City Trustees
PART OF MATTIOLI WOODS PLC

Retirement Options
Guidance Booklet

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RETIREMENT OPTIONS

INTRODUCTION

Benefits may be taken from your pension arrangements from age 55, unless subject to a protected minimum pension age, or you are entitled to an ill-health pension (please refer to your consultant/financial adviser). When taking retirement benefits there are several options as to the form in which pension payments can be made.

Everyone wants something different in retirement and you need to choose what's right for you. This guide is to provide useful information about the various options, to help you, along with help from your consultant/financial adviser make an informed decision as to what is best for you and your current circumstances.

There are many factors which come into play and which need to be balanced against each other. Choices you make at retirement will impact on what happens if your circumstances change during retirement and/or when you die.

It is possible to take benefits from your pension fund without having to retire. However, this may have an impact on the amount of tax you pay; your accountant should be able to guide you in this area.

The different areas which need to be considered before you take benefits from the scheme are as follows:

- current circumstances
- anticipated circumstances following retirement
- full or partial retirement
- size of your pension plan, and any other plans
- other assets available to you, and how to include these in your retirement planning
- your personal circumstances, including marital status, children, other dependants
- your health, and the health of anyone dependent on you

These are all relevant points to be factored in when making sure you achieve the best income possible, while allowing for any anticipated changes, and sometimes unanticipated ones.

COMMENT

Everyone wants something different in retirement and you need to choose what's right for you.

STANDARD LIFETIME ALLOWANCE

When you draw benefits from your pension scheme these benefits will be tested against the H M Revenue & Customs limit, which is known as the standard lifetime allowance limit (SLA). If your combined pension arrangements exceed the SLA you may be subject to lifetime allowance charges. Your consultant/financial adviser will advise you if you are nearing the SLA limit, in order for you to look at the options prior to drawing further benefits.

Some people may have a personal lifetime allowance that may be higher than the SLA.

TAX-FREE LUMP SUM

Whichever retirement option you choose, you will usually be able to take up to 25% of your pension fund as a tax-free lump sum, restricted to a maximum of 25% of the SLA.

If you were a member of an occupational pension scheme prior to 6 April 2006, you may have an entitlement to more than 25% of the fund as a tax-free lump sum. If our records show that you are entitled to a higher lump sum, we will notify you of this sum nearer the time. We may need to contact you to ask for further information at that point.

PENSION INCOME

If you decide to take your tax-free lump sum, the remaining fund will be used to provide income. This can be taken in various forms; the following are the main types of income from a money purchase scheme:

- Annuity
- Capped drawdown (pre April 2015 only)
- Flexi-access drawdown
- UFPLS

Income can be taken in any of these forms or as a combination of them. This guide book will cover the different options separately in more detail, however to summerise.

An annuity is a lifetime contract between an insurance company and a pension scheme member under which the member hands over all or part of their pension fund to the insurance company, which agrees to pay out an income to the scheme member for the remainder of that person's life. The annuity would normally be paid monthly, quarterly, half-yearly or annually and cannot be changed once started. For example, if annuity rates increase you cannot get a better deal.

Unlike a traditional pension annuity the capital from an income drawdown plan is not used to purchase a guaranteed income. Instead the pension fund remains invested in a range of assets, and a variable income is taken directly from the pension fund. This is known as income withdrawal.

DECISION INFLUENCES

The following factors need to be carefully considered, as your answers will determine the right options for you. Likewise, if your circumstances change a different option may then be more appropiate (if possible).

Age, health and dependants

Your income is determined by a combination of the fund value, annuity rates and your age at that time.

Both age and health are critical as statistically the younger you are the longer you will live. Generally those who are considered healthy at age 60 or 65, by the time they reach 70 or 75 will have experienced a decline in their health. If selecting an annuity at age 70 or 75 they would almost certainly qualify for impaired life annuities, which give a better rate of income.

However, you may also wish to factor in the income you would have received if you had retired at 60, albeit at a lower level.

Longevity

Annuity rates are partly determined by how long people overall are expected to live, that is, longevity. With the significant rise in life expectancy has come a noticeable drop in the annuity rates offered, therefore having to live longer on a lower income.

If opting for a non-annuity-based income, that is, via drawdown, your income reflects how well your funds perform. The greater your life expectancy, the greater the potential risk that the fund may decline too quickly to support the desired income.

COMMENT

If you decide to take your tax-free lump sum, the remaining fund will be used to provide income in the form of an annuity, capped drawdown or flexi-access. Unless you decide to draw the whole pot.

Health

The recipients of an annuity who are in poor health are eligible for enhanced annuities, reflecting their anticipated earlier deaths.

