Ovation

SOUND FINANCIAL MANAGEMENT

The Ovation Guide to

Pensions in Retirement

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Ovation Guide to Pensions in Retirement

Just what does retirement mean? Only ten years ago, it was not uncommon to find people who had worked for the same company for 40 years and were now retiring with a gold watch and a nice fat pension (indeed, in some sectors this may still take place).

For most of us, however, retirement is actually a point at which we start to reduce our working hours. A better definition of retirement might therefore be financial independence.

Ok, forget the word retirement, I want to get hold of some of my pension benefits – what are my options?

You are able to take a percentage (typically 25% for personal pensions) of some or all of your fund as a tax free lump sum, with the remainder of the pension paying you an income (if you want it), which will be taxed in the normal way.

I have got several pensions. First of all, let's look at my old final salary scheme.

Ok, the final salary (now known as defined benefit) scheme will have been offered by an old employer, and can give you a pension, or a tax free lump sum and reduced pension.

Which of these you take is down to you, but determined by attitude to risk, other assets, and so forth. This is something we would need to discuss with you.

Typically, final salary benefits are taken from a particular age, often 60 or 65, with penalties for taking benefits early. A full range of options would need to be discussed in some detail.

Ok, so my final salary scheme might have restrictions. What about personal pensions?

Retirement, or taking benefits, is a good time to consolidate your existing pensions, bringing them all into one place. This is because you will then draw an income, and the funds will be easier to manage if they are in one pot.

Do I have to buy an annuity with my pension?

No, although this is an option at any point in time. If you buy an annuity, however, this cannot be reversed.

What is an annuity?

An annuity is an insurance company product. You give all of your money to the insurance company, and they pay you a guaranteed income for life.

In the event of your death, however, the insurance company keep the money. You are therefore likely to want, for example, widows pension, guarantees and maybe inflation proofing, all of which significantly reduce the initial level of income that the annuity will pay.

Sounds like annuities are not for me?

Not necessarily. Annuities do have the significant advantage of being guaranteed. However, if you are happy to accept investment risk, have a large enough fund and/or maybe other assets, then the alternative may be worth looking at.

Is Drawdown the alternative to an annuity?

Drawdown means leaving the fund (after you have taken tax free cash) invested, and simply drawing down an income as and when you need it.

Sounds risky?

Drawdown most definitely involves an element of investment risk, and you should only consider Drawdown if this risk is acceptable to you. Assessing your own attitude to investment risk is an essential part of the financial planning process.

OK, I can accept some investment risk, how does Drawdown work?

After you have taken tax free cash, the remaining (crystallised) fund is invested, typically with an amount put aside to pay the first few years' income.

You can take as much or as little income as you like. We can therefore see that Drawdown is plainly flexible and suits those who require variable income.

Do I have to take all of the tax free cash available at once?

No, you don't have to take all of the tax free cash at once. Part of your pension could be in drawdown (crystallised) and the other part not (uncrystallised). However, you can only take income from the crystallised part.

What happens to my pension fund if I die?

If you die whilst in pre or post drawdown there are several options are available to your beneficiaries:

- Take over the pension fund and receive income as and when required.
- They could purchase an annuity with the pension.
- Take all of the pension fund at once.

Although please be aware that not all schemes offer all of these options.

Sounds great but what about the tax?

If your death occurs before age 75, any withdrawals/income from the pension is tax free. If you die after 75 the withdrawals/income are taxable at the beneficiary's income tax rate.

Furthermore, Pensions do not form part of your estate so in most cases won't be assessed against Inheritance Tax.

So who is Drawdown appropriate for?

Drawdown would typically suit individuals who are happy to accept a degree of investment risk and would like to vary the amount of income they receive.

I've heard that you can now take all of my pension at once?

True, since April 2015 you are able to withdraw as much of your pension as you want.

However, after the 25% tax free lump sum, Tax will need to be paid at your marginal rate. So if you take out a large amount on top of your normal income you may find 40% or even 45% of the fund is lost in tax.

Furthermore, most people are going to need an income in retirement, which is, at the end of the day, the reason that pensions exist.

Although the flexibility is welcome for some (for example taking out higher amounts in the early years of retirement when still active and healthy) for most the extra income tax and the need for long term income will make it rather irrelevant.

What does Ovation do?

As FCA designated Pension specialists, we are able to access your pensions and create a retirement income strategy that meets your needs.

For help with this and all financial services speak to Ovation

Call: 0117 942 4333
Email: enquiries@ovationfinance.co.uk
Return to web site: www.ovationfinance.co.uk

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