



Guide to Retirement



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Areas of Consideration

The significant changes introduced to pensions in 2015 provides more options for people at retirement. As your financial adviser, we can help you understand these options before you make a decision about your retirement.

Legislation changes

In April 2015, the government made some radical changes to pension legislation. Essentially, these changes offer you increased freedom to access your retirement savings from age 55 (increasing to 57 from April 2028), resulting in more choice for you. These freedoms are positive changes, but they can seem overwhelming and complicated.

This represents a significant move away from state governance towards individual decision-making and control, which puts a greater responsibility on you to understand your options and the implications of the decisions you make, particularly where there are tax consequences. The need for information, guidance, and advice is now even more important for most people.

Tax-efficiency and planning

Whatever you decide to do with your pension, you can usually take up to 25% tax-free. You also need to consider the impact of any tax-free cash on any means tested benefits that you may currently receive.

Government changes mean you now have full flexibility on the amount you can withdraw from your pension. Up to 25% of the withdrawal will be tax-free, with the balance being taxable when taken as a lump sum or income. This may affect the rate of tax you pay when added to any other income for that tax year. It is therefore important to consider how and when you take your income, to ensure you are doing this in the most tax-efficient way possible.

Planning for your dependants

Do you want to be able to provide for your loved ones after you die? You may wish to consider whether you would like to provide an income and/or a capital amount. The new pension rules open up new options in terms of leaving behind a capital amount from your pension.

People are now generally living longer

This means pension savings need to provide you with an income for longer.

Negative impact of inflation

With a longer time period to sustain your income over, the negative effect of inflation could have a significant impact on the real value of your retirement income over time, especially if it is a fixed amount.

State Pension

From April 2016, the government introduced the new State Pension that will apply to men born on or after 6 April 1951, and women born on or after 6 April 1953. To claim any new State Pension, you must have made National Insurance (NI) contributions for a minimum of 10 years.

The full new State Pension is £241.30 pw for the 2026/27 tax year. To achieve this you will require 35 qualifying years on your NI record.

Your State Pension, together with any pension credit received, needs to be factored into your tax calculations.

Assuming 2.5% annual inflation, £10,000 today could be worth just £5,394 in 25 years' time. This is just an example, as inflation could be more or less.

Individual Pensions, Drawdown and Defined Benefit schemes

Potential advantages of an Individual Pension or Drawdown plan:

- The tax-free pension commencement lump sum (usually referred to as tax-free cash) of an individual pension or drawdown plan can be greater than from a Defined Benefit scheme
- You can choose how and when your benefits are taken. This offers greater flexibility and choice
- When taking benefits, there are no restrictions on the amount of money you can withdraw at any one time
- On your death, your nominated beneficiary/ beneficiaries will receive the remainder of your pension fund. There is no restriction on who you choose to receive these benefits.

Potential disadvantages of an Individual Pension or Drawdown plan:

- The benefits taken from a drawdown plan will need to be carefully managed to ensure it does not run out
- There is the possibility if you need regular income that the investment fund may not be sustainable throughout your lifetime. This could potentially mean you are not able to meet core income requirements in later life
- The funds you invest in will be subject to market fluctuation and this can result in the value of the fund reducing, even when income is not drawn. Where income is being drawn, this will deplete the fund to a greater degree
- The only way to obtain a secured income through an individual pension is with the purchase of an annuity. It is unlikely you would be able to replicate the same level of income payments paid by the Defined Benefits pension scheme
- Any income/lump sum payments you receive from the non-tax free element of a pension fund will be subject to income tax at your highest marginal rate
- By taking higher levels of income (when compared to a Defined Benefit scheme), this may push you into a higher tax band
- Any income/lump sum payments you receive from a pension fund may affect your entitlement to means tested state benefits
- There will be ongoing annual charges and administration charges to pay. You will also need to monitor where the fund is invested to ensure it meets your attitude to risk and investment objectives.

