UNDERSTANDING YOUR PENSION OPTIONS

assetsfs.co.uk

INTRODUCTION

Ensuring you have enough money in retirement depends on you making adequate savings before you stop working. It also depends on making the right decisions around how to use your pension (and any other savings) to provide you with an income in retirement.

The introduction of new pension rules in recent years now gives you far more flexibility around how you can use your pension savings in retirement. In most instances, you can now access your pension on or after your 55th birthday. Plus, you do not need to stop working to start drawing money from your pension.

While such changes are clearly positive, it does mean there is a wide range of choices available to you when deciding how best to convert your pension savings into a pension income. The decisions you make today will affect your financial position for the rest of your days and determine your standard of living. Thus, they should not be taken lightly.

This pension guide is intended to give you an introduction to the basics. It discusses your main options, starting with taking a tax-free lump sum, then looking at how you can turn your pension savings into a regular income. While it is not intended to replace financial advice, it will equip you with some important background knowledge. And while some of the concepts may be new to you, don't get too hung up on any technicalities – this is why we are here... to provide pension advice that will help you make the best retirement planning decisions and avoid some of the common pension pitfalls.

WHO IS THIS GUIDE FOR?

Anybody who wants to get a better grasp of retirement planning. This pension guide is largely focused on the options available to anybody who already has defined contribution/money purchase pension arrangements (such as personal pensions), rather than defined benefit/final salary pensions.

TAKING A TAX-FREE LUMP SUM

Under the current pension rules you will be able to draw on your pension savings once you reach 55. Most people will be able to take up to 25% of their pension pot as a tax-free lump sum subject to a maximum of £268,275. (There are some exceptions and seeking pensions advice will help determine if you are one of the small minority whose tax free cash allowance is not 25%.)

Many people choose to draw the full 25% allowance at some stage. However, it is worth bearing in mind that the more of your pension you take as a tax-free lump sum, the less remains to provide you with an income in retirement. For example, if you take 25% of a pension pot worth £100,000 as a tax-free lump sum, you will only be left with £75,000 to use to create a pension income (more on taking an income in the next section).

You might decide to take a tax-free lump sum for numerous reasons. Here are some of the common ones:

- Pay off debts such as a mortgage
- Pay educational costs, buy property or even fund a partner's pension
- Drawn in instalments over several years, it can be treated like a tax-free income – especially useful if you are still a higher rate income tax payer from other sources but also need to draw pension money, for example.

MOST PEOPLE WILL BE ABLE TO TAKE UP TO 25% OF THEIR PENSION POT AS A TAX-FREE LUMP SUM

Things to be aware of when taking a tax-free lump sum

You can use your tax-free lump sum as you wish. However, bear in mind that as long as the tax-free cash remains in your pension it is not subject to tax on capital gains, tax on death (in most cases) or any additional tax on income. So if you decide to take a tax-free lump sum and invest it outside your pension, you should remember that most other investments are not as tax friendly. If you do not intend to spend the money straight away it may be wise to leave the tax-free cash within your pension until it is needed.

You don't need to take all your tax-free cash in one go. It can be taken as a regular or irregular series of payments, which will not be subject to income tax.

Bear in mind that when you draw tax-free cash the remaining pension fund available to provide you with an income will be reduced.

Can I take a lump sum of more than 25%?

Whatever money is left in your pension pot after you have taken a tax-free lump sum may also be taken as a lump sum. However, this will be liable to income tax and will be added to any other income you receive during that tax year. For some, this could result in the pension fund being exposed to income tax at up to 45%. By taking smaller lump sums over a number of tax years you might be able to reduce the tax you pay. The alternatives include an 'annuity' or 'drawdown' to take income and we will look at these in the next section.

More details about retirement planning options are found later in this brochure. You do not usually have to make a choice immediately and will often be able to defer taking tax-free cash or income subject to your pension provider's rules.

In the following sections we look at turning your pension savings into an income.

TURNING YOUR PENSION SAVINGS INTO AN INCOME

There are a number of options available to you when you finally decide to convert your pension savings into a regular income. In this section we look at the main types of pension income options – 'lifetime annuities' and 'pension drawdown' – along with the advantages and disadvantages of each. It is worth bearing in mind that under the new Pension Freedoms you do not have to choose one over the other anymore, and you can in fact combine the strategies to suit your income needs in retirement. Thus, it is well worth familiarising yourself with the options.