Today most people retiring at 65 are healthy. Longevity acts as a driver on annuity rates, so by 75 this has changed. Some annuitants will have died; whilst others' health may have deteriorated; this is recognised by the application of mortality drag, which reflects the fact that annuity providers take account of some of their annuitants dying earlier than the average age, whilst others live significantly longer.

At the time of writing, for an annuity purchased at age 75 the rate is around 40% higher than if purchased at age 65. You are ten years older and therefore longevity is decreasing. This is not advice to delay income to 75, just to highlight why forward planning is important.

Dependants

You also need to consider dependants, particularly a spouse or civil partner. Their reliance on your income because they have little or no pension arrangement themselves has implications for your income too. You also need to consider if they are likely to outlive you. Is it more relevant that they receive a lump sum or income?

Investment and financial considerations

Your income depends partly on the size of your fund and the amount of tax-free cash that has been taken. If it is not set aside to boost income, removing it reduces the potential for income by up to 25%.

The level of income required, the timing of it, and whether there are other sources of income are similarly relevant. Given the income from your pension is not tax-free, where there are alternative sources of income which could be more tax efficient it makes sense to take them into account.

Your personal appetite for investment risk also needs to be taken into account. All methods of taking income involve one form of risk or another: it's a question of determining what kind of risk you are prepared to accept. Risk can be the sustainability of income where there is an investment underpin, as in drawdown; the appropriateness of the income if it is fixed, as with an annuity; the relevancy of added benefits if circumstances change; or the risk that rates or returns may improve or deteriorate in the future.

Economic trends

Whilst we cannot control personal circumstances, we can make assumptions about future economic and market trends. Investment risk has to be dealt with regardless of the method we select to take the income. The choice is how much limitation on downside risk you want to place, as that will also limit the upside.

As well as longevity affecting annuity rates, economic trends influence the amount of pension you can buy. Over the last ten to twenty years there has been a clear decline in the level of income provided by a given pension fund.

While in January 1995, a fund of £150,000 would have bought a 65 year old male a basic pension annuity of £15,633 per annum, in 2016 it buys just £8,010 per annum (January 2016: single life annuity, payable monthly in advance, no guarantee, escalation, or widow's pension).

COMMENT

There are a number of areas to consider before making a decision about the type of income which best suits your needs and circumstances.

Conclusions

In short, you need to look at the following before making a decision about the type of income which best suits your needs and circumstances:

a) The size of your retirement fund, after your tax- free lump sum has been drawn.
b) Your health and life expectancy.
c) The level of personal income you need in retirement.
d) Who else is dependent on that income, and will they still be dependent when you die.
e) How would you want them to be catered for from the pension fund.
f) Do you have any other assets to provide an income.
g) Your personal tax situation, is the pension the better option for providing income, or
h) Where there are alternative or other resources, managing tax efficiency by reference to them as well as the pension.
i) Your overall wealth, the provision of income, and the implications of IHT planning.
j) Where your wealth is likely to be in excess of the nil rate band at death.
k) Your attitude to investment risk.

These are all areas that need to be considered to ensure the best retirement solution is achieved.

OPTIONS

If you are essentially seeking guarantees, you are likely to be looking at an annuity. However, annuities now allow some flexibility in their duration so you can measure guarantees against personal circumstances, reflecting health, age and so forth.

If you wish to retain flexibility in the level of income taken, drawdown could be an option. However, if you are concerned about investment returns having a detrimental effect on your income prospects you can build in an option to guarantee income.

So, the main choices are between the following:

- a conventional lifetime annuity
- flexible lifetime annuity
- fixed-term annuity
- drawdown, capped
- flexi-access benefits
- scheme pension

If you have more than one pension plan, or opt for phased retirement, it is possible to have a combination of the above.

COMMENT

If you are essentially seeking guarantees, you are likely to be looking at an annuity.

Phased retirement

Phased retirement has not been included as a fifth alternative, since in essence it is not a different method of generating income like the four alternatives above, but allows access to the fund via instalments.

It is possible to draw down sections of your fund at any time from age 55. When amounts are taken this is known as crystallisation, and generally produces tax-free cash of up to 25% of the uncrystallised amount, with the balance providing an income via any one of the four options previously listed. Although tax-free cash is optional, you can minimise your overall tax liability by including the tax-free element in your income calculations.

Any part of your plan which has not been crystallised, remains fully unvested and treated in that way should you die (certain conditions apply after age 75).

All this flexibility has implications, not least of which is the need for regular reviews, at least annually, to ensure that appropriate action is taken to support the level of income you need.