Defined Benefit Pension schemes

Potential advantages of Defined Benefit pension schemes:

- You will receive a secured income for life, which is likely to rise each year in line with inflation, and your spouse/civil partner can receive an income (subject to income tax) on your death
- There is minimal paperwork needed to start the payment of benefits and no ongoing monitoring of the scheme is required once the first payment has been made
- Defined Benefit schemes will place no personal investment risk on you
- Defined Benefit schemes have a legal duty to provide a pension for a surviving widow/widower or dependant, in the event of your death.

Potential disadvantages of Defined Benefit pension schemes:

- A Defined Benefit scheme is rigid in its structure; you will receive a set amount of money each month until you die; therefore, it cannot adapt if your needs change throughout retirement
- The payments of your scheme pension must be selected before taking any benefits and cannot be changed later
- Many Defined Benefit schemes have a pre-selected retirement age and taking benefits early can result in reduced pension benefits
- Any income you receive from a Defined Benefit scheme will be subject to income tax at your highest marginal rate
- Any income you receive from a Defined Benefit scheme may affect your entitlement to means tested state benefits
- Only your spouse/civil partner and children under the age of 23 (unless legally defined as a dependant if older) will usually be entitled to a reduced pension on your death. This means you will not be able to leave your pension benefits on death to any other party
- Any options (if offered by your scheme) to provide benefits on death must be selected at outset and will result in a lower initial pension payment.

Additional Considerations

Examples of where a transfer may be harmful or beneficial

Circumstances where a transfer may be harmful:

- An individual would need to rely on the income from their pension to fulfil their core income requirements throughout retirement.

Circumstances where a transfer may be beneficial:

- An individual that would not rely on their pension to provide their income throughout retirement and would like individuals to benefit on their death, but who are not defined as a dependant.

Your income and capital needs

It is important to consider your lifestyle during retirement and the amount of income you will need to support this. Equally, it is important to think about special events that might require additional funds. You may want to plan for these in advance.

Your health

Your health may influence what you choose or need to do with your money.

If you or your partner have a medical condition, you could be entitled to a higher income with some of your retirement options.

Your attitude to investment risk

Some of the options available to you, will carry investment risk, so an important part of the planning process is to explore your attitude to risk and your capacity to cope with any drop in value of your capital or income - if investment performance were to fall.

Retirement is changing

Retirement may not be a one-off event, as many people continue to work full or part-time, not just for an income, but to keep their minds and bodies active and healthy. This could influence when you might want to start or increase your retirement income.

Do your current pension savings offer important guarantees?

Some older style pensions may come with important and valuable features that could give you a higher guaranteed income.

October 2024 - Pension Assets

From 6 April 2027, the tax treatment of pensions on death will change.

Most unused pension funds and death benefits will be brought into the value of an individual's estate for Inheritance Tax (IHT), regardless of whether the funds are crystallised or uncrystallised, or whether any Lump Sum Death Benefit Allowance remains.

Pension scheme administrators will be responsible for reporting and paying any IHT due directly to HMRC. Transfers to a spouse or civil partner will remain exempt from IHT. After any IHT has been deducted, the remaining pension funds may still be subject to income tax, with the existing age 75 rule continuing to apply. The Government has launched a technical consultation to finalise how these changes will be implemented.



Personal Pension options

Turning your money purchase pension savings into retirement income

You have five main options:

1. Do nothing – leave your money where it is
2. Take all your money as cash
3. Phased drawdown - draw your money in a tax-efficient manner.
4. Purchase a guaranteed income for life (pension annuity)
5. Flexible access to your money with investment control (flexible-access drawdown)

Your income requirements and amount of pension savings, together with your aims and objectives, make your individual circumstances unique.

The following guide sets out the main retirement income options. Following discussions with you, we will then advise what is suitable – which could be a number of these options in combination.

Whatever you decide to do with your pension, you do not have to use your existing provider. If you choose to use your pension to provide an income, you should shop around. Depending on the choices you make, you may be able to get a higher income elsewhere, so it is important that you consider this.

1. Do nothing – leave your money where it is

If you are not ready to access your pension savings – you do not have to do anything right now – you can leave your money where it is. Your savings would stay within your tax-efficient pension, while you keep your options open and make a decision at a later date. You could also choose to add to your pension savings during this time.