COMBINE STRATEGIES TO SUIT YOUR INCOME NEEDS IN RETIREMENT

WHAT IS A LIFETIME ANNUITY?

Once you have taken a tax-free lump sum one option open to you is to use the remaining pension fund to buy an annuity. With an annuity you effectively exchange your remaining pension savings for a guaranteed regular income which will be paid for the rest of your life.

Your pension provider will normally automatically offer you an annuity when you reach your pension scheme's retirement age. However, annuity rates vary constantly and so it makes sense to shop around to find the most appropriate deal for you.

There are also a variety of annuity options available and the decisions you make will have a big effect on the income you receive in retirement. The table below gives you an idea of the effect of different options on an annuity income and in the sections that follow we explain the various annuity options mentioned. Because of the complexity of the options, seeking professional pensions advice might also be a crucial factor in making sense of what is available, to enable you to make the right decisions for you and your family.

The table below illustrates the best annuity rates that could be bought with a £100,000 pension fund as at 10th May 2022. (As annuity rates change regularly, you might receive more or less today.)

	Age 60 £	Age 65 £	Age 65 (smoker) £	Age 75 £
Single life, level, no guarantee	6,037.32	6,653.16	6,653.16	8,560.08
Single life, level, 5 year guarantee	6,023.88	6,638.04	6,638.04	8,449.92
Single life, RPI escalation, 5 year guarantee	3,168.96	4,303.08	4,303.08	6,136.80
Joint life 50%, level, no guarantee	5,626.20	6,228.00	6,228.00	7,756.44
Joint life 50%, 3% escalation, no guarantee	3,665.88	4,289.28	4,311.24	6,034.80

This quote is for a person who lives in a standard area who wants an annuity that is payable each month in advance. The joint life examples assume the person buying the annuity is three years older than the spouse. The smoker annuity figures assume a person who has smoked 10 cigarettes a day for the last 30 years and drinks 10 units of alcohol a week (who says smoking and drinking doesn't pay off?).

Key things to note:

- The annuity income you receive will be determined by the size of your pension fund, your personal circumstances and options selected.
- Annuity rates change all the time. As such, they could be higher or lower in the future.
- Your annuity income is treated like normal income and is therefore taxable.

YOUR ANNUITY OPTIONS EXPLAINED

Single-life or joint-life annuities

A single-life annuity is the simplest type of annuity and will pay you an income for your lifetime but stops on your death. As payments are only payable for your lifetime rather than for the life of both you and your spouse, civil partner or dependant, the initial payments will be higher. However, your death may leave a dependent worse off as the payments would stop when you die. If this is a concern then a joint-life annuity will pay you an income for life but when you die will continue for the lifetime of your spouse, civil partner or dependant. This security comes at a price and joint-life annuities pay out a lower income than similar single-life annuities.

Level or escalating annuities

Level annuities pay the same amount of income throughout your life and do not increase in line with inflation. A level annuity will start at a higher level than an escalating annuity but over time the value of your annuity payments will decrease due to the rising cost of living. You could protect against the effects of inflation by selecting an escalating annuity which initially provides a lower level of income but will gradually increase.

If inflation stays low then it can take as long as 20 years or more for an annuity linked to the Retail Price Index (RPI) to pay out as much as a level annuity. But if you don't have an escalating annuity, even low levels of inflation can, over time, significantly reduce your standard of living. For example, £10,000 today will, in 10 years, only buy the same as £7,374 if prices increase at 3% each year.

Investment-linked annuities

Some people find the appeal of a regular income offered by annuity appealing but are happy to take some investment risk in the hope of receiving a better rate of income if investment markets do well. You may wish to consider an investment-linked annuity that provides a regular income but invests in assets such as stocks and shares. It offers a potentially higher income, but also involves some risk that your income could go down as well as up if the investments do not fare well. Investment annuities have limited appeal as most people that are attracted to an annuity are seeking income guarantees and are generally shy of risk.

Annuity protection lump sum death benefit

This benefit can provide a lump sum to your loved ones if you die. An amount equivalent to the pension fund you used to buy the annuity, minus the income you have already been paid, may be paid to your beneficiaries. If you die on or after age 75 there will be a tax charge on the payment.

ONCE YOU HAVE TAKEN A TAX-FREE LUMP SUM ONE OPTION OPEN TO YOU IS TO USE THE REMAINING PENSION FUND TO BUY AN ANNUITY.

