lump sum, the rest remaining invested and 'non crystallised. One advantage of this route is that on your death any remaining, f fund is available for your dependants as an income or a lump sum, depending on the type of plan.

You must remember that by using Phased Retirement you will also phase your tax-free cash. You will not be able to take the entire cash sum from your pension at retirement. Nevertheless, many would find some cash or income now and further amounts in future years extremely useful, albeit the amounts would be smaller than one larger lump sum.

The potential for growth on the remaining funds means that the lump sum available later may increase. As a series of annuities are purchased over the years it is possible, as you get older, that the annuity rates on offer at each purchase may be an increase on the previous.

However, it is important to point out that these benefits are subject to investment growth or changes and cannot be guaranteed.

Income Withdrawal

If you would prefer not to buy an annuity but do, nevertheless, require income from your pension fund, Income Withdrawal may be suitable for you.

Income withdrawal is available through Flexi Access Drawdown Schemes, which replaced the Capped and Flexible drawdown schemes from 6th April 2015. The scheme allows you to take income directly from your pension fund. You then decide when to buy an annuity which can normally be anytime from retirement until you decide to do so, as the age 75 rule has now been removed. You can avoid taking a lower annuity in the hope of getting a better rate when you are older. This, however, is not guaranteed.

Income Withdrawal gives flexibility in the amount of income you can take, within limits.

You could take an income at a level obtainable from an equivalent annuity. There are no maximum income level and the minimum level is zero. However, if you take too high an income it is possible that the remaining fund may not be able to achieve sufficient investment growth to maintain the higher payments.

You can take up to 25% of your pension pot as a tax free lump sum when the plan is set up.

With income withdrawal you can also leave your remaining pension fund to your dependants (which may be taxable). Meanwhile your remaining fund continues to be invested for growth. This presents a risk though, as a fall in investment performance will reduce your fund whereas a conventional annuity might be unaffected.

Income Withdrawal plans should be reviewed annually to ensure that the fund will allow the current income level of payment to continue. If it will not then your income is reduced. There is no doubt that Income Withdrawal offers several benefits but does involve extra costs and extra investment risk. This would only be suitable if you can accept the risk and if you have a sizeable fund of, say, over £100,000.

We strongly recommend you seek professional financial advice before deciding to set up an Income Withdrawal Plan.

Phased Income withdrawal

This type of income withdrawal utilises part of the tax free lump sum Tax free lump sum as part of the income payment. This can have tax advantages as the Tax free lump sum element isn't subject to income tax.

Over time the proportion that can be taken as Tax free lump sum will reduce but in the early years this can be beneficial.

Uncrystallised Fund Pension Lump Sum (UFPLS)

Since 6th April 2015, if you wish to access some or all of your money purchase pensions savings without designating funds as available for drawdown or buying an annuity (or scheme pension), then UFPLS/ withdrawal is the way to do this (provided that this option is allowed under the contract).

To qualify as an UFPLS:

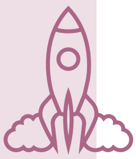
- The lump must be payable from uncrystallised rights under a money purchase arrangement
- You must have more standard lifetime allowance remaining than the amount of lump sum being withdrawn if you are under 75
- If you are over 75, they must have some standard lifetime allowance left
- You must have reached normal minimum pension age (currently 55), or meet the ill-health conditions, or have a protected early normal retirement age.

Next Steps

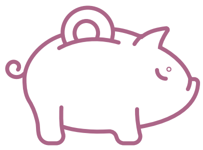
This is a brief guide of just some of the considerations surrounding your retirement options. It is a complex area where you could make significant savings. It's always good to get professional advice to find out the most appropriate option for you, after all you want to enjoy your retirement as best you can.

Calculate the income you will need once you retire

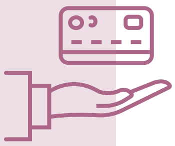
Assess how much risk you want to take with the pension savings you've built up



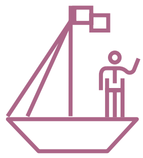
Think about ways you could boost your pension



Consider changes in your expenditure once you retire when budgeting



Clear as many of your debts as possible



Decide when you want to retire and start taking your pension

Speak to a professional adviser to formalise your plans

Important Notes

This publication was prepared by Whitechurch Financial Consultants using sources believed to be reliable and accurate. The opinions are our judgement at the time of writing (June 2021).

Do you need advice?

This publication contains product specific details only and unless we have complete, up to date, written details of financial circumstances and requirements we cannot and will not offer any opinion as to the suitability of any investment for any client. Any response to this publication will therefore be on the basis that client specific advice has not been given. The products are not suitable for everyone. You should obtain professional advice if you have any doubt about whether they are suitable for you.

Ensure you obtain and read the literature

It is essential before you consider purchasing any of the products mentioned that you obtain, read, and fully understand the Terms and Key Features relating to the specific products(s) in which you are interested, as each have different risk levels and some are more volatile than others, dependent on where and how they are invested. They also set out the risks, charges, cancellation rights and terms of the investment. Do not invest unless you have read this information.

Investments

It is important to always bear in mind that any stockmarket and equity linked investment carries risk and is subject to market and economic forces, and can go down in value as well as up. Past performance is not necessarily a guide to future performance. Investment returns cannot be guaranteed and you may not get back the full amount you invested. The stockmarket should not be considered as a suitable place for short term investment. Where a fund has the holdings in fixed interest securities, these are likely to be impacted by changes in interest rates and/or inflationary expectations. Where the main objective of the fund is to provide an income, the level of income is not guaranteed.

Overseas investments

Exchange rate fluctuations may cause the value of overseas investments to fall as well as rise.

Taxation

Levels and bases of, and reliefs from, taxation are subject to change and values depend on the circumstances of the investor. Please read a product prospectus carefully to ensure you understand how the investment product is taxed and how this may affect your personal tax position.

Annuity quotes

Near retirement your pension provider will provide you with the annuity rate that they can offer you when you retire. However, you are not obliged to purchase your annuity through your pension provider as they may not be offering the best rate available. You can shop around in order to try and secure the highest possible income with your pension plans, by using your open market option.

Whitechurch Financial Consultants can access a quote system to provide you with a range of quotes, to give you some idea of the pension income available from leading annuity providers.

Can we make this document more accessible for you?
Let us know if you need a different format

Whitechurch Financial Consultants:

Telephone: 0117 452 1208

Email: wfc@whitechurch.co.uk

Website: www.whitechurch.co.uk

Head Office: The Old Chapel, 14 Fairview Drive, Redland, Bristol, BS6 6PH. **Telephone:** 0117 452 1208

Website: www.whitechurch.co.uk

FP3233.04.08.21