CONVENTIONAL LIFETIME ANNUITIES

Annuities give certainty, as once set up they cannot be changed. They eliminate any link to investment performance in the future, which is the key feature of the drawdown option.

With an annuity you exchange your retirement fund, less the tax-free cash you take (if applicable), for a lifetime annuity from a product provider paying an income for the rest of your life. With an annuity you can choose the following options, options available are dependent on the provider:

a) For your life only.
b) Income can be level, escalating or decreasing.
c) Joint lives, for you and your spouse/civil partner, dependent or nominated beneficiary.
d) With a guaranteed period of five - ten years or more than 10 years.
e) A capital protected annuity, paying the balance of the fund used to purchase the annuity, less the income paid to death on your death.
f) An enhanced annuity, particularly relevant to smokers and people with lifestyles that mean they might live shorter lives and people with serious health issues.
g) Option for ad-hoc lump sum payments.

People who have a medical condition, are in poor health, smoke or are overweight, may be able to get a significantly higher income through taking an enhanced annuity.

Level annuities provide a higher income to start with than annuities which increase but the payments stay the same for life. This means the income will halve over time due to inflation.

When you die, the annuity dies with you, unless you have included guarantees and/or joint lives, or have capital protection. Remaining annuity payments under a guarantee can be paid as a lump sum, provided the value is less than £30,000.

Income paid annually under a joint life/guaranteed term annuity will be tax free if the annuitant died before age 75. Post age 75 taxed at marginal rate.

You should also shop around for the best income available from your retirement fund. It is not necessary to take the income from the pension provider you saved with, as you have the 'open market option'. However, be aware that if your total retirement fund is less than £10,000 you may well be restricted with this.

FLEXIBLE LIFETIME ANNUITIES

These share similar features offered by conventional annuities, but are very different from their conventional counterparts in that they are not guaranteed. You do not exchange your retirement fund for the income here, but instead leave it invested. The key elements of this type of annuity are as follows:

a) Income is paid from the fund between minimum and maximum amounts by reference to what conventional annuities would offer.
b) A maximum level of sustainable income is calculated and reviewed every three years.
c) Reviews can result in income going up, but also down.
d) You can include guarantee periods and joint lives.
e) You can opt for a guaranteed income level, but this will normally be (significantly) lower than the maximum sustainable income and if it became permanent then of course flexibility is lost.
f) On death the income ceases, subject to any guarantee period and/or unless it's joint life.

FIXED-TERM ANNUITIES

Fixed-term annuities again have similar features to conventional lifetime annuities. You exchange the fund for income, plus a guaranteed amount at a point in the future when the income ceases, but differ in the following respects:

a) They are not for your lifetime, having a selected term at outset from three years upwards.
b) They provide a guaranteed maturity value (gmv) to provide for income at the end of their term.
c) Choosing a nil income annuity will maximise the gmv.
d) They are offered through drawdown.
e) On death your beneficiaries will receive any balance of income on the annuity in line with how it was set up, and when the gmv becomes available are free to take it as a lump sum less a tax charge, or purchase an annuity themselves.
f) They are based on the same underlying vehicles as conventional annuities rather than being invested in more risky or volatile asset classes.

Fixed-term annuities should also be considered when:

a) You need to provide for a spouse/partner who suffers ill-health and is highly likely to pre-decease you but you want to provide for them in case you die first.
b) You wish to revisit the income level available when you are older to benefit from the better rates older annuitants enjoy while needing an income now.
c) The concept of drawdown appeals but you do not wish to risk market volatility and do not need to take significant income now but prefer to revisit the annuity market in later years when you do, again benefiting from improved rates.
d) You want your tax-free cash but do not want to expose the balance of your fund to investment funds and the vagaries of the markets, then the nil income option could work for you.

WHY ANNUITIES MAY NOT BE RIGHT FOR YOU

While in general they do provide a guaranteed income, admittedly with some limitations and complications in the case of the flexible lifetime annuity (FLA) and the fixed term annuity (FTA), conventional lifetime annuities (CLA) also have the following downsides:

a) Unless chosen at the outset the income being guaranteed cannot be adjusted to allow for changes in circumstances.
b) They do not automatically allow for inflation.
c) Added options decrease the initial level of income.
d) There is the risk that you may not get the full value of the purchase price if you die too soon.
e) With the exception of the FLA the annuity income cannot benefit from any upturns in investment returns.
f) Death benefits are limited, guarantees and the joint lives option once established, cannot be changed.

The level of income required, the timing of it, and whether there are other sources of income are similarly relevant. Given the income from your pension is not tax-free, where there are alternative sources of income which could be more tax efficient, it makes sense to take them into account.

COMMENT

While in general, annuities do provide a guaranteed income, they also have some downsides and may not suit everyone.