A guarantee period

If you die quickly after buying your annuity you will not have received many payments and the annuity will have provided you and your family with poor value. However, you can select an annuity that will be payable for a minimum period of years whether you live or not. For instance, an annuity with a five-year guarantee will be payable at the full level for your lifetime or five years, whichever is longer. Selecting a guarantee will reduce the initial level of annuity and the longer the guarantee the lower the initial annuity level will be. If you combine a guarantee with a spouse or dependent pension and die before the end of the guarantee period, the annuity will typically be payable at its full level for the term of the guarantee and will then reduce to the level of the spouse/ dependent pension.

Enhanced annuities

In general, annuities rely upon those who die earlier subsidising the payments of those who live longer. However, if you have a lower life expectancy than usual, independent financial advice will be invaluable as we may be able to obtain a better annuity rate for you. People who are overweight or smoke will often receive an enhanced rate, as will those with particular health issues. It is always worth enquiring as even those who live in some areas of the country or have done certain jobs may also qualify for an enhancement.

Advantages of annuities

- You receive a guaranteed income for life irrespective of how investments perform – there is no investment risk to you unless you select an investment-linked version.
- The annuity can include a guarantee of what is paid for a period of time whether you live or die.
- You can provide a continued income for a surviving spouse, civil partner or dependant if you die before them.
- The effects of inflation may be offset by selecting an annuity that escalates over the years.
- You can also select an annuity that will decrease at some stage. This might be helpful if you will receive income from some other source in the future but need a higher income now.
- You have the option to link the level of your annuity income to the fortunes of an investment portfolio should you wish to continue to take investment risk and benefit from any growth.
- People who die early subsidise those who live longer. Nowadays, if you have health or lifestyle issues you can expect a higher rate of income from an enhanced annuity.

YOU CAN PROVIDE A CONTINUED INCOME FOR A SURVIVING SPOUSE, CIVIL PARTNER OR DEPENDANT IF YOU DIE BEFORE THEM.

Disadvantages of annuities

- Purchasing an annuity is an irreversible decision and thus it is an inflexible option.
- Most annuities offer no ability to vary the level or timing of income. Your income needs may change in retirement, but annuity payments are not flexible.
- Once a conventional annuity is purchased it cannot be changed.
- Inflation may outstrip the value of the income, even if you take an escalating income option.
- You will have to pay tax on your annuity income in the same way as paying tax on a salary.

WHAT IS PENSION DRAWDOWN?

Traditionally, annuities were the only way of converting pension savings into income. But the more recent arrival of flexible retirement rules has led to other options, the most common of which is known as pension drawdown.

Pension drawdown allows you to keep your pension pot invested and can provide you with a wide range of investment options which offer the potential for continued investment growth while also allowing you to draw an income (hence the name drawdown) from your pension at a rate that suits you.

We can advise you on a suitable investment strategy for you. Our aim will be to ensure that your money grows but we can also ensure that your investments meet any ethical and sustainability concerns that you may have.

Prior to 2016 around 75% of people selected an annuity in preference to any other form of taking their pension. Nowadays, less than 25% of those with larger funds use annuity and many of those others are choosing pension drawdown.

Like an annuity, income from a pension drawdown plan is subject to income tax in a similar way to a salary. As the majority of older pension schemes do not offer drawdown options, a financial adviser can help you review your current plans and identify whether it is worth making a pension transfer depending on your personal situation.

Advantages of pension drawdown

- When you move some or all of your pension funds into pension drawdown you will usually have the choice of drawing a tax-free lump sum as you would when buying an annuity.
- You can phase your pension savings into drawdown over a number of years while taking a tax-free lump sum (usually up to 25%) on each occasion.
- Your pension remains invested and you will benefit from any future growth of the underlying investments.
- You can take income at a rate that suits you or choose not to draw income when required. This gives you far more freedom to draw from your pension fund only when you need to and will often suit those who have other sources of retirement income or capital.
- If you die your remaining pension fund can either be used to provide pension benefits for your loved ones or paid out as a lump sum. If you die before age 75 the remaining funds can usually be paid tax-free. It may seem a natural choice for your loved ones to draw your pension fund as a tax-free lump sum but this is not always the best choice – please see page 15 for more information. If you die after age 75 your loved ones will usually pay Income Tax when they draw your remaining pension fund. There are opportunities to reduce tax and our advice should be sought to make the most of your family's position.
- You can always transfer from pension drawdown to annuity at a later stage. However, you cannot move from annuity to drawdown. In this sense, pension drawdown preserves both your investment options and retirement planning choices.