Advantages	Disadvantages
Tax-efficient growth	No income
Usually Inheritance Tax (IHT) friendly for dependants	Guaranteed income (annuity) rates could fall in the future
Potentially higher income/capital amount when you take it later	Legislation could change
Keeps your options open	Loss of income, if future annuity rates are lower than now - your total return could be lower by delaying your decision
Guaranteed income (annuity) rates could increase in the future	If you want to buy an annuity at a later date - be aware that many annuity companies have a maximum entry age of 75 years
	The value of your pension savings can go down and the value in future may be less than the amount invested

Personal Pension options

2. Take all your money as cash

Pensions freedom means that you can now take all of your pension savings as a cash lump sum, and is often referred to by the government by its technical name, 'Uncrystallised Funds Pension Lump Sum' or UFPLS.

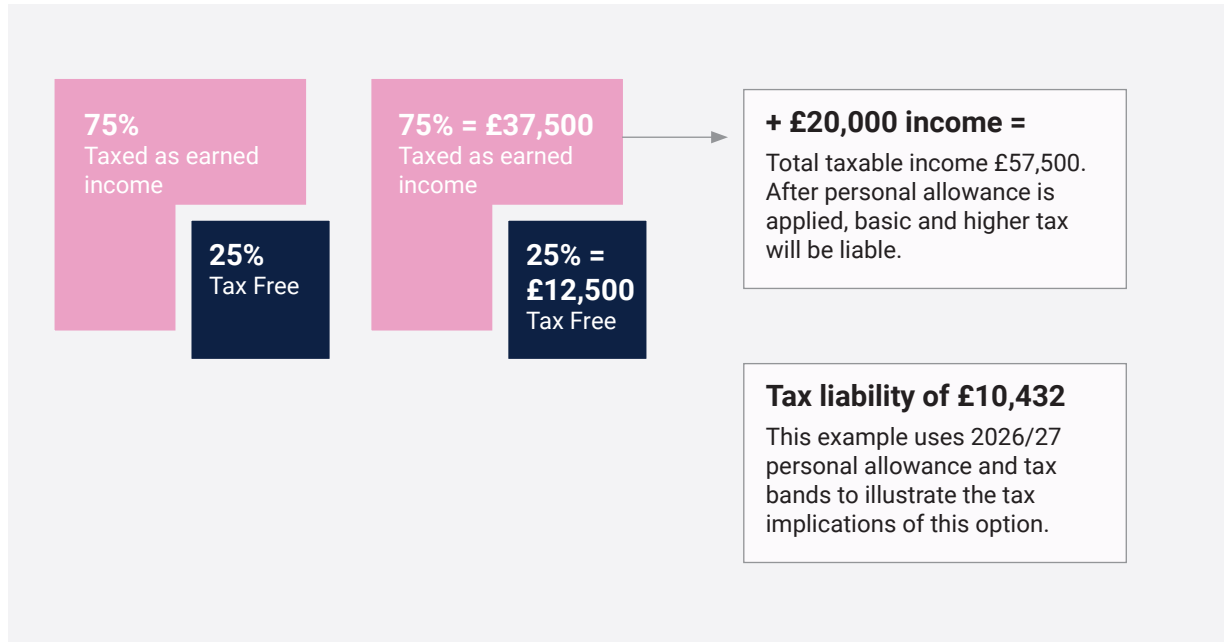
The first 25% you take will normally be tax-free and the rest will be added to your income and taxed accordingly at the appropriate rate. While having a cash lump sum may be appealing for some, it is also important to think about whether you can fund your retirement for the rest of your life. Depending on what you choose to do with this money, there are no guarantees that this money will last. You should also consider where would be a good home for the money you are moving out of your tax-efficient pension savings, but do not need to use immediately.