CAPPED DRAWDOWN

Capped drawdown provides for considerable flexibility, but until the arrival of fixed-term annuities did have the drawback of being totally dependent on investment returns. Capped drawdown is only available to those who have taken benefits before 6 April 2015.

Once your tax-free lump sum has been drawn the remaining fund is used to provide an income from the scheme, instead of exchanging your retirement fund for an income purchased from an annuity provider. Drawdown income can be variable as to the amount and frequency, within prescribed limits.

There is no minimum income and the maximum income which can be taken is 150% of the Government Actuary's Department (GAD) relevant annuity, with no guarantee.

Members can crystallise any portion of their fund depending on the income they require, subject to limits.

Drawdown also has a range of potentially valuable options when you die. Essentially it provides the freedom for your dependents or nominated beneficiaries to:

- continue with drawdown
- purchase an annuity
- take the fund as a lump sum

By leaving the fund invested you take income directly from the fund. The income parameters are determined by reference to rates laid down by the Government Actuary's Department. GAD is based on annuity rates and is comparable to taking a single life annuity. The great attraction is that you can vary income from nil to broadly the equivalent annuity, but the higher the income the greater the chance of eroding the retirement fund during your lifetime.

If you do not want the exposure to market volatility you can select drawdown with fixed-term annuities. Here the income is guaranteed for the selected term, and the value of the fund is also guaranteed at the end of the fixed-term. These use the same underlying long term fixed-interest vehicles as conventional annuities so the returns are potentially lower than can be achieved via drawdown using a more adventurous asset allocation mix.

Drawdown provides:

a) Income between 0% and 150% of the GAD rate.
b) Ability to vary the income potentially as often as needed, subject to fund size.
c) Reviews of GAD and the income, related to current fund size and age.
d) Ability to manage your fund value through an appropriate investment strategy.
e) Choice of what happens on your death (see above).
f) Freedom to opt for annuity-based income at any time.

You can convert a capped drawdown pot into flexi-access at any time.

WHY CAPPED DRAWDOWN MAY NOT BE RIGHT FOR YOU

While in general, drawdown does provide flexibility, there are of course disadvantages, making it more or less suitable on an individual basis:

a) If you are risk averse then this approach may not be for you.
b) The level of income you need to draw may erode your fund, especially if the level is at the high end of the spectrum, in which case the fund may not be able to support the required level of income (critical yield).
c) As your fund remains invested the fund could grow at too low a rate to sustain your desired income.
d) You need to review your underlying investments, every three years (and every year post age 75) the review must also take into account any changes in the GAD rates.
e) While you can fix income and the future fund value using FTAS the underlying performance of the fixed-interest investments supporting these FTAS may be significantly less than you could have achieved using an appropriate mix of asset classes, including property and equities (critical yield).
f) Enhanced life annuities may provide a higher income than GAD rates.

FLEXI-ACCESS BENEFITS

Flexi-access is available for anyone drawing benefits on or after the 6 April 2015. Anyone in capped drawdown can also convert to flexi-access at any time.

You will normally be able to take 25% of the fund as a tax free lump sum and the remaining fund used to provide an income. You can decide to draw the remaining fund out as one taxable lump sum or alternatively spread the income over time drawing as much or as little as you like. Any income will be taxed at your marginal rate.

Taking an income from the scheme under flexi-access will result in you being restricted to the money purchase annual allowance. The money purchase annual allowance for contributions has been set at £4,000.

Like capped drawdown you can crystallise any portion of the fund depending on the income you require.

Flexi-access also has a range of potentially valuable options when you die. Essentially it provides the freedom for your dependants or beneficiaries to:

- Continue drawing an income from the fund
- Purchase an annuity
- Take the fund as a lump sum

By leaving the fund invested you take income directly from the fund. There are no limits on the level of income you can draw. You can vary the income anytime you like to suit your circumstances. The higher the income the greater the chance of eroding the retirement fund during your lifetime.

You need to consider how much to take each year and how long you want your money to last.

If you take too much too quickly the available retirement income could fall drastically or even run out, especially if investments fall.

If you draw funds out of the pension scheme to invest or to leave in personal cash, these could be subject to IHT implications on death.

Flexi-access provides:

a) Any level of income, subject to fund sustainability.
b) Ability to vary the income potentially as often as needed.
c) Ability to manage your fund through an appropriate investment strategy.
d) Choice on what happens on your death.
e) Freedom to opt for annuity-based income at any time.