Disadvantages of pension drawdown

- There are no guarantees of future income levels and your income may not be sustainable if the investments do not perform well.
- While you have investment options your funds could go down as well as up, affecting how much you can withdraw as income.
- If you take high levels of withdrawals you may find it harder to recoup any investment losses.
- You will likely need to take continued pension advice to suit different stages of your retirement.

PENSION DRAWDOWN ALLOWS YOU TO KEEP YOUR PENSION POT INVESTED AND CAN PROVIDE YOU WITH A WIDE RANGE OF INVESTMENT OPTIONS.

Even if you are looking for more flexibility, an annuity could still be a suitable choice down the road, whether that is for all or part of your pension savings. Some people may prefer to use pension drawdown in the earlier years of their retirement but may decide to switch some or all of their pension fund into annuity at a later stage (it is possible to switch from drawdown into an annuity but not the other way around). With so many choices available, getting the best pension advice possible is key.

Below, we introduce the two main types of pension drawdown arrangements and how they work.

FLEXI-ACCESS VERSUS CAPPED DRAWDOWN

There are two types of drawdown arrangement; flexi-access drawdown and capped drawdown. While you can no longer start the latter, you might have an existing capped drawdown plan and so it is worth understanding your options when retirement planning.

1. Flexi-access drawdown

Unlike earlier forms of pension drawdown, flexi-access drawdown provides total freedom around how you receive income payments from your pension. This can be in the form of either:

- regular monthly income payments (if you haven't used your tax-free lump sum allowance you could also combine regular income with withdrawals of tax-free cash)
- occasional one-off payments whenever required

There is also no requirement to take income at a specific time if you don't need it yet.

Under the new Pensions Freedoms you can take your pension fund in one go if you wish. However, only 25% is tax-free with the rest being added to your other income and subject to income tax. If you have a significant pension pot then this could lead to much of your pension fund being taxed at 40% (or even 45%) if you take it all at once. As such, drawing income using a pension drawdown arrangement means you can take your pension pot at a more gradual rate that suits your needs, and avoid paying unnecessary tax.

When you take any income from a flexi-access drawdown arrangement, the amount that you can contribute to any money purchase pension in the future will be restricted to a maximum of £10,000 a year (rather than the usual annual allowance which in 2023 is £60,000). This restriction on pension funding applies not just in the year of payment but to all future years. Only taking a tax-free lump sum from your pension does not affect your right to the full annual allowance, unlike drawing income. Those who may wish to contribute to pensions in the future need to think long and hard prior to taking income from their pension fund.

Flexi-access drawdown was introduced on 6 April 2015 and all pension drawdown contracts arranged since then are under this new flexi-access version. Earlier flexible drawdown arrangements (with the exception of capped drawdown plans) were automatically treated from 6 April 2015 as flexi-access drawdown.

2. Capped drawdown

If you had started a drawdown arrangement before 6 April 2015 and were not eligible to use flexi-access drawdown, your drawdown savings were held in what is known as capped drawdown. Capped drawdown is similar to flexi-access drawdown but placed restrictions on the rate at which income could be drawn.

It is not possible to start a new capped drawdown plan today. However, an existing capped drawdown arrangement can remain in place provided that the annual income that you draw does not exceed the income cap. The level of capped income available is reviewed every three years prior to age 75, and then annually thereafter.

It may be possible to trigger a review of the maximum annual income that can be drawn before the normal review either by:

- requesting an ad hoc review of the maximum available, or
- by adding untouched savings to the drawdown fund.

You can convert your capped drawdown arrangement to flexi-access drawdown at any time, so that you have complete freedom around the level of income you are able to take.

Why might you continue with an existing capped drawdown rather than transfer to a flexi-access?

While income payments from a capped drawdown arrangement do not exceed capped drawdown limits, your ability to make continued pension contributions is not restricted. So, the full annual allowance (currently £40,000) will still be available – rather than the reduced £4,000 available to those in flexi-access drawdown.

WHAT HAPPENS TO YOUR SAVINGS IF YOU DIE DURING DRAWDOWN?