Advantages	Disadvantages
You get immediate access to your full fund	Potential tax implication on 75% of amount - only 25% is tax-free
Simple and straightforward to you	Sustainability - if you spend all your money, what will you live on?
You can plan - you know exactly what you have	If you want to provide an income or capital for a loved one after you die, the money may form part of your estate so will be subject to IHT
	Possibly no growth potential
	Inflation will erode the value of your money over time, unless you find a way to safeguard this
	The Money Purchase Annual Allowance (MPAA) will apply to you, if you have accessed your benefits flexibly. If this is the case, you will incur a tax on any contribution(s) to a money purchase pension that exceeds the MPAA threshold at the time. MPAA does not apply to small pots

Personal Pension options

Tax implications of taking all your money as cash

Example: a client aged 60 with a £20,000 income and £50,000 of pension savings



This information is based on our understanding of current law and HM Revenue & Customs (HMRC) practice. This is subject to change by the government without notice. The impact of tax (and any tax reliefs) will depend on your own circumstances. The provider may have to apply an emergency tax code to any lump sum payments to you. This means that the payment will not take account of your actual tax position and you could end up overpaying tax by a significant amount. You will be able to claim a refund from HMRC.

Personal Pension options

3. Phased Drawdown - draw your money in a tax-efficient manner.

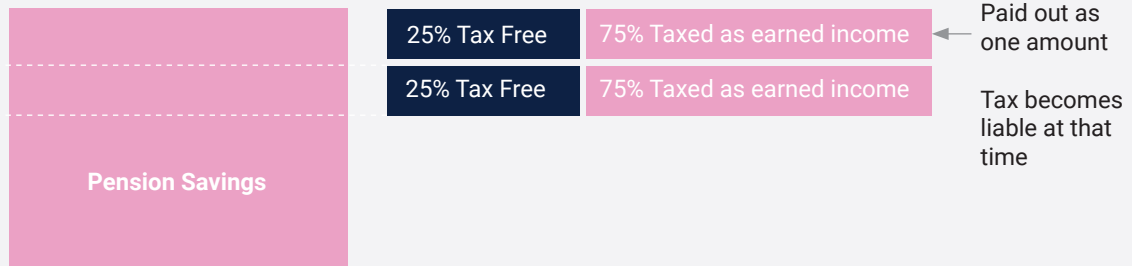
This is becoming a more popular option for current pensions and is often referred to as 'Phased Drawdown' or 'Drip-feed Drawdown'. Essentially, the premise behind this is to combine regular 25% tax-free cash payments, with a regular taxable income. This gives you the flexibility to draw a regular income in a tax-efficient manner. The tax-free cash and taxable income payments can be increased, decreased, or stopped at any time. We will discuss this option with you to provide you with a tax-efficient income strategy.

Every time you access pension benefits, you 'crystallise' the whole or part of your pension. This is known as a 'Benefit Crystallisation Event' or 'BCE' for short. With each event you are entitled to 25% tax-free cash, with the balance used to provide an income, if required.

Advantages	Disadvantages
You can take out some of your pension	Sustainability - what would you live on if you take out too much money early on in your retirement?
Keeps your options open - you could decide to move your remaining pension savings into another retirement income option at a later date	75% tax liability on each amount taken - only 25% is tax-free
Flexibly meets your short-term income requirements	Investment risk - the money left in your pension could fall in value
Simple and straightforward for you	The amount you withdraw will usually form part of your estate and may be subject to IHT
The money left in your pension savings stays invested - benefitting from any investment growth	Not all pension plans allow this option
The amount left invested is usually outside of your estate (IHT friendly)	Inflation could have a significant impact on the purchasing power of your money
	The Money Purchase Annual Allowance (MPAA) will apply to you, if you have accessed your benefits flexibly. If this is the case, you will incur a tax on any contribution(s) to a money purchase pension that exceeds the MPAA threshold at the time. MPAA does not apply to small pots

Personal Pension options

Taking some of your money as cash



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Personal Pension options

4. Purchase a guaranteed income for life (pension annuity)

This is a secure, guaranteed, regular income paid to you for the rest of your life and will be taxed in the same way as earned income while you were working.

You can be assured that your income level will never decrease – so you will always know how much you will receive. There are some options, such as index-linked annuities that can help protect against the effects of inflation meaning that your income could also increase. We can talk to you about these options.

If you also want peace of mind that your loved ones are still provided for after you die there are other options to consider – again, we can explain more about these and provide illustrations on how they impact your income amount.

Other options include:

- **Joint-life:** an income is paid to a dependant usually for the rest of their life - if you die before them.
- **Payment Guarantee Period:** chosen beneficiaries will be paid an income for the remainder of a set period - if you die within that time.

