GUIDE TO RETIREMENT

Your new beginning

principal
financial services

Contents

INTRODUCTION

In this Positive Solutions guide to your retirement choices we will help you make an informed decision on the right retirement choice for you.

At Positive Solutions our approach to retirement advice is based on clearly understanding your financial situation, your goals, and how much risk you are prepared to take with your money.

The expert professional guidance your financial adviser will give you helps you through this process. This means we can make sure that our solutions are right for you and that you have all the information you need to make a clear decision.

RETIREMENT CHOICES

THERE HAS BEEN PLENTY OF COVERAGE IN THE FINANCIAL MEDIA ABOUT RETIREMENT FREEDOM AND HOW YOU CAN SPEND YOUR PENSION FUND AS YOU SEE FIT.

HOWEVER, MORE FREEDOM AND MORE CHOICES MEAN YOU HAVE MORE DECISIONS TO MAKE.

CHOICE IS GOOD AS LONG AS YOU MAKE THE RIGHT ONE. WE CAN HELP.

So, is this freeing up of your retirement choices a licence to spend your money how you wish? Or are you worried about making the wrong choice? Maybe you don't know which way to turn.

What does pensions freedom mean for me?

In a ground-breaking change on 19 March 2014, the Chancellor of the Exchequer announced the removal of all the tax restrictions on how pensioners could use their pension pots. In one dramatic move, you were allowed multiple options for how you took your pension. Many will remember pensions minister Steve Webb's 'blow-it-on-a Lamborghini' quip. Tongue in cheek, no doubt, but underlining the fact that people were no longer tied to income from an annuity as the only option.

How do I make the right choice?

Retirement freedom has created more choice; but it brings with it more risk. While the earlier restrictions may not have been popular, they did protect us from running out of money.

We now live in an era in which we live longer. We are retired for longer. We need to make our savings last for longer. We can only do this if we make the right choices. We can only make the right choices with the right advice.

In this guide we will take you through the choices that are on offer so that you can approach retirement feeling more informed.

GETTING READY FOR RETIREMENT

Freedom of choice can help you plan and construct your retirement income but only with the right preparation and advice.

You may be retired a long time

On average men retire at 64.7 and women at 63.61[1]. At these ages men can expect to live until 86.7 and women until 89.32[2]. Being retired for 20 years or more means you need to plan for an income that funds retirement for this long.

To make your money last you need to plan carefully and as early as possible. Your Quilter Financial Planning adviser will help you prepare so that you avoid the risk of ruin.

Retirement has changed

With the demise of final salary schemes most people are taking more of a portfolio approach to retirement income. As well as traditional pension savings and the basic state pension, people are using ISAs and other investments, such as bonds, to supplement their incomes.

Also, semi-retirement is becoming more common with people continuing to work part-time in retirement either through necessity or simply because they want to.

Don't pay any more tax than you have to

Having spent a long time carefully building your retirement fund the last thing you will want to do is give a big chunk of it to the tax man. This is another reason why you need to plan carefully how you use your retirement fund. Take too much out too quickly and instead of being a basic rate taxpayer, overnight you can become a higher rate taxpayer.

By carefully planning with your Quilter Financial Planning adviser you will work out how best to use your tax-free cash entitlement so you maximise your personal allowance. And if you must draw a large sum from your retirement fund you can at least do so in full knowledge of the tax implications, so you do not get a nasty tax shock.

Planning makes a real difference

Having a target income and getting the right financial advice can make a marked difference to someone's retirement income. Research shows that people taking advice have benefited by more than 16% in pension income compared to those who have not[3].

How does this happen? It's all about understanding how to use the available products to construct retirement solutions that aim to hit your target. This may mean using annuities, flexi-access drawdown, uncrystallised fund pension lump sum (UFPLS), other investments, or a combination of several products. But the best way to know what products to use and how to use them is with professional financial advice.

And even though you may have already started income drawdown, this doesn't mean you can no longer invest in a pension plan and enjoy the tax benefits. You can still invest up to £4,000 in a tax year and receive tax relief at your marginal rate of income tax.