If you die before 75

Any remaining money in your pension may be left tax-free to whomever you wish regardless of whether you took money from your pension or not. This is a big advantage when compared to most other savings that will usually form part of your estate and be exposed to inheritance tax. Your loved ones can choose to receive a tax-free lump sum or they can arrange to set up a flexi access drawdown arrangement for themselves.

At first glance, the best choice may appear to be paying the remaining pension fund to your spouse or another person(s) as a tax-free lump sum. However, this is not the best way forward in many instances. If they choose to draw the lump sum and do not spend the money they may find that the money is then exposed to income tax and capital gains tax (CGT). The money will also form part of their estate and be exposed to inheritance tax. A smarter choice may be to move the pension fund into a dependent flexi-access drawdown pension in their name. The money will then be protected in a tax-free pension until needed and as much or as little as required may be drawn tax-free.

Alternatively, if guaranteed income is preferred the funds may be used to buy an annuity which would be payable to them tax-free provided you had died prior to 75.

If you die after 75

Any lump sum payment made to an individual will attract income tax at their marginal rate of income tax. If money is directed to a trust it will have 45% tax deducted.

An alternative is for the pension fund to remain in a new flexi-access drawdown arranged in the name of the beneficiary. This is often an attractive option if the money is not going be used imminently as the fund will be invested in a tax-friendly manner until needed. Any withdrawals will be taxed as income and subject to their marginal rate of income tax. Provided their total income including pension withdrawals is less than the higher rate tax bracket then the beneficiary can keep their tax liability to basic rate or lower depending on their position.

OTHER THINGS WORTH KNOWING

The new Pension Freedoms provide you with increased choice and a lot of flexibility. You will find an explanation of some of the other options around taking your benefits below.

Phased Retirement

Phasing your retirement allows you to take your pension income in stages rather than all at once. This is increasingly common as nowadays many people prefer to ease back from work gradually and draw their pension in stages to cater for the stepped reduction in earnings. Many older pension arrangements do not provide phased retirement facilities. If you have one of these older schemes and yet feel that you might benefit from more flexible arrangements, a financial professional can guide you and help you identify a suitable alternative provider and arrange a pension transfer.

Uncrystallised Funds Pension Lump Sum (UFPLS)

If you have taken your tax-free lump sum already, you could ask for the balance of your pension fund to be paid immediately as a taxed lump sum (commonly known by the abbreviation UFPLS). UFPLS is a way of taking your pension without using either an annuity or drawdown. You effectively take the pension in one go with 25% of the fund paid tax free and the remaining 75% added to your other income for the year you withdraw the money. UFPLS is not a very tax effective way for people with larger funds to access their pensions and is of limited appeal to most people.

Mid-market products

Although people have moved away from purchasing annuities, research has shown that a lot of consumers are seeking a fixed regular income with some level of capital protection. The financial services industry has reacted by developing a variety of products that can provide a regular income while preserving capital. If these are likely to be appealing to you, it is worth seeking advice to review your options.

Defer taking pension benefits

Pension legislation does not force you to take your pension by a certain age. Pension rules also allow you to continue paying into a pension and receive tax relief until age 75. However, many pension schemes have contract terms that do require you to take benefits by a certain age. If you are in a contract that requires you to draw your benefits by a specific age and this does not suit you, it is usually possible to find another solution through a pension transfer. Due to the complexities, and the fact that changes are usually irrevocable, then it is always wise to seek professional guidance on pension transfers.

Small funds pots

Once you are 55 you can take up to three small pension plans with a maximum value of £10,000 each as cash lump sums, even if the total value of all your pension schemes is greater than £30,000. A quarter of the lump sum(s) may be paid tax-free and the remainder will have basic rate income tax deducted. You will be liable to pay any additional tax through your tax return. There are two distinct advantages to taking value from your pension savings using small pots:

1. It will not use up any of your Pension Lifetime Allowance
2. It will not reduce your annual allowance to £10,000 (unless you have already triggered the reduction)

PHASING YOUR RETIREMENT
ALLOWS YOU TO TAKE YOUR
PENSION INCOME IN STAGES
RATHER THAN ALL AT ONCE.

THE STATE PENSION EXPLAINED

Assuming you have consistently made National Insurance contributions then you will likely be entitled to claim a state pension. This is a set amount that is paid to you by the state. The state pension has always been complex but you can look at the Department for Work and Pensions (DWP)'s website to request a state pension forecast which will give you an idea of what you might expect in retirement.