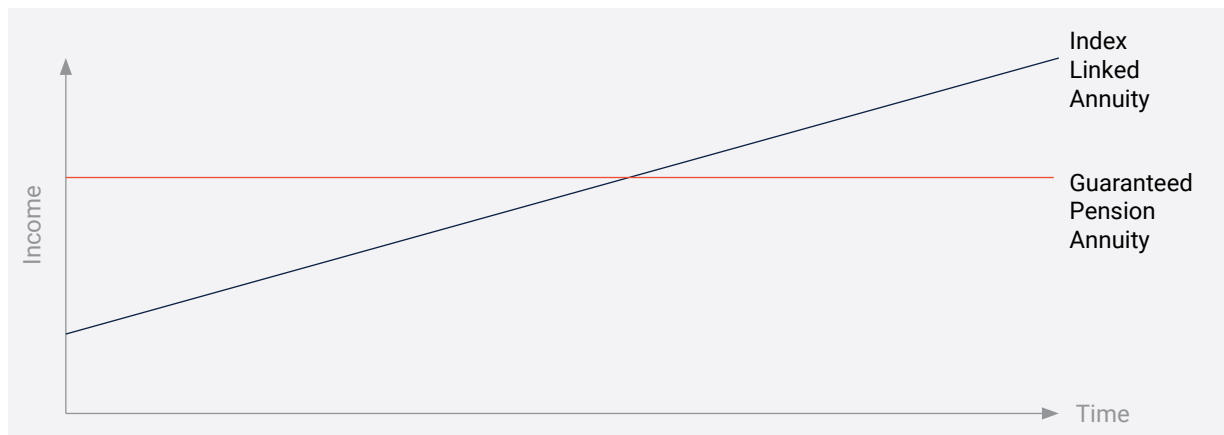
Advantages	Disadvantages
Certainty - your income will be paid for the rest of your life	Your capital is lost when you die
As you have a known income, you can budget your spending against your income	The income you receive will stop when you die, unless you have selected the Joint-life or Payment Guarantee Period option, at the start
Straightforward annuity	Although an income is guaranteed, if you haven't selected an increasing income option, there is a risk that inflation will erode its real value
No investment risk	The decisions you make at the start, about increasing income or providing for loved ones, cannot be changed later
Your loved ones will continue to receive a known amount of income after you die - if you have added this option	You will receive a lower income amount if you select certain options
You could receive a higher income if you or your partner (if you selected a joint life option) have certain medical conditions - this is known as an enhanced annuity*	Treated as income and taxed accordingly at the relevant rate
Some older types of pension plans have important income guarantees	

Personal Pension options

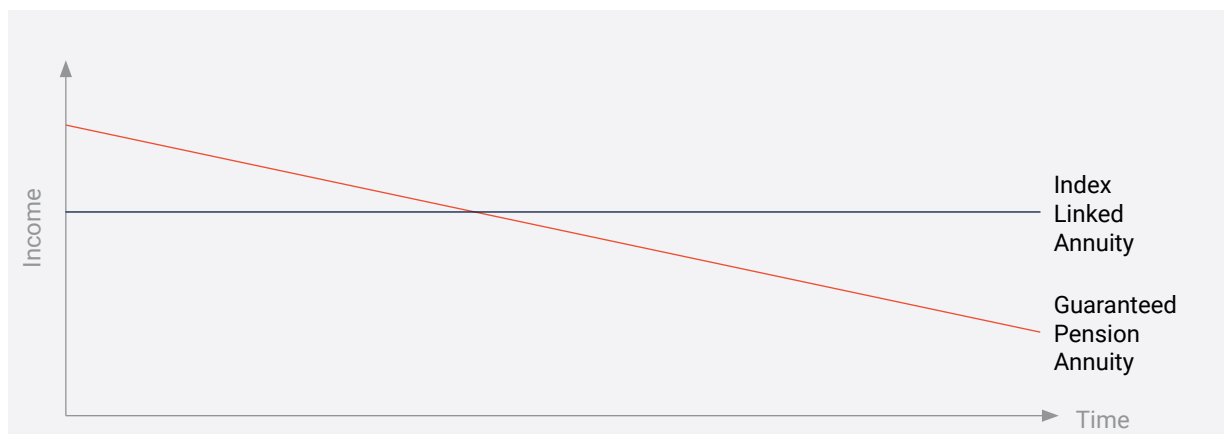
*If you or your partner have a medical condition, this could mean you are entitled to a higher income in retirement. Remember that you should shop around for your income, as financial providers may cover different conditions and may use different criteria, which means you could get more or less income elsewhere.