WHY FLEXI-ACCESS MAY NOT BE RIGHT FOR YOU

While in general, flexi access provides flexibility, there are of course disadvantages, making it more or less suitable on an individual basis:

a) If you are risk averse this approach may not be for you.
b) The level of income you need to draw may erode your fund, especially if the level is at the higher end, your fund may not be able to support the required level of income (critical yield).
c) As you fund remains invested the fund could grow at too low a rate to sustain your desired level of income.
d) You need to review your underlying investment values on a regular basis to ensure that the income is sustainable.
e) The value of your pot can go up as well as down and therefore have an impact on the level of income the fund can sustain

SCHEME PENSION

Scheme pension is more unusual from money purchase schemes. The income you take is decided by an actuary, while you keep control over the assets in the pension and the investment strategy. The actuary takes into account the fund size, the expected returns and your life expectancy to calculate the income. These are the same factors as with an annuity but here they are bespoke.

One particularly attractive feature is that taking a scheme pension with a ten-year guarantee could pretty well ensure that your fund value was received by you or your family over the ten-year period. Indeed, the actuary tries to make sure that the fund value is fully depleted, through providing you with your income, by the time you die. This is because on death the balance of the fund must be used to provide income to a dependant only, and if it is paid out as a lump sum it is subject to a cap.

DEATH BENEFITS

The death benefits payable from an annuity and/or drawdown are different, these are set out below:

Death benefits – annuity

If you die your annuity will stop, unless you have opted for a dependant's or beneficiaries pension.

The amount they receive could be 100% of the income you were receiving or any other specified percentage. They will receive this income until they die. However, the more you opt to pay them, the lower your initial rate of income. Income will be paid tax free if you die before age 75.

If you have concerns about dying early, you can opt for a guaranteed period.

If you die within the guarantee period, the provider will continue to make payments to your dependant or nominated beneficiary for the remaining guaranteed period. If you live beyond the guarantee period you will continue to receive your income; however, this will cease in the event of your death.

Again by adding this option means a lower initial rate of income, compared with an annuity with no guarantee.

Death benefits – drawdown

If you die whilst in receipt of drawdown pension i.e. capped drawdown or flexi-access, as the fund is retained (not passed to the provider) there are the following options available:

a) The fund can be retained to provide a dependant's or beneficiaries income; or
b) A lump sum can be paid to a nominated individual, taxed at the recipient's marginal rate if you die after age 75
c) The fund can be used to purchase a dependant's or beneficiaries annuity, without guarantees, as these are not permitted; or
d) Where there are no dependants the remaining fund can be paid to your nominated charity.

For further information on death benefits, please refer to your consultant/financial adviser.

INCOME WITHDRAWAL V ANNUITY COMPARISON

Tax-free cash

At retirement, you will be entitled to tax-free cash from the scheme, which will be the greater of either 25% of the fund value or a certified amount (based on your salary and service with the principal employer) calculated by the actuary. If the tax-free cash based on salary and service is better, this can be drawn tax-free from the scheme, although it must be taken as a single payment. If your tax-free cash is 25% of the fund, this can either be drawn in a single lump sum or paid over a number of years; something that is usually referred to as 'phased retirement'.

Income drawdown v annuity

After settlement of your tax-free cash from the scheme, you have two options available: either using the remaining fund value to purchase an annuity with an insurance company, or to run income drawdown from the scheme. There are advantages/disadvantages to both, although the vast majority of clients prefer drawing pensions through income drawdown.

The main advantage with annuity purchase is that you would receive a guaranteed income for the rest of your life in return for a lump sum, subject to the continued solvency of the annuity provider. As a result, if your monthly/annual budgeting is paramount, an annuity will provide complete certainty in respect of your income. However, as benefits are crystallised at the point of purchase of the annuity, the decision whether annuity purchase is wise will ultimately depend upon issues such as the provision of guarantees and your life expectancy.

By way of an example, a single-life annuity with no guarantee and no escalation will provide the highest level of pension, although it does come with risks; if you die the day after the purchase of the annuity, the entire fund value will be kept by the insurance company as a windfall payment. This would mean your pension planning would go to waste as your spouse/children would not inherit any of the fund.

