YOUR RETIREMENT INCOME CHOICES

This document describes the ways in which you can use your pension savings to provide an income in your retirement.

You can also pass any remaining value onto your nominated beneficiaries when you die.

Not all pension plans offer all the options described. You need to check with your financial adviser or your pension provider to find out what options you have for your pension savings to meet your future requirements.

Each of the retirement choices have different implications for the amount of tax you might pay and the amount you may be able to pay into any pension arrangement in the future. We strongly recommend that you discuss any choice you wish to make with your financial adviser. (See 'Taking advice and guidance' section.)

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SUMMARY OF **OPTIONS**

The options available are:

- **TAX-FREE LUMP SUM:**

Usually 25% of your pension fund. The balance is used to provide a pension income through either an annuity or income drawdown.

- **INCOME DRAWDOWN:**

You can take an income from your pension fund as and when you want without any annual limit ('cap'). This is known as 'flexi-access' drawdown.

- **ANNUITY:**

You can purchase a guaranteed income for life, known as an annuity. From 6 April 2015 annuities can now provide income that can decrease in certain circumstances although you would need to agree this with the annuity provider when the annuity is being arranged.

Buying a reducing annuity will reduce the amount that you can contribute into your pension arrangements, as explained on the next page.

- **TAKE SOME OR ALL OF YOUR PENSION FUND AS A LUMP SUM:**

The first 25% you withdraw will be tax-free, the remainder will be treated as taxable pension income. Taking too large a lump sum could result in you paying excessive income tax.

You can discuss the options available to you by contacting Pension Wise - a free and impartial service. **See Page 6.**

USING YOUR PENSION SAVINGS **TO PROVIDE INCOME**

FLEXI-ACCESS DRAWDOWN

Since 6 April 2015, flexi-access drawdown is the only drawdown option available for people taking pension benefits for the first time.

If you take all your tax-free cash entitlement up-front, then income tax will be due on any further withdrawals you make. If you don't take all your tax-free cash up-front, you can take it gradually by combining tax-free and taxable income in your flexi-access withdrawals.

ANNUITY

Your pension fund can be used to buy an annuity. An annuity guarantees to pay you an income no matter how long you live. You can get annuities on a single or joint life basis and the income can be fixed or designed to increase over time, for example in line with inflation. It can also decrease under certain circumstances. If you have health problems you may be eligible for an enhanced annuity that pays a higher income than a standard one. Either way you should speak to your financial adviser about the best option for you, or if you don't have one, you should shop around for the best deal as rates vary from provider to provider.

Rather than offering our own annuity, ReAssure are introducing customers to LV=, who can provide you with a comparison of the whole of the annuity market.

SMALL PENSION POTS PAYMENTS

Currently from age 55 you can take up to £10,000 as an income payment directly from each of three arrangements that hold your pension savings. 25% of each payment will be tax-free and the balance will be taxed at your basic rate. Any higher or additional rate tax liability would be payable through self-assessment.

It will depend on the legal structure of your pension scheme(s) as to how much of your pension savings, if any, can be paid using this option. You should speak with your financial adviser, or your pension provider(s) to see whether this option is possible for you.

Taking income in this way will still allow you to make additional pension contributions of up to £40,000 a year, before age 75, subject to your earnings.

- If you are applying for, or have applied for lifetime allowance protection using Enhanced Protection, Fixed Protection 2012, 2014 or 2016 you can only apply for small pots payments if the arrangements used are already in place. Creating new arrangements through partial transfer of existing funds would invalidate the above forms of lifetime allowance protection, potentially subjecting part of your overall pension savings to a lifetime allowance tax charge that would otherwise have been avoided.
- If you have already fully used your available lifetime allowance you will not be able to apply for small pots payments.

'UNCRYSTALLISED PENSION FUND LUMP SUMS'

From age 55, you may be able to take a lump sum payment from your untouched ('uncrystallised') savings, 25% of which will be tax-free, with the remainder being subject to your marginal rate of income tax. This will reduce the amount that you can contribute into your pension (See next section). This option may not be available to you in certain situations, so we recommend that you discuss this with your financial adviser.

MAKING FURTHER CONTRIBUTIONS TO YOUR PENSION

The maximum level of contributions that can be made to all of your pensions each year, by you or your employer, is limited to £40,000 or to a lower limit where your earnings in a tax year are high enough to subject you to a tapered annual allowance threshold. You may also be able to carry forward unused allowances from the previous three tax years.

You should bear in mind however that if you:

- use flexi-access drawdown and take any income from it, or
- take an 'uncrystallised pension fund lump sum', or
- buy an annuity that can decrease in payment, or
- take more income than your annual limit from a capped drawdown arrangement

the amount of future pension contributions you can make will be limited to:

- up to £4,000 a year for 'money purchase' pension arrangements (also known as 'defined contribution' pensions) plus
- at least an additional £36,000 a year in the capital value of benefits in a defined benefit (also known as 'final salary') pension.

These rules can be complicated and we urge you to speak to your financial adviser if you have withdrawn some of your pension savings, but are thinking of putting more money back into them in the future.