These diagrams are for illustrative purposes only and are intended to show the effect of inflation – the buying power of your money on a fixed and increasing incomes.

Comparison of income over time



Buying power of income over time



Index-linked annuity income is linked to the Retail Price Index (RPI). The assumed rate of inflation is 2.5%.

Personal Pension options

5. Flexible access to your money together with investment control (flexible-access drawdown)

25% of any crystallised benefits may be taken as a tax-free lump sum, with the remainder of the fund used to provide income. Income may be taken as an immediate single lump sum payment, regular income or deferred until a later date. Under the terms of FAD, you may take any amount of your money whenever you want, provided that the scheme allows it.

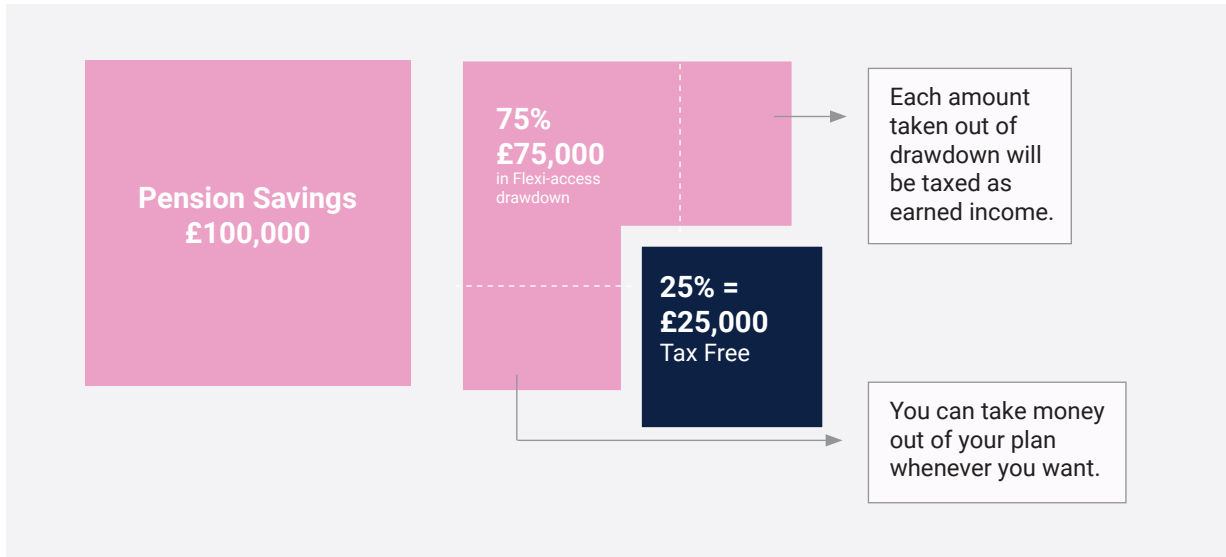
Your pension income, when required, is taken from the funds you are invested in and will be treated as taxable income and subject to Income Tax.