As a result, married individuals with children will naturally try to protect their families by including spouses' pensions and/or guaranteeing the pension, although the trade-off here is that this will substantially reduce the level of annuity the insurance company will pay, by up to one third. Essentially, annuity purchase is a gamble and one insurance company's weight in their favour. With annuity rates for most 65-year olds being around 4.6% (without a 50% spouse's pension included) the average 65-year old needs to live until at least age 87 in order to recoup the capital outlaid in the annuity purchase, excluding any growth during this period. (Figures used March 2015)

Income drawdown offers considerably more flexibility regarding the protection of the overall pension fund and the sum that can be paid by way of a pension. With effect from the 6 April 2015 income will be at the decision of the member as the maximum cap has been lifted by HM Revenue and Customs. For anyone in capped drawdown (benefits taken before 6 April 2015) income is provided by way of a maximum amount, based on sex, age and the prevailing gilt index yield, which combined represents a percentage of the fund from which you can draw down. For example, this currently starts at around 6.9% at age 60 and increases up to around 10.9% for a 74 year old. (Gilt yield 2.00% max GAD 150%)

One of the main advantages of income drawdown is that there is no surrender of capital to an insurance company and it is your scheme that will pay you an annual pension. As a result, upon your death, your benefits will pass to your dependants or nominated beneficiaries. Therefore, the entire fund should provide for your dependants or nominated beneficiaries in terms of pension provision or alternatively capital can be paid out as lump sum, which is tax free if you die before age 75. The later section on death benefits highlights this in more detail.

The other advantage compared with annuity purchase is that, as the scheme does not have to build in expensive guarantees such as RPI escalation and a spouse's pension, it will usually provide a higher level of income than an equivalent annuity – the one exception being that income drawdown cannot provide for enhanced rates due to illness, whereas annuities can.

Perhaps the main risk with income drawdown relates to the performance of the underlying assets of the pension scheme, to which a pension is inextricably linked. Whilst good, solid performance of the assets can result in the pension fund growing and therefore providing a high level of pension on an annual basis, by the same token falls in the fund value can result in the income from the scheme declining. As a result, any income drawdown strategy needs to be actively managed, to ensure the spread of assets is well balanced along with the risk, in order to minimise any potential falls in the underlying fund value.

Income drawdown

As you ultimately have total control over the benefits in your scheme and can pass them to your dependants or nominated beneficiaries, rather than purchase an annuity, whereby the insurance company benefits upon your death, it is possible to manage the assets in line with your lifestyle. As a result, you have an entitlement to a tax-free cash on 'day one' and can take this as a single lump sum or phase it over a number of years. If you only draw, say, half of the tax-free cash from the scheme and it continues to grow, then so will the remaining half of the tax-free cash.

With regard to the pension income under capped drawdown, you do not have to take the maximum amount, but can take anywhere between this figure and zero. For flexi-access drawdown you can chose any level of income with no maximum or minimum. We have a number of clients who vary their income year by year due to circumstances such as their tax positions, or indeed their income requirements. If you do not draw income from the scheme, this puts less pressure on the underlying assets, which should then grow further (coupled with positive investment performance) and, as at the review that is undertaken every three years (for capped drawdown), it is likely the level of pension available would subsequently increase.

There is no compulsion to draw the pension by way of a monthly income; you can choose the frequency and method by which you wish to receive income. This can be monthly, quarterly or via a single annual payment, if preferred.

Age 75

Previously, you were obliged to purchase an annuity with an insurance company at age 75, which would have meant cashing in your entire fund. You would then lose total control of the underlying capital and, upon your death, whilst your spouse could receive a pension, any residual capital could not pass to any future generations.

It is now possible to continue paying income drawdown from the scheme, although there are one or two key changes in this respect.

Firstly, under capped drawdown the income that can be paid has to be reviewed every year, as opposed to triennially.

The other difference is in relation to the death benefit position and this is explained in the death benefit section below.

You no longer have to draw your tax-free cash by age 75. Were you to defer drawing a tax-free cash, we would recommend the latest you ever contemplate drawing your tax-free cash is immediately prior to your 75th birthday, as there are tax disadvantages on death if you leave your tax-free cash within the scheme post-age 75.

Death benefit position

The death benefit position can be divided into two areas – death before age 75 and death after age 75.

Death before age 75

Whether you have drawn benefits from the scheme or not, your nominated beneficiaries have two options available. Your entire fund value can be retained and used to provide a tax-free income, or the entire fund can be paid by way of a tax-free lump sum payment, or a combination of the two can be paid. Funds need to be designated within the relevant two year period in order to be tax free. Noting there is no two year rule if funds were in drawdown and are used to provide income.

If your beneficiaries then die pre age 75, benefits can be paid again tax-free to their nominated beneficiaries. Effectively, passing down generation to generation.

One issue that needs careful consideration is, if your spouse decides to take death benefits as a lump sum, this could cause a potential inheritance tax problem. Upon your death, the likelihood is that the joint assets will have passed to your spouse and, upon second death, inheritance tax will be due before the residual fund can be passed to your children, however retaining the funds in the scheme mitigates this liability.

