

CHOOSING THE RETIREMENT OPTION THAT'S RIGHT FOR YOU

The freedom to choose how and when you access your pension

Your retirement should be something to look forward to, not worry about how to make ends meet. Whatever you want to do, understanding how to build up enough retirement savings and how pensions work should help you achieve your goals.

Your accumulated pension pot will have been hard-earned over years of work. It is only right you eventually have the freedom to choose how and when you access your money during your retirement.

Currently, people don't have total flexibility when accessing their defined contribution pension during their retirement – they are charged 55% tax if they withdraw the whole pot. But from April 2015, people aged 55 and over will only pay their marginal rate of income tax on anything they withdraw from their defined contribution pension – either 0%, 20%, 40% or 45%.

HOW THE CURRENT SYSTEM WORKS

Under the current system, there is some flexibility for those with small and very large pots, but around three quarters of those retiring each year purchase an annuity.

CURRENT PENSION POT OPTIONS

You can currently take up to 25% of your pension pot tax-free. With the remaining amount, you have these options:

- If you are aged 60 and over and have overall pension savings of less than £18k, you can take them all in one lump sum – this is 'trivial commutation'
- A 'capped drawdown' pension allows you to take income from your pension, but there is a maximum amount you can withdraw each year (120% of an equivalent annuity)
- With 'flexible drawdown', there's no limit on the amount you can draw from your pot each year, but you must have a guaranteed income of more than £20k per year in retirement

- Buy an annuity – an insurance product where a fixed sum of money is paid to someone each year, typically for the rest of their life

If you withdraw all your money, you are charged 55% in tax. Regardless of your total pension wealth, if you are aged 60 or over, you can take any pot worth less than £2k as a lump sum, as this classifies as a 'small pot'.

BUDGET 2014 CHANGES ANNOUNCED

Announced during Budget 2014, commencing 6 April 2015, from age 55, whatever the size of a person's defined contribution pension pot, the proposal is that you will be able to take it how you want, subject to your marginal rate of income tax in that year. As previously, 25% of your pension pot will remain tax-free.

There will be more flexibility. However, for those people who continue to want the security of an annuity, they will be able to purchase one, and those who want greater control over their finances can drawdown their pension as they see fit. People who want to keep their pension invested and drawdown from it over time will be able to do so.

To help people make the decision that best suits their needs, everyone with a defined contribution pension will be offered face-to-face guidance on the range of options available to them at retirement.

INTERIM CHANGES

A number of interim changes apply between 27 March 2014, prior to the proposed changes commencing from 6 April 2015.



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These include:

- The amount of overall pension wealth you can take as a lump sum has been increased from £18k to £30k. In addition, the amount of guaranteed income needed in retirement to access flexible drawdown has been reduced from £20k per year to £12k per year.
- The maximum amount you can take out each year from a capped drawdown arrangement has been increased from 120% to 150% of an equivalent annuity.
- The size of a small pension pot that you can take as a lump sum, regardless of your total pension wealth, increases from £2k to £10k.
- The number of personal pension pots you can take as a lump sum under the small pot rules increases from two to three.

WHO BENEFITS?

The interim changes will mean around 400,000 more people (according to the Government) will have the option to access their savings more flexibly in the financial year 2014/15.

From April 2015, the 320,000 people who retire each year with defined contribution pensions will have complete choice over how they access their pension.

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**RETIREMENT
PLANNING CHECKLIST**

1. Always check your annual pension statement, and if you don't receive one, ask for one.
2. You should pay as much as you can reasonably afford to your pension funds.
3. Consider receiving a higher income by deferring retirement (however, this is not guaranteed, as annuity rates, legislation and market conditions may change).
4. When buying an annuity, always shop around for the best deal.
5. You can continue to work in retirement, and your tax-free personal allowance increases from the age of 65.

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This radical announcement to give retirees more choice as to how they take the income from their pension fund will mean that other options may now be given more consideration. These changes make it even more important, if you are approaching retirement, to seek professional financial advice in order to make the most of your pension pot. If you would like to find out how the changes could affect your future retirement plans, please contact us.