Retirement Options

Whether you plan to phase your retirement by cutting back your hours gradually or to fully retire from work completely, you have the freedom over how you can use your pension pot to fit with your personal retirement journey.

You must have reached normal minimum pension age to access your pension pot - currently age 55 (or earlier if you are in ill health or have a protected retirement age).

What are your pension options?

Purchase an Annuity

Use your pension to purchase a guaranteed income for life

Flexi-Access Drawdown

Use your pension to provide a flexible retirement income.

Uncrystallised Fund Pension Lump Sum

Take the whole pension pot as a single lump sum, or specified lump sums.

The table below simply compares the options for turning a defined contributon pension pot into retirement income. This is the most common type of pension where you have paid in a regular amount but the income is not guaranteed, unlike with a Final Salary Pension.

Pension Option	Tax-free cash	Regular Income	Guaranteed Income	Can I run out of money?
Annuity	Up to 25% of fund	Yes	Yes	No
Flexi-Access Drawdown	Up to 25% of fund	Yes	No	Yes
Take the whole pot	Up to 25% of fund	No	No	Yes
Take Lump Sums	25% of each withdrawal	No	No	Yes

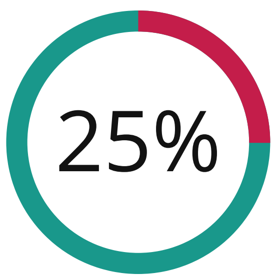
Alternatively, you could leave your pension pot untouched and delay taking your pension until a later date. Your pot can continue to grow tax-free, potentially increasing the value available to you at a later date.

Crystallising your Pension

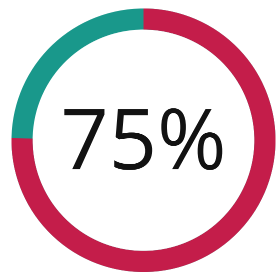
'Crystallising' your pension simply refers to the process of taking benefits from all or part of your pension. You can take a tax-free lump sum of up to 25% and draw a taxable income from the remaining 75% via Flexi-Access Drawdown or through the purchase of an annuity. The 75% is taxable at your marginal rate (20% basic rate, 40% higher rate and 45% additional rate).

It is not possible to access your tax-free cash without crystallising all or part of your pension.

For an example, if you required £10,000 tax-free cash, you would need to crystallise £40,000 of your pension fund.



Tax free cash



Taxable

You would receive:

- £10,000 (25% of £40,000) as a tax-free lump sum.
- The remaining 75%, £30,000, could be withdrawn in full and paid as a cash lump sum, taken as drawdown income or designated to Flexi-Access Drawdown where it will remain invested or be used to purchase a lifetime guaranteed income via an annuity.

All of these options would be taxable at your marginal rate.

Annuity Purchase

The primary feature of an annuity is the ability to receive your 25% tax free cash and use the remaining balance to purchase a guaranteed level of income which will be paid for the rest of your life. There are various features that can be built in to this, such as escalating income, but the main feature is the use of your pension fund to purchase an income for life.

Once this has been entered into it **cannot be changed** and an income would be paid for the rest of your life. Unless you purchase a guarantee or a spouse’s pension, the annuity would cease on your death. Therefore, if you were to die in the early years of purchasing your annuity, you would not have received back as much as was used to purchase the annuity and nothing would be paid out on your death. Conversely if you were to live for many years, the annuity purchase could prove to be very good value for money.

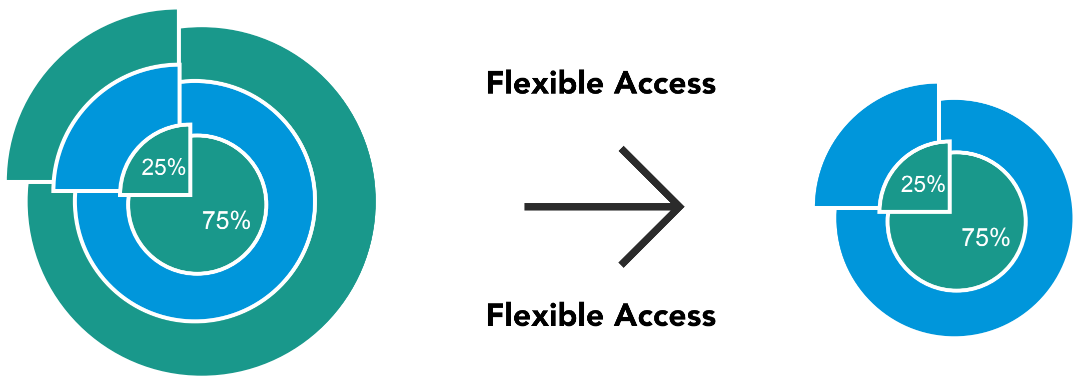
Flexi-Access Drawdown

The primary feature of Flexi-Access Drawdown is the ability to receive 25% of the amount crystallised and the remaining 75% of the crystallisation will be allocated to drawdown.