1. https://www.lovemoney.com/gallerylist/75682/real-retirement-ages-around-the-worldrevealed#:~:text=The%20retirement%20age%20in%20the%20UK%20is%20currently%2066%2C%20but%20men%20retire%20at%2064.7%20years%20old%20on%20average%2C%20while%20women%20leave%20work%20at%2063.6%20years%20old

2. https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/lifeexpectancies/bulletins/nationallifetablesunitedkingdom/2018to2020

3. https://ilcuk.org.uk/wp-content/uploads/2018/10/ILC-UK-The-Value-of-Financial-Advice.pdf

IN THE EVENT OF YOUR DEATH

Planning your retirement isn't only about your retirement income. Your retirement fund is also an asset and you need to consider and understand what you want to happen when you die.

Choices exist for dealing with any pension fund you may have left when you die. What happens also depends on how old you are when you die.

It's good to understand...

IF YOU DIE BEFORE YOU REACH AGE 75

There are three choices each receiving different tax treatment:

- Pay the remaining fund as a tax-free lump sum to anyone you choose.
- Use the remaining fund to create a flexi-access drawdown for any beneficiary. This will pay a tax-free income for the life of the beneficiary.
- Use the remaining fund to buy an annuity for your spouse or another financial dependant.

IF YOU DIE AFTER YOU REACH AGE 75

Again there are three choices each receiving different tax treatment:

- Pay the remaining fund as a lump sum to anyone you choose. The beneficiary will pay tax at their marginal rate. If you leave the money to a trust, a 45% tax charge will apply.
- Use the remaining fund to create a flexi-access drawdown for any beneficiary. The payments will form part of the beneficiary's taxable income.
- Use the remaining fund to buy an annuity for your spouse or other financial dependant. The payments will form part of the beneficiary's taxable income.

NAVIGATING THE CHOICES

TAX PLANNING IS NOT REGULATED BY THE FINANCIAL CONDUCT AUTHORITY.

You now have far more freedom in how you use your retirement savings

However, this freedom of choice can have implications if you get it wrong. For example, you may create a large tax bill that you wouldn't otherwise have had. Also, not all your pension plans may allow this new freedom of choice. You may have to move the money to an environment that does allow it. This might be a good thing to do; it might just as easily be a bad thing.

You can avoid getting it wrong with the right advice.

Taking a tax-free lump sum

You can take 25% of your pension fund as a lump sum, completely tax free. This hasn't changed and has been this way for many years.

Creating a retirement income

There are two ways you can use your pension to do this: buy an annuity or invest in flexi-access drawdown.

Annuity

An annuity will pay you an income until you die. Guaranteed. This is the annuity's big advantage and makes it the starting point for all your retirement planning.

We believe it's essential for you to receive a regular income to cover your day-to-day expenses. However, guarantees come at a cost.

The amount of income an annuity pays you depends on two things: the size of your pension fund, and how long you might live based on how old you are now. So the older you are the more income you will receive. Your annuity payments form part of your total taxable income and incur income tax.

You can also choose what type of annuity you have:

- One that pays you a guaranteed income until you die and then stops

  or
- One that pays you a guaranteed income until you die and then continues to your surviving spouse or dependant
- One that stops paying as soon as you die

  or
- One that guarantees to pay out for a minimum time, for example five years, even if you die earlier
- One where the income stays the same

  or
- One where the income increases each year

Each option you add makes the annuity more expensive and reduces the income it pays you. Your Positive Solutions adviser will be able to help you make the right choice for your circumstances.

Shopping around – the open market option

You do not have to accept the annuity your pension provider offers you. If you do one thing and one thing only, make sure you shop around for the best annuity you can get. This may sound like obvious advice but around 60% of retired people do not. (Source: Financial Conduct Authority – 2014 thematic review.)

Shopping around for the best annuity can make an enormous difference to your retirement income.

Flexible Access Drawdown

Income drawdown has been around for a while but there were restrictions wrapped around it. These restrictions have now gone, creating flexi-access drawdown.

You can think of flexi-access drawdown as a bit like a bank account. You keep control of your pension fund, investing it and drawing down income as you need it, when you need it. You have complete flexibility over how much you take out and how often

THE VALUE OF PENSIONS AND INVESTMENTS CAN FALL AS WELL AS RISE, YOU MAY GET BACK LESS THAN YOU INVESTED.

you take it. Once you have drawn your 25% tax-free cash entitlement any further withdrawals form part of your total taxable income and incur income tax.

