Retirement Factsheet

Introduction

This factsheet provides information about some of the options available to you at retirement to help you make the right choices when deciding how and when to take money from your pension. It highlights the options available to you and risks you need to consider.

Help with your choices - Pension Wise service

The Government backed Pension Wise service provided by MoneyHelper offers free and impartial guidance that will help you understand your options at retirement. This can be accessed face to face, by telephone on 0800 138 3944 or over the internet at www.pensionwise.gov.uk.

The Pension Wise service is complementary to, but is not intended to replace, full regulated advice.

You should also read 'Your pension: your choices' which has been written by MoneyHelper and provides a full range of pension options. A copy of this document is available in your document store.

WE STRONGLY RECOMMEND THAT YOU SEEK GUIDANCE FROM THE PENSION WISE SERVICE OR SPEAK TO A FINANCIAL ADVISER TO UNDERSTAND YOUR OPTIONS AT RETIREMENT BEFORE DECIDING WHAT TO DO.

Pension wise
Get to know your options

The risks to consider before making your decision.

Making your retirement income last

You need to think about your income needs and whether the value of your pension will support these needs.

If you take all or most of your pension fund you may not have sufficient funds to last you for the whole of your retirement.

Your level of pension income is not guaranteed as the fund remains invested in the market and any investment can fall in value.

Future pension contributions

The amount you can pay into your pension in a tax efficient manner is limited to £60,000 per year for most people. If you take either:

- An uncrystallised pension funds lump sum, or
- Income from flexi-access drawdown

This annual limit will be reduced to £10,000 and you must inform all your other existing and future pension providers within 91 days.

If you are planning on paying into your pension in the future, you should check if your decision will limit the amount you can contribute.

Reviewing your investments

Any funds remaining in your pension fund after taking any payments will remain invested in line with your chosen investment strategy. You should therefore regularly review your investments to ensure they remain consistent with your retirement aims and needs.

Losing your means tested benefits and receiving claims on any debts

If you are currently either in receipt of means tested benefits or anticipate the need to access them soon, withdrawing money from your pension may result in your benefits either being reduced or removed altogether. Visit www.gov.uk to find out how income or savings can affect state benefits.

If you have any debts, the money in your pension is usually protected from your creditors. Any money withdrawn from your pension loses this protection and creditors may be able to claim from it.

Working out the tax you will pay

The taxable income taken from your pension is subject to the PAYE tax rules. Calculating the tax, you will pay is complicated and subject to your personal circumstances. If you receive income from other sources, taking a taxable income from your pension can result in you paying a lot more tax than you expected and there is a risk that some of your income might be pushed into the higher tax bracket.

Unless a current P45 is provided from your previous pension scheme before we make the first payment to you, we are required to deduct tax using the emergency tax code on either a Week 1 or Month 1 basis, until such time as HM Revenue & Customs (HMRC) issue a revised coding notice to us.

Emergency tax code

When we use the emergency tax code to calculate your taxable income this can result in you paying significantly more or significantly less tax than would otherwise be the case. Depending on the frequency of the payments and/or the amounts to be taken, you may not be able to obtain a correction to any under / over payment until HMRC have reviewed your tax position at the end of the current tax year.

Payments to beneficiaries after your death

If you die before age 75, death benefits will normally be paid free of tax.
However, if you die on or after your 75th birthday benefits will be subject to tax.

What are the options for taking your pension?

The options available from our scheme are:

- Take a pension commencement lump sum and retirement income directly from the investments in your account as flexi-access drawdown.
- Taking one or more cash lump sums, up to 25% (or up to the available lump sum allowance if lower) as a tax-free lump sum and the balance as taxable income, known as an uncrystallised funds pension lump sum (UFPLS).

Other option available via transfer to another provider are:

- Converting your investments into retirement income by buying an annuity from an annuity provider.

Flexi-access drawdown (FAD)

Flexi-access drawdown offers you the flexibility to take up to the whole of your pension fund should you wish to do so.

When you move any uncrystallised fund (this being a pension fund that has not yet been accessed for retirement income) to flexi-access drawdown you can decide whether to move all, a percentage, or an amount.

Within the limitations of the available lump sum allowance, 25% (or up to the available lump sum allowance if lower) of any new funds taken as flexi-access drawdown from uncrystallised funds are tax free, known as a pension commencement lump sum. Taking this payment will not reduce the amount you can pay into your pension.

The balance will be transferred to your drawdown account and is able to remain invested. Your drawdown account can provide you with an income that is subject to tax deductions under PAYE. You can choose the level of the taxable income required and can request both one off and regular income payments. When you first take a taxable income, this will reduce the amount you can contribute to any pension in the tax year first taken and all future tax years.

<u>Things to think about</u>

- The retirement income from flexi-access drawdown is not guaranteed.
- Making sure you regularly review your investments.
- Deciding the income, you can afford to take requires careful planning. You should consider the:
    - size of your pension
    - amount you contribute
    - fund performance
    - regularly reviewing your income and
    - whether you want to provide for a dependant or someone else after you die.
- Cash and investments held in your pension have significant tax advantages when compared to cash and investments held outside your pension.
- You may be able to receive an enhanced income from an annuity if you are in ill health.
- If you take flexi-access drawdown from any part of your pension, you will not be eligible to receive a serious ill health lump sum from the drawdown fund.
- If you take an initial one-off taxable payment, it is expected that you will overpay tax. The calculation of the tax you pay treats this as the first in a series of regular monthly payments. HMRC will usually correct the tax position at the end of the tax year as part of the normal PAYE process. Alternatively, you can make an in-year claim by completing the relevant form.
    - If you have taken your whole pension fund you should use:
        - P50Z if you have no other PAYE or pension income (other than state pension)
        - P53Z if you have other PAYE or pension income.
    - If you have not emptied your pension fund and no other withdrawals are made in the tax year you should use P55.