There have been significant reforms and for anybody reaching state pension age from April 2016 onwards (assuming a satisfactory record of contributions) will receive a flat-rate pension. In the 2023/24 tax year, this equates to £203.85. From 2018 the state pension age rose from 65 to 66 for everyone. There are also plans to further increase the state pension age after 2026. To find your state pension age please go to www.gov.uk/calculate-state-pension.

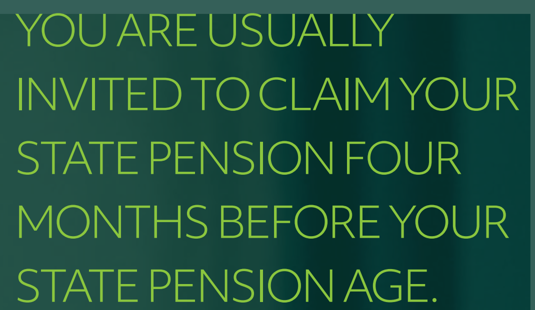
There are transitional arrangements to ensure that people who had built up records under the old arrangements are not worse off because of these changes. There are also deductions for those who contracted-out and have acquired benefits in private schemes in lieu of state benefits. You might have been contracted out if you were a member of an occupational (company) pension scheme and were contracted out by your employer, or perhaps you contracted-out through a personal pension scheme.

Claiming the state pension

You are usually invited to claim your state pension four months before your state pension age. If the Department of Work and Pensions has not written to you by then you should contact them.

Deferring your state pension

You can decide to defer taking your state pension when you reach state pension age and receive an enhanced pension when you eventually want to draw on it. The extra benefit can take the form of extra state pension or a taxable lump sum payment. This may be helpful if you are still working and don't require your state pension income immediately. The Department of Work and Pensions has produced a lot of guidance on this issue and you can find more details on the government website.



To find your state pension age please go to www.gov.uk/calculate-state-pension

HOW ASSETS FINANCIAL SERVICES CAN HELP YOU

The decisions that you make will influence your income and lifestyle for the rest of your life. Yet in 2019 the Financial Conduct Authority (FCA) published research that confirmed most people who made retirement choices without professional assistance made serious mistakes.

Today, the increased flexibility and choice that comes with Pensions Freedoms have made it harder for individuals to plan effectively for retirement. If you have an older pension scheme for example, it probably does not offer the flexibility provided by pension drawdown or phased retirement. In this case, you might consider making a pension transfer to a more flexible arrangement to take advantage of the new pension freedoms and suit your own retirement needs.

However, such retirement planning decisions are often irrevocable. Pension matters can be extremely complex and require technical expertise. So, as professional retirement planning specialists we will help ensure that you avoid these mistakes and make informed decisions that are appropriate to your situation.

All our retirement planning advice is provided by Chartered Financial Planners with specialist qualifications and many years of experience. We are directly authorised by the FCA to provide independent financial advice and have been helping clients get the most from their pensions since 1991.

To access the best choice available, it is also important that the adviser you work with is an Independent Financial Adviser (IFA). Otherwise, your options will be restricted – meaning you won't get access to the full range of pension products out there. At Assets Financial Services, we are independent and pride ourselves on our unbiased, independent financial retirement planning advice.

WHAT'S THE PROCESS?

Firstly, we'll discuss your situation and retirement plans over the phone. If we think we can help, you'll be invited to come in and meet us in person so we can get to know your situation better and outline the pension options available to you. We won't charge you anything for this initial meeting.

Then we can explain how we will work, the services you receive and how our simple, transparent fee structure works (you can also find more details on our website: assetsfs.co.uk). Once you are happy to proceed, we'll get to work for you.

We will need to have a good idea of your situation, your current spending and how this is likely to change in the future. This way, we can help you create a clear view of your retirement prospects using cashflow modelling (there's a short and very useful cartoon in the library section of our website that gives an overview of what this means).

This enables us to discuss the retirement planning choices available to you and review your existing pensions thoroughly. Through our independent research, we will then look at the whole of the market to come up with the best option/combination of options to suit you. Once we have completed our research we will discuss our recommendations with you, and once you are happy we will implement any changes.

ALL OUR RETIREMENT PLANNING ADVICE IS PROVIDED BY CHARTERED FINANCIAL PLANNERS WITH SPECIALIST QUALIFICATIONS AND MANY YEARS OF EXPERIENCE.