For example, if your spouse decides to withdraw the fund from the scheme and dies shortly after, the pension scheme's value will become part of the estate. In the worst case scenario, this could see the residue suffering a further 40% tax, which would result in the years of tax-efficiency within the pension scheme being wiped out e.g. if payment of a £100,000 pension fund was made to your spouse and, after inheritance tax, was settled to the children, it would only leave a residual fund of £60,000. At the same time, if your spouse predeceases you, or upon the death of your spouse, benefits can be paid to your children. In this situation, benefits are paid directly to your children and are not subject to any form of inheritance tax.

If you die having taken benefits without a spouse or dependants, you can nominate for your remaining fund to be paid to a charity on death. This payment would be made tax-free.

Death after age 75

If anything happens to you after age 75, your nominated beneficiaries have has two options available. Your entire fund value can be retained and used to provide an income (taxed at marginal rate), or the entire fund can be paid out as a lump sum, subject to tax at the recipients marginal rate, or a combination of the two can be paid.

If your beneficiaries then die post age 75 benefits can be paid to their nominated beneficiaries, again taxed at their marginal rate.

One issue that needs careful consideration is, if your spouse decides take death benefits as a lump sum minus the marginal rate of tax, this could cause a potential inheritance tax problem. Upon your death, the likelihood is that the joint assets will have passed to your spouse and, upon second death, inheritance tax will be due before the residual fund can be passed to your children, however by retaining the funds in the scheme mitigates this liability.

For example, if your spouse decides to withdraw the entire fund from the scheme (after tax) and dies shortly after, the pension scheme's value will become part of the estate. In the worst case scenario, this could see the residue suffering a further 40% tax, which would result in the years of tax-efficiency within the pension scheme being wiped out e.g. if payment of a £100,000 pension fund was made to your spouse taxed at say 45% and after inheritance tax, was settled to the children, it would only leave a residual fund (after a combined tax charge of 85%) of £27,000.

At the same time, if your spouse predeceases you, or upon the death of your spouse, benefits can be paid to your children – again minus marginal rate tax. In this situation, benefits are paid directly to your children and are not subject to any form of inheritance tax.

If you die post-age 75 with or without having taken benefits, without a spouse or dependants, you can nominate for your remaining fund to be paid to a charity on death. This payment would be made tax-free.

COMPARISON TABLE

TYPE	CAPPED DRAWDOWN / FLEXI-ACCESS BENEFITS	ANNUITY	SCHEME PENSION
INCOME	Capped drawdown: Reviewed every three years until age 75. Can fluctuate depending on the fund value at the time of the review taking into account age, fund values and GAD rates. Flexi-access: Any level of income. Can fluctuate depending on fund value capital retain within the fund.	Fixed income for life, unless an investment-linked annuity option is chosen. Guaranteed for life.	Fixed income, however, can alter in accordance with the fund. Reviewed every three years to check sustainability.
CAPITAL	Capital retained within the fund.	Capital is exchanged for a guaranteed income.	Capital retained within the fund.
GUARANTEES	No guarantees, all dependent on above factors detailed.	Income guaranteed for life. Can opt for a guarantee.	Can guarantee income at inception for maximum ten years.
DEATH BENEFITS	Can be used to provide tax free income, to nominated beneficiaries or a tax free lump sum (unless over the age of 75 on death or out of relevant two year rule).	Continuation of annuity for remaining guarantee period, dependants, or nominated beneficiary income if selected at outset. Paid tax free if died pre age 75.	Continuation of the scheme pension if member dies within the guaranteed period (assuming this option was taken). Provision of a lump sum of up to 20 x the member's initial pension, less pensions paid to date, tax free if under 75 on death.
OPTIONS	Can include a guarantee via the purchase of a fixed-term annuity.	Can include escalation, beneficiaries pension, guaranteed income for set period.	Can include a guarantee (maximum ten years).
TRANSFERS	Can transfer to another drawdown provider.	Not permitted.	Can transfer to another scheme pension provider.
ADVANTAGES	Can choose when you buy an annuity with the possibility of securing a higher annuity rate. Maintain investment control of the fund; therefore, can benefit from investment growth. Death benefits passed on to dependants and/or beneficiaries. Choice of level of income (capped drawdown within maximum set by GAD). No immediate need to make choices about dependants' benefits.	Simple structure. Possible future guarantees for beneficiaries. Guaranteed income for life. Eliminates investment risk. Enhanced income if in poor health.	Capital remains within the scheme. Maintain investment control of the fund. Option to purchase an annuity at a later date to secure a better rate.
DISADVANTAGES	Complex arrangement. Funds need to meet income yield to maintain income level. Investment returns might not meet desired growth. Income reviewed every three years under capped drawdown. Annuity rates in the future may decrease.	Cannot alter the contract. Control of capital lost. Benefits cannot pass to future generations. Level annuity does not protect against inflation. Cannot benefit from investment growth.	Fund needs to sustain income. Scheme retains the investment risk. Cannot reduce or stop the income if not required.