Advantages	Disadvantages
You can take your money as and when you want - as an income or individual withdrawals	<p>What you get back will depend on the investment funds you choose and how those investments perform. Losses in the early years of taking an income can have a long lasting negative impact on the sustainability of your pension.</p> <p>This reflects the well known concept of sequencing risk – the idea that poor investment performance early in retirement can permanently reduce how long a pension pot lasts, even if average long term returns are the same</p>
Your income and capital does not die with you - it can be left for any beneficiaries	Your capital could be eroded over time, and in some cases entirely, leaving you without an income. This risk is greater when withdrawals are set too high and cannot be supported by the investment returns generated
IHT friendly - you can plan to pass on your investment to loved ones, potentially tax-free	More complex than a Guaranteed Pension Annuity
Investment choice is tailored to your individual preferences	There is no guarantee that your future level of income can be maintained, and withdrawal rates may need to be adjusted over time to ensure your pension remains sustainable
Any investment growth can help protect your income from the effect of inflation	Treated as income and taxed accordingly at the relevant rate
Your capital has the potential to grow	The Money Purchase Annual Allowance (MPAA) will apply to you, if you have accessed your benefits flexibly. If this is the case, you will incur a tax on any contribution(s) to a money purchase pension that exceeds the MPAA threshold at the time. MPAA does not apply to small pots

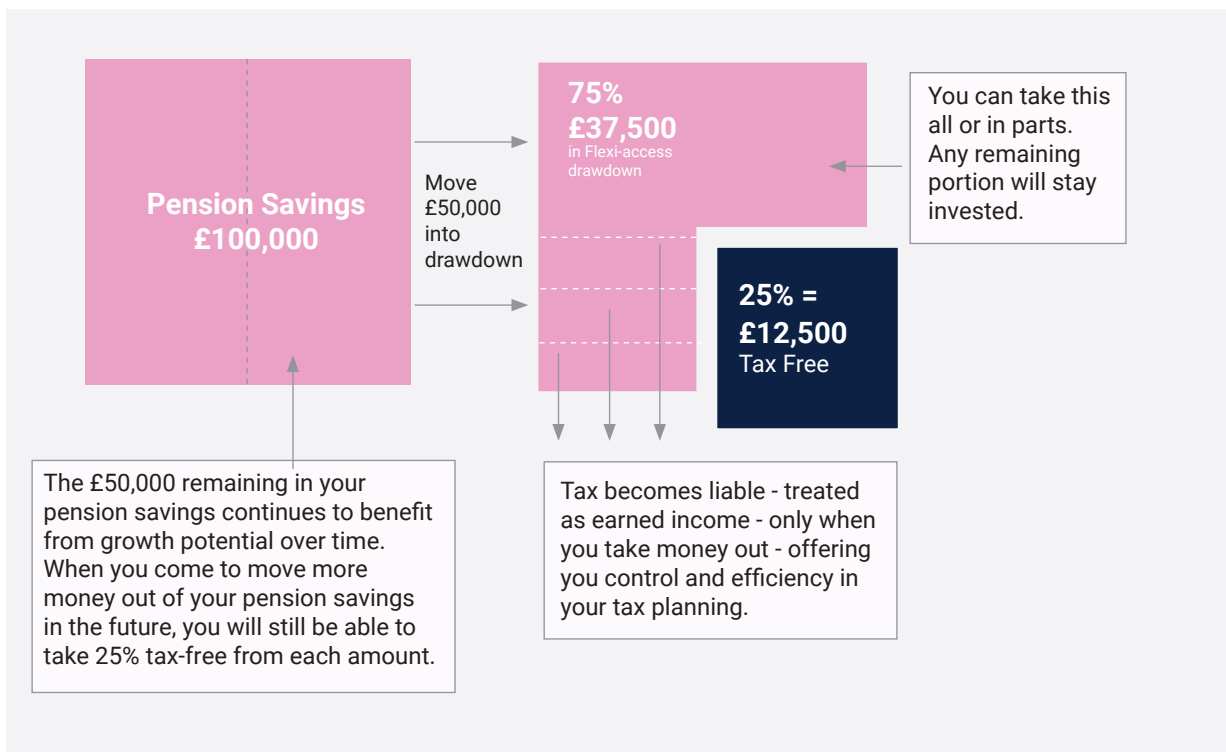
Personal Pension options

There are two main ways to using Flexi-access Drawdown:

Moving all of your pension savings into Flexi-access Drawdown:



Moving part of your pension savings into Flexi-access Drawdown:

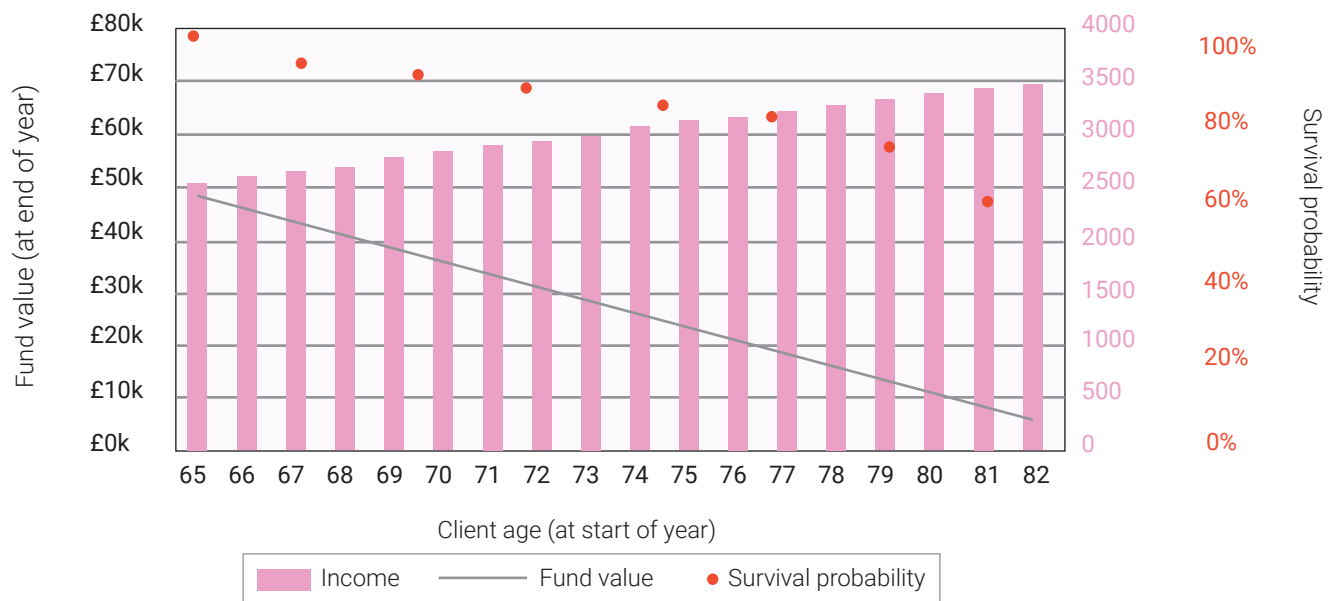


Personal Pension options

How long will my fund last?

The following graph provides an indication of your pension benefits from a flexible-access drawdown arrangement. This does not include any other income source.

The line represents the pension fund value, the bars represent each year's income, and the orange dots are probability of survival. This shows the fund being exhausted at age 82.



The returns will be based on the underlying performance of the funds within your plan and could be higher or lower than the figures shown. It is highly unlikely that the same returns will be made each year. Although the income is fixed, the underlying fund value can go down.

The above example is based on a 65 year old with a £50,000 pension fund after tax-free cash, with an income of £2,500 p.a. (5%) paid monthly. The initial pension income will increase by 2.5% p.a.

This is based on an assumed return of 3% each year.

About Lovewell Blake Financial Planning Limited

Lovewell Blake Financial Planning Limited was formed by the partners of Lovewell Blake Chartered Accountants who have provided a service to the community of East Anglia since 1858. Lovewell Blake Financial Planning Limited has grown into one of the largest teams of independent advisers in East Anglia; we currently look after over £600million of our client's investment and pension funds.

We are an independent financial advisory firm that offers impartial recommendations. As independent financial advisers, we can research and access the whole of the market to ensure the products recommended are the best possible solutions for existing, and new clients. The services we provided are wholly independent and are free from any third party influence.

Should you require any further information in respect of your retirement options, please do not hesitate to contact our Norwich office on 01603 619620.

MoneyHelper
0800 011 3797
www.moneyhelper.org.uk/en

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Regulated by the Institute of Chartered Accountants in England and Wales for a range of investment business activities.

Lovewell Blake Financial Planning Limited is available for advice at all Lovewell Blake Offices.

Lovewell Blake Financial Planning is authorised and regulated by the Financial Conduct Authority number 190079.

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