Contact us by emailing ion@assets.ltd.uk or call 0118 946 9717. You can also book an initial consultation at assetsfs.co.uk

USEFUL PENSION CONTACTS

The Pensions Service

Part of the Department for Work and Pensions (DWP). Their website **www.direct.gov.uk/en/index.htm** provides information about pensions and other pension benefits in the UK. You can also call them on **0845 60 60 265**.

The Pensions Tracing Service

Trace lost pensions by calling them on **0845 6002 537** or visit **www.direct.gov.uk/en/index.htm**

HM Revenue & Customs

If you have queries about your individual National Insurance contributions, income and inheritance tax or contracting-out of the state second pension call **0845 915 0150**.

The Financial Conduct Authority

An independent body set up by the UK government to regulate the financial services industry and protect consumers. Visit **www.fca.org.uk** or call **0845 606 1234**.

Department for Work and Pensions (DWP) Benefit Enquiry Line

For enquiries about state benefits call **0800 88 22 00** or visit **www.dwp.gov.uk**

PENSIONS JARGON BUSTER

To help you out, we've listed some of the key pension-related words and phrases that you may come across.

Annuity/Lifetime Annuity – an insurance product that converts your pension fund into pension income that is paid for the rest of your life. The income is taxable.

Annuity rate – the basis for determining the amount of pension income you get from an annuity, which is dependent on several factors including your age, state of health and the type of annuity selected.

Annual Allowance – the maximum that can be paid to pension schemes without a possible tax penalty in any year is currently £60,000 (2023). Once you have taken income from your pension savings, the amount that can be paid to money purchase schemes usually reduces to £10,000.

Civil partner – the Civil Partnership Act 2004 grants civil partnerships and same sex relationships in the United Kingdom rights and responsibilities identical to civil marriage.

Defined benefit scheme – a scheme where retirement benefits are based on length of pensionable service with the employer and final pensionable salary (also known as final salary schemes).

Dependant – your spouse or civil partner, a child under age 23, or a child over age 23 who is dependent on you because of physical or mental impairment. A person who is financially dependent or dependent due to physical or mental impairment.

Drawdown pension – this allows you take an income from your pension fund while still keeping your pension pot invested.

Final salary scheme – see defined benefit scheme above.

HMRC (HM Revenue & Customs) – the government agency responsible for collecting taxes and paying tax credits.

Inheritance tax – inheritance tax is the tax paid on your estate when you die. Your estate is everything you own when you die, minus what you owe. If the taxable value of your estate is over the current Nil Rate Allowance then tax will have to be paid.

Money purchase scheme – a scheme where your pension contributions are invested (for example in the stock market). The size of the pension fund depends upon the amount of contributions made and the performance of the investments chosen. The retirement fund is ultimately used to provide pension income by pension drawdown or a lifetime annuity.

Occupational pension scheme – a scheme offered by some employers. There are basically two types – defined benefit schemes and money purchase schemes (see above).

Pension income – income you get from your pension fund by buying an annuity or taking income withdrawals. Pension income is taxable.

Invested Assets – assets into which your pension drawdown savings or investment-linked annuity are invested to provide your retirement income.

Personal pension – a money purchase pension into which you and your employer can contribute.

Phased retirement – a way of using parts of your pension at different times to provide income. By doing this you can convert it into pension income bit by bit.

State Pension age – you can claim your state pension when you reach state pension age. From 2018 the state pension age rose from 65 to 66 for everyone and there are plans to further increase the state pension age after 2026.

State second pension – an additional state pension paid on top of your basic state pension, formerly called SERPS. Self-employed people cannot build up a state second pension.

Tax-free lump sum – you can normally take up to 25% of your pension fund as a lump sum tax-free payment (also known as a pension commencement lump sum or PCLS) subject to a maximum of £268,275.

T: 0118 946 9717

E: ion@assets.ltd.uk

Assets Financial Services
Chiltern Chambers
St Peters Avenue
Caversham
Reading
RG4 7DH

assetsfs.co.uk

This document is based on Assets Financial Services interpretation of the law and HM Revenue & Customs practice as at April 2023. We believe this interpretation is correct but we cannot guarantee it. Tax relief and the tax treatment of investment funds may change.

The information provided in this guide must not be considered as financial advice. We always recommend that you seek independent financial advice before making any decisions.

Pension income could be affected by interest rates at the time you take your benefits. The tax implications of pension withdrawals will be based on your individual circumstances, tax legislation and regulation, which are subject to change in the future.