



ROBERTS MACKIE WINSTANLEY
INDEPENDENT FINANCIAL ADVISERS

Retirement options

Greater responsibility on individuals to plan for financial security in old age

Deciding what to do with your pension pot is one of the most important decisions you will ever make for your future. The 'pension freedom' changes of April 2015 represented a complete shake-up of the UK's pensions system, giving people much more control over their pension savings than before.

New research^[1] has revealed that the number of savers who have embraced their freedoms now exceeds one million (1.04 million). The report from HM Revenue & Customs shows that a record-breaking sum of £7.83 billion was withdrawn in 2018^[2], up from £6.54 billion in 2017. It is reported that there have been 5.49 million individual withdrawals since the pension freedoms were introduced in 2015.

UNCONTROLLED 'DASH-FOR-CASH'

There is, however, currently no evidence of an uncontrolled 'dash-for-cash' that was feared by some when the freedoms were introduced. The 2018 figure of £7.83 billion needs to be seen in the context of a total private pension wealth in the UK of approximately £5,000 billion^[3].

Withdrawal payments have also consistently averaged less than £4,000 since summer 2017, showing little evidence of savers rushing to buy extravagant luxury items. These freedoms are attractive to younger savers too, with recent figures released^[4] finding that one third (33%) of under-35s believe this flexible access encourages them to put more money towards their pension.

FIVE TIPS TO HELP MAKE THE MOST OF THE PENSION FREEDOMS

1. UNDERSTAND YOUR STATE PENSION

The State Pension continues to be most people's biggest source of income in retirement. But the State Pension, and the age at which you are entitled to this money, is changing – www.gov.uk/check-state-pension.

2. TAKE YOUR TIME

You may have spent 40 years saving for your retirement. Take more than 40 minutes considering your options.

3. OBTAIN PROFESSIONAL FINANCIAL ADVICE ABOUT WHAT YOU CAN DO WITH YOUR PENSION POT

There are a number of different ways you can take your defined contribution pension pot. You can usually take 25% of your pot tax-free from age 55.

Your options are to:

Leave your whole pot untouched

You don't have to start taking money from your pension pot when you reach your 'selected



Roberts Mackie Winstanley

Jonathan Scott Hall, Thorpe Road, Norwich NR1 1UH

T: 01603 628403 F: 01603 661223 E: enquiries@robertsmackie.co.uk W: www.rmw-ifa.co.uk

Partners: Andrew Mackie • Iain Mackie

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retirement age'. If you want to build up your pension pot further, you can continue to receive tax relief on your own pension savings of up to £40,000 each year (tax year 2018/19) less employer contributions being made, or currently 100% of your earnings if you earn less than £40,000, until age 75 (beyond 75 for employer/company contributions).

Guaranteed income (annuity)

You can use your pot to buy an insurance policy that guarantees you an income for the rest of your life – no matter how long you live. You don't have to accept the annuity that your pension provider or pension scheme offers you. The 'open market option' allows someone approaching retirement to shop around for a number of options to convert their pension pot into an annuity, rather than simply taking the default rate offered by their pension provider.

Adjustable income

This option is also known as 'flexi-access drawdown'. You move your pension pot into one or more funds that allow you to take a taxable income at times to suit you. You choose funds that match your income objectives and attitude to risk and set the income you want. The income you receive might be adjusted periodically, depending on the performance of your investments. The full 25% tax free lump sum can be taken at outset or you can move funds gradually into flexi-access drawdown and take your tax free cash in stages.

Take cash in lump sums

Another option is to take smaller sums of money from your pot until you run out. How much you take and when you take it is up to you. You decide how much to take and when to take it. You don't have to take your 25% tax-free amount in one lump sum – you can decide to receive it over time. Each time you take a lump sum of money, 25% can be tax-free, and the rest is taxable.

Take your entire pot in one go

You can cash in your entire pot – 25% is tax-free, and the rest is then taxed at your highest tax rate/s (by adding it to the rest of your income). However, cashing in your pension pot will not give you a secure retirement income. If you're thinking

of doing this, you should first obtain professional financial advice to discuss your options.

Mix your options

You can mix different options. Usually, you would need a larger pension pot to do this.

4. CONSIDER YOUR LIFE EXPECTANCY

Pension savings are intended to last the rest of your life, yet we typically underestimate how many years we may live. Figures from the Office for National Statistics^[5] show that for 2015 to 2017, a woman's life expectancy in England from birth remains 82.9 years, and for a man it is 79.2. For men and women in Scotland and Wales, the latest figures show a slight decline by more than a month. Men in Northern Ireland have seen a similar fall.

5. APPROACH FINAL SALARY PENSION TRANSFERS WITH CAUTION

If you have a final salary pension, you will need to transfer it elsewhere to access the freedoms. This is a significant decision, as you could lose important benefits. Such a decision should be approached with caution and with the guidance of professional financial advice.

The onus is now firmly on us as individuals to plan our financial security in retirement. We're now expected to take greater responsibility for funding the time in our lives when we're dependent on a lifestyle that we've spent the last 40 years saving for. ■

IT CAN HELP TO BE FLEXIBLE

There's a lot to think about when you're planning for retirement. And don't forget that your situation may change in the future, so it can help to be flexible. If you would like to discuss your particular situation or arrange a meeting, please contact us.

Source data

[1] <https://www.gov.uk/government/statistics/flexible-payments-from-pensions>

[2] Note: this figure underplays the total amount withdrawn as it does not include any additional amounts taken as tax-free cash.

[3] <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/wealthingreatbritainwave5/2014to2016#private-pensions-wealth>

[4] Aviva 2018 survey of 1,000 UK adults: 'Would you put more money towards your pension if you were able to access the money more flexibly?'

[5] <https://www.ons.gov.uk/birthsdeathsandmarriages/lifeexpectancies/bulletins/nationallifetablesunitedkingdom/2015to2017>

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