You can choose to take all of your tax-free cash in one go, and crystallise the full value of your pension plan, or spread it out over a series of smaller crystallisations and payments.

Flexible access allows you to dip into your retirement savings with the rest remaining invested within your plan. The intention of which is to increase the value of your retirement fund over the long-term. With flexible access, there is no limit to the amount that can be withdrawn

Again, funds withdrawn from drawdown are already crystallised and will therefore be added to your taxable income in that year and taxed accordingly.



Standard Annual Allowance

£40,000

Money Purchase Annual Allowance

£4,000

If flexible access is used and a taxable income is withdrawn, there is a reduction to the level of future pension contributions that you can make. This is called the Money Purchase Annual Allowance which is currently £4,000 per annum.

Prior to 6th April 2015, Capped Drawdown was the most frequent used form of drawdown. There are therefore still many Capped Drawdown plans around and these have a limit on the amount of income that can be drawn each year with this limit reviewed every three years. The minimum can still be set at £0.

Clients who were in Capped Drawdown prior to 6th April 2015 have retained access to the standard Annual Allowance of £40,000.

It is important to note that with Flexible Access, your income is not guaranteed to last forever. If you take too much money and live longer than expected, or if your underlying investments do not perform as well as you had hoped, you could run out of money before you die.

Uncrystallised Fund Pension Lump Sum

Encash entire pension pot

It is possible to take your entire pension fund in one go as cash for you to spend as you wish. However, there are considerable tax implications to consider as 75% of the withdrawal will be added to the rest of your income for that year, and taxed at your highest rate.

If you have £10,000 or less in your pension pot and you want to take it all in one go – you may be able to take it as a 'small pot lump sum' – as long as you meet all of HM Revenue & Customs' (HMRC's) rules about when a small pot lump sum can be taken. There are different rules depending on what type of pension you have.

If the circumstances meet all of HMRC's rules, the withdrawal will not trigger the MPAA but will still be taxed similar to a UFPLS payment.

Lump sum payments

It is possible to take cash as and when you need it from your existing pension plan and leave the rest untouched where it can continue to grow tax-free. This is known as Uncrystallised Fund Pension Lump Sum. Under this option, this means that you have not 'crystallised' your pension pot by turning in into an income, such as through an annuity or allocating to Flexi-Access Drawdown. However, when you start taking lump sums payments from your pension, this will restrict your future contributions as the MPAA will apply.

Using UFPLS is similar to using your pension as a savings account, taking cash out when you need it, with the rest continuing to grow. Again, each withdrawal is 25% tax-free, and the remaining 75% taxed at your marginal rate.

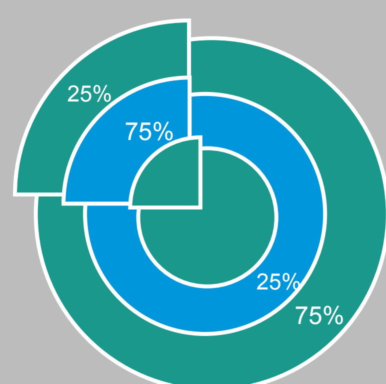
Similar to Flexible Access, your income is not guaranteed to last forever under this option.

For example, an £1,000 UFPLS withdrawal.

£250 tax-free, 25%
£750 taxable income, 75%

For a Basic Rate Tax Payer,
this would result in a total net payment of £850.

£250 tax-free
£750 @ Basic Rate Tax 20% = £600
£850
The remaining pension pot will remain uncrystallised and invested.



Summary of retirement options

An annuity will likely suit you if:

- You want the peace of mind of having a guaranteed income for the rest of your life.
- You do not wish for your retirement income to be subject to market fluctuations.
- It is possible for your income to rise with inflation.
- You would like to build in a guarantee period or spouse's pension upon your death.

Flexi-Access Drawdown will likely suit you if:

- You would like for your pension funds to continue to be invested, with the possibility of increasing its growth potential.
- You want the flexibilty to withdraw an income, as and when required.
- You want to take out different amounts each year and change your income to suit your circumstances.
- You would like for your nominated beneficiary to have the greater flexibility in terms of death benefits.

Encashing your entire pension will likely suit you if:

- You have suffered poor health and an guaranteed income for life may not be the best option for you.
- You want to have quick access to your pension fund.
- You require the full amount and do not wish to leave any residual invested.

Using UFPLS will likely suit you if:

- You may require access to a single lump sum and do not wish to commit to a regular income.
- You want to take varying amounts of money each time, without setting up a regular income.
- You wish to spread your 25% tax-free allowance over a period of time.

You do not need to choose one option and you can mix and match as you like, and take cash and income at different times to suit your own retirement needs. Though, please be aware that purchasing a lifetime annuity is an irreversible decision and once set, it cannot be changed.

It is important that you plan your retirement income carefully, with particular consideration towards the following factors:

- Your age and health.
- When you stop or reduce your work.
- Whether you have financial dependents.
- Your income objectives and attitude to risk.
- The size of your pension pot and other assets available to you.
- Whether your circumstances are likely to change in the future.
- Your partner's savings, if relevant.