RISK WARNINGS

Changes in the law mean that from the 6 April 2015 members of money purchase arrangements will have increased flexibility over how they can access their pension from age 55.

To help people understand their retirement choices, the government has introduced a free and impartial service called Pension Wise. This help will be available to members online, over the phone or face to face.

Find out more about Pension Wise and the choice that member have at www.pensionwise.gov.uk.

In addition to the Pension Wise service we strongly advise that you obtain regulated independent advice which you can get from your consultant/financial adviser.

Using your pension to buy a guaranteed income for life (annuity)

People who have a medical condition, are in poor health, smoke or are overwieght, may be able to get a significantly higher income through taking an 'enhanced annuity'. These people should consider opting into health and lifestyle questions - and it's important to answer these questions honestly.

People considering this option should think about whether to provide an income for a partner or another dependant on death and therefore whether to purchase a single life or joint life annuity. Compare what, if anything, we offer to dependants against what's offered by another scheme or provider.

'Level' annuities provide a higher income to start with than annuities that increase but the payments will then stay the same for life. This means that the purchasing power of the annuity income will reduce over time, due to inflation.

You don't have to take any annuity or other pension we may offer - and different providers might pay a higher income. So it's important to shop around. Remember that annuity purchases are a lifetime commitment, so there's no rush to make a final decision.

Using your pension to provide a flexible retirement income ('flexi-access drawdown')

As with every investment, there's the risk that the value of a pension pot can go up and down. People considering this option should think about how much they take out every year and how long their money needs to last. If too much money is taken too quickly, the available retirement income could fall drastically or even run out, especially if stock markets fall.

Charges can reduce the money received. Check whether there are any charges or other reductions to a pension pot when a lump sum is withdrawn. Providers and schemes may also make ongoing charges on any undrawn money, so it's important to consider the impact of these charges. And if you plan to take the cash to invest somewhere else, check what the charges are before you cash in your pension.

Different schemes and providers offer different types of flexible retirement income. Check what kind of drawdown is being offered. Some might have products where part of your income is guaranteed but charges and conditions will apply. People considering a flexible retirement income should consider shopping around - an FCA-regulated financial adviser will be able to help with this.

Take your pension as cash stages

In most cases, 25% of each amount withdrawn is not liable for tax but the rest will be taxed as income. People considering this option should consider their own personal tax circumstances, and the impact of taking a taxable lump sum on the tax they pay - including the possibility that they may have to pay a higher rate of tax than normal depending on the amount withdrawn. As with every investment, there's the risk that the value of a pension pot can go up and down. People considering this option should think about how much they take out every year and how long their money needs to last.

Charges can reduce the money received. Check whether there are any charges or other reductions to the pension pot when a lump sum is withdrawn. Charges will continue to be taken from any money left in the pension pot, so it's important to consider the impact of these charges. And if you plan to take the cash to invest somewhere else, check what the charges are before you cash in your pension.

Taking cash withdrawals may have implications for people with debt or who may be entitled to means-tested benefits. People who are concerned about this aspect can contact Pension Wise, the Citizens Advice Bureau or the Money Advice Service.

Take your whole pot as cash in one go

On average, people aged 55 today will live to their mid-to-late 80's. It's important not to underestimate your own life expectancy. People considering this option should think about how to use the money to provide an income throughout retirement.

There will be tax implications if an entire pension pot is taken as cash in one go. These will depend on an individual's personal circumstances. In most cases there will be a tax-free amount available (normally 25%). People considering this option should consider their own personal tax circumstances, and the impact of taking a taxable lump sum on the tax they pay - including the possibility that they may have to pay a higher rate of tax than normal. Some providers and schemes may have charges for taking a pension pot as cash, so check this before commiting. And if you plan to take the cash to invest somewhere else, check what the charges are before you cash in your pension.

Taking cash withdrawals may have implication for people with debt or who may be entitled to means-tested benefits. People who are concerned about this aspect can contact Pension Wise, the Citizen Advice Bureau or the Money Advice Service.

SUMMARY

As you can see, there are many variables involved in retirement planning, and what might be right for one person might not be right for another. It is important that your circumstances and options are assessed in detail before a decision is made, bearing in mind that circumstances might change, and where the drawdown option has been taken will give you the ability to change your decision at a later date to suit your needs.

This guidance booklet is to show you the different options available, so that you may discuss this further with your consultant/financial adviser. This guide is not intended as, nor should it be used as a substitute for taking advice

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RISK WARNING

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