The complete flexibility that flexi-access drawdown gives you is its big advantage. On the downside it brings two big risks:

- You don't make the investment returns you need to support your withdrawals
- You withdraw too much too quickly and run out of money. We call this the 'risk of ruin'.

Take it all as cash – the Uncrystallised Funds Pension Lump Sum (UFPLS)

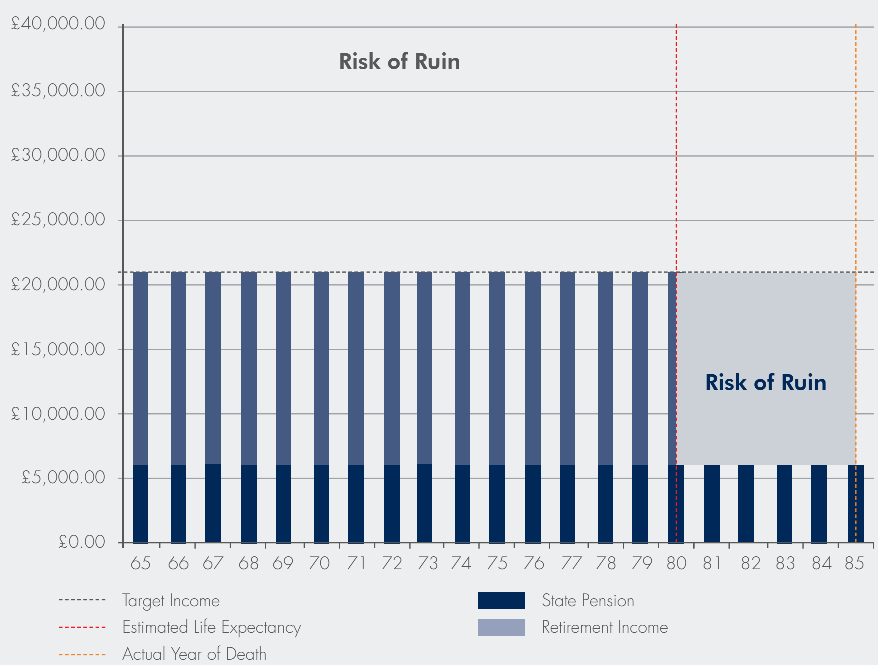
As long as you are at least age 55 you can cash in your pension fund provided you haven't already touched it. If you cash in your entire pension fund, 25% will be tax free and the other 75% will form part of your taxable income and incur income tax.

The advantage of UFPLS is the way it enables you to access a large amount of cash, perhaps to generate retirement income in other forms, property for example.

The disadvantages are twofold:

- The temptation to spend it on luxuries such as holidays and nice cars
- The tax you will inevitably pay – you may lose as much as 45% of the taxable portion in tax. Be clear: even if you are usually a basic rate taxpayer, the lump sum from your pension fund could quite easily elevate you into the highest tax bracket

This graph gives an example of someone retiring at 65 with a target income of £20,000; this person can expect to live until 80. The graph shows the fall in income that occurs when living longer than expected. The gap between estimated life expectancy and death, and the reduced income that results, is what we refer to as 'the risk of ruin.



HERE TO HELP YOU

Managing your finances effectively can be a confusing business. The financial world is complex, and making the right decisions for your future can seem a daunting prospect.

At Positive Solutions, we take pride in offering a personal service that considers your individual circumstances. Your financial situation is unique, so we work hard to understand your goals and aspirations, and make financial recommendations based on a comprehensive and detailed analysis of your needs.

The service we offer you provides a winning combination of professional advice, choice and value.

Whatever your needs in retirement, we can give you a complete financial advice package that ensures you enjoy your new beginning.

WE TAKE PRIDE IN OFFERING A PERSONAL SERVICE THAT TAKES INTO ACCOUNT YOUR INDIVIDUAL CIRCUMSTANCES.

Principal Financial Services (Nottingham) Limited

22 Regent Street
Nottingham
NG1 5BQ

Tel: 01159 483466
Email: enquiry@principal-fs.co.uk

http://www.principal-fs.co.uk