WHAT IF I AM ALREADY USING **CAPPED DRAWDOWN?**

If you were already using capped drawdown on 6 April 2015, you can choose to continue to do so if you wish, and your provider will continue to calculate and apply the maximum income 'cap'. A new annual income limit will be set every three years until you are age 75. When you reach 75, your plan will reach the end of its contract, so you will need to decide what you want to do next. If you haven't decided what you want to do by your 75th birthday, any investments within the plan will be sold and held in cash. You can then move your pension to another product or take your pension savings as a one off payment.

Depending on when you started capped drawdown and the scheme you are using, it is possible in certain circumstances to review the income cap more frequently.

If you don't want to be constrained by the annual income cap, it is now possible to switch your capped drawdown fund to flexi-access drawdown, then you will be able to withdraw as much of your pension fund as you wish.

Making further contributions to your pension

While you are in capped drawdown, you can pay up to the annual allowance (currently £40,000) a year and also carry forward unused annual allowance from the previous three tax years until age 75. Your personal contributions cannot be greater than your relevant UK earnings although employer contributions are not capped in this way. After 75 you cannot make any further pension contributions.

If you change to flexi-access drawdown and take any income, the amount that you (and/or your employer) can contribute to money purchase pensions (also referred to as 'contribution based' or 'defined contribution' pensions) will reduce to £4,000 a year.

Your financial adviser will be able to help you decide whether staying in capped drawdown is right for you.

IF YOU WERE USING **FLEXIBLE DRAWDOWN**

Flexible drawdown arrangements in place before 6 April 2015 required you to have a separate guaranteed income of at least £12,000. After 6 April 2015, all flexible drawdown arrangements became flexi-access, and the guaranteed income requirement was removed. Like flexible drawdown, flexi-access gives you the freedom to take income from your pension savings without a cap or limit. This income can be taken all at once, as one-off amounts, or as regular withdrawals.

The tax implications are the same as those which previously applied to flexible drawdown. In other words, once you have taken the tax-free cash amount (typically 25%), the rest of the money you take is subject to income tax in the same way as any other income; the more you receive the higher the tax.

If you are aged under 75, you can pay up to £4,000 a year into money purchase pensions, an option that was not available to you when you started using flexible drawdown.

WHAT COULD HAPPEN TO **YOUR PENSION SAVINGS WHEN YOU DIE?**

After you die, your beneficiaries will have a choice as to how they want any remaining funds paid to them.

- **Lump sum.** Any pension savings remaining after you die can be paid as a lump sum to anyone you nominate. The tax treatment of such a payment will depend on whether you die before or after age 75. (See table below.)
- **Beneficiary flexi-access drawdown.** Alternatively, your remaining pension savings could be paid into a flexi-access pension for any beneficiary that you nominate. This beneficiary doesn't have to be dependent on you; for example they could be an adult, child or grandchild.
- **Beneficiary's annuity.** Rather than being paid as a lump sum, the remaining value of your pension savings can be used to purchase an annuity that provides a guaranteed income for your spouse, civil partner or other financial dependant.

If you die before 75 and the remaining value of your savings exceeds your available Lifetime Allowance of currently £1,073,100 million (or higher if you have registered for any form of Lifetime Allowance protection) an additional tax charge will be deducted from the excess savings before any benefit can be paid out through these options.

Please note that not all pension schemes will offer these options. Your financial adviser or pension provider will be able to confirm the options available.

The tax treatment of these payments is shown below:

Type of benefit	Death occurs before age 75	Death occurs on or after age 75
Lump sum	Payment tax-free	Payments will be subject to tax at the beneficiaries' income tax rate.
Beneficiary flexi-access drawdown	Income payments tax-free for the lifetime of the beneficiary	Income payment subject to income tax payable by the beneficiary
Beneficiary's annuity	Income payment tax-free for lifetime of beneficiary.	Income payment subject to income tax payable by the dependant.
Dependant's scheme pension (normally payable from final salary schemes)	Income payments subject to income tax at the dependant's income tax rate.	Income payments subject to income tax at the dependant's income tax rate.

It is important to take this opportunity to review with your financial adviser your current wishes about who you wish to benefit from your remaining pension value when you die. If necessary provide your pension provider(s) with a new 'expression of wish' form.

TAKING ADVICE AND **GUIDANCE**

- **Your financial adviser**

You have a wide choice of income options available from your pension savings. We strongly recommend that you speak with your financial adviser before making any decisions or changes. This is so that you can make sure you are choosing the option that best meets your future income needs and you understand the potential tax implications. If you don't have an adviser, you can find one in your area at **unbiased.co.uk**

- **The Pension Wise Guidance Service**

You can discuss the options available by taking advantage of The Pension Wise Guidance Service from MoneyHelper - a free and impartial service from the Government. The service can be accessed at **www.moneyhelper.org.uk/pensionwise**, **0800 138 3944** and can be provided online, over the phone, or face-to-face from the Citizens Advice Bureau. This service will provide you with guidance as to the options available to you. It will not however provide you with the individual financial advice that your financial adviser can provide.

For further information on the wider issues of taking retirement income from your pension savings, please visit www.reassure.co.uk/pensions

This document is based on ReAssure's interpretation of the law and HM Revenue and Customs practice as at April 2019. We believe this interpretation is correct, but cannot guarantee it. Tax relief and the tax treatment of investment funds may change.

The value of any tax relief will depend on the investor's individual circumstances.

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