We expect all clients entering flexi-access drawdown to have taken professional advice on the likely implications before proceeding.

Uncrystallised Funds Pension Lump Sum (UFPLS)

An Uncrystallised Funds Pension Lump Sum is a lump sum payment taken from the part of your pension fund that has not yet been used to provide a flexi-access drawdown pension.

Within the limitations of the available lump sum allowance, 25% (or up to the available lump sum allowance if lower) of the UFPLS will be paid tax free, with the balance taxed as pension income at the point of withdrawal.

Taking an UFPLS payment will reduce the amount you can pay into your pension in the tax year first taken and all future tax years.

We expect all clients taking an UFPLS to have taken professional advice on the likely implications before proceeding.

Annuity Purchase
We are not an annuity provider; however, this option is available to all clients. You can use all or part of your fund to purchase an annuity.

The annuities offered by insurance companies can vary considerably, so it is important that you shop around to find the one that provides the best rate. Once an annuity has been purchased it cannot normally be changed.

The value being used to purchase the annuity is sent to the annuity provider who, in turn, agrees to provide you with an income for the rest of your life. When considering this option there are different choices you can make, including providing an income for your spouse or partner when you die.

Lump sum allowance (LSA) and Lump Sum and Death Benefit Allowance (LSDBA)

When you commence taking benefits from your pension, there are two lump sum allowances available, the Lump Sum Allowance (LSA) and the Lump Sum and Death Benefits Allowance (LSDBA).

For most people, the Lump Sum Allowance (LSA) will limit the tax-free cash you can get from your pension to £268,275. In most cases, the Lump Sum and Death Benefit Allowance (LSDBA) will limit the total amount of tax-free cash available in your lifetime and when you die to £1,073,100. Before the 2023/24 tax year, the lifetime allowance was the limit on the amount of benefits you could take across all pension schemes before additional tax charges would apply.

If the requested tax-free lump sum exceeds your available allowance the payment will be restricted to the available allowance.

Accounting for previously used Lifetime allowance (LTA)

One of the key parts of the new rules is how to account for previously used LTA. This will be a standard calculation based on the 'lifetime allowance previously used amount' (assuming you had a Benefit Crystallisation Event on 5th April 2024).

The lump sum allowance reduces by 25% of the previously used amount. So, if 100% of the LTA was used, the lump sum allowance is Nil.

If 50% of the LTA was used, the amount of LSA used will be:

50% x £1,073,100 x 25% = £134,137.50

There's an equivalent deduction to the LSDBA but, where some (or all) of the previously used amount is a Serious Ill Health Lump Sum, the amount deducted is 100% of the SIHLS, not 25%.

The above formula gives you the 'default transitional reduction'. But, where the tax-free amount is lower than the default amount, you can apply for a 'transitional tax-free amount certificate' – this bases the Lump Sum Allowance (LSA) reduction on the certified amount, not the default amount.

Transitional tax-free amount certificates are certificates provided by a registered pension scheme to prove the scheme member is entitled to a lower LSA and LSDBA reduction than the standard calculation.

Transitional tax-free amount certificate

If you took benefits before 6 April 2024 your lump sum allowance is reduced by 25% of the previously used lifetime allowance. Meaning if 100% of lifetime allowance was used, the lump sum allowance would be Nil. This is known as the "default transitional reduction". However, where the actual amount of tax-free amounts received were lower than the default amount, you can apply to the scheme administrator of any registered pension scheme that you are a member of, for a "transitional tax free amount certificate".

The certificate will confirm the:
"Lump sum transitional tax-free amount" – the total of all the PCLS and tax-free amounts of UFPLS they have been paid before 6 April 2024 and

"Lump sum and death benefit transitional tax-free amount" – the total tax-free amount of lump sums paid, including Serious Ill Health Lump Sums and lump sum death benefits paid before 6 April 2024.

To apply for a "transitional tax-free amount certificate" from us, you will need to provide complete evidence to the pension scheme of previous amounts received. The application for a "transitional tax-free amount certificate" must be made before any request to take benefits from 6 April 2024. The scheme administrator has 3 months under the regulations to issue the certificate or confirm why it cannot be issued. We will only refuse to issue the certificate if incomplete evidence has been received to allow the calculations to be completed. Once a certificate has been issued it cannot be cancelled if the member finds that their available lump sum allowances under the standard calculation would have been more beneficial.

Lifetime allowance protections

You may have protected your pension savings either built up prior to the introduction of the lifetime allowance on 6th April 2006 or following subsequent reductions in the lifetime allowance.

If you hold a lifetime allowance protection certificate, your lump sum and lump sum death benefit allowance will be limited to:

Protection	Lump sum allowance	Lump sum and death benefit allowance
Enhanced protection	Amount of pension commencement lump sum that could have been taken on 5th April 2024	The amount of uncrystallised funds held at 5th April 2024.
All other protections	25% of your protected lifetime allowance	Your protected lifetime allowance