
ChannelOne

Pensions, Investments, Planning



Retirement Options Guide

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Introduction

The Channel One Retirement Options guide outlines the different options available to you from your pension funds when you retire. It also provides useful information about the state pension and the benefits available from workplace pensions your employer may have provided for you.

You may be aware that there have been a number of changes over recent years to the way in which you will be able to take your pension benefits. Please read this guide carefully as you consider the options now available to you.

The options described below generally apply to defined contribution (money purchase) pension pots such as personal pensions, group personal pensions, self-invested personal pensions (SIPPs), and stakeholder pensions. These options are not normally available to final salary pension schemes (unless transferred first to a defined contribution pension – which, for most people, is unlikely to be advantageous).

The choices you can make are:

- Take some or all of your pension pot as a lump sum
- Convert your pension pot into an annuity
- Use drawdown pension, phased retirement or other retirement income products

You should also be aware that you need to take into account the risk factors in connection with your preferred means of accessing your pension fund and we will discuss these with you during our meeting.

You are able to take as much or as little as you like from your defined contribution pension from age 55.

Apart from the tax free cash element (or tax free element if taking an Uncrystallised Funds Pension Lump Sum) of the pension fund (usually 25%) any funds withdrawn will be added to your earned/pension income and taxed accordingly depending which income tax bands they fall into (if taxable, the tax rate could be 20%, 40% or 45% or a combination of these rates depending on the amount withdrawn).

The government does not prescribe a particular product which you will need to purchase or invest in to access your pension savings. It will be up to you to decide how you want to access them, either as a lump sum or through some sort of financial product:

1. If you want greater control over your finances in the short term you will be able to extract all your pension savings in one go and invest/spend them as you see fit. More details about how you will be able to access your pension in this way are covered in this guide.
2. If you want the security of an annuity you will be able to purchase one, either when you retire, or at a later stage. This may be with either some or all of your pension savings.
3. If you would prefer to keep your savings invested and access them over time, you will be able to purchase a flexi-access drawdown plan. There are no limits on the amount you can withdraw each year and more information as to how this works is covered in this guide.

The changes introduced from April 2015 will see more choice for pension savers as new more flexible products to support your retirement are introduced.

Questions about you for you to think about

Financial advice isn't simply about recommending a product for you. To do our job properly we need to understand what you want to achieve, your goals and ambitions for your future life, so that we can help build a financial future with you which realises those objectives. We will talk to you about these, but in the meantime here are some questions to get you thinking specifically about your retirement. You don't have to answer them right now, but we will work through those which are relevant.

What does retirement mean to you?

- Do you want to stop working altogether, keep working as long as possible, or gradually reduce your working hours?
- Do you have a specific age in mind?
- Will you want to sell any assets, such as a business or a property?

How do you want to live in retirement?

- Are there any once in a lifetime dreams you want to fulfil?
- Have you any plans to move abroad, or purchase a second property?
- Do you anticipate living in your current house or downsizing?
- When will you need to generate retirement income and how much?
- Will you need your income monthly, quarterly or annually? Does it have to be paid on the same day?

How much risk can you afford to take with your income?

- Do you need to pay specific bills or regular payments out of this income?
- Does it matter if some or all of your income fluctuates, and goes up or down? How much?
- If this income was not paid out how long could you last from other sources? What other income sources or assets do you have available?
- How important is certainty of income, is there a minimum you need to meet?

How much risk do you feel comfortable with?

- Would you rather take some risk with this income to see if you can get more even if this means it may go down and you could lose it altogether?
- Is it important for you to retain flexibility accepting this comes with some additional risk, or would you prefer to make an irreversible decision in return for greater certainty of income?
- Are you more concerned about the risk of inflation eroding the relative value of your money, or investment fluctuations eroding the absolute value of it?

- Are you comfortable with retaining an ongoing involvement in managing your retirement income, albeit with professional help, or would you rather make a decision and then forget about it?

Preparing for the worst

- How healthy are you? Do you have any illnesses or any concerns about how long you might live, or require income for?
- Do you have any future financial obligations to meet, such as debts?
- Do you have dependants, such as family, who would be reliant on your income when you die? When if at all, would this dependency end?
- Do you wish to leave an inheritance?
- Should you need specialist care in later life, do you have any views on what type of care you would prefer?

Whilst thinking about these questions and your forthcoming retirement, there are also a number of factors that you should consider carefully. The decision you make now in respect of your retirement could be irreversible so please take the time to consider the factors below and also the product features we have documented in this guide:

Risk Factors

- Your state of health
- Whether your pension savings offer any form of guarantee
- The ongoing needs of your partner and/or dependants
- The effect of inflation
- Whether you have considered all the options available to you
- Whether you will have a sustainable income in retirement
- What the tax implications are
- Whether you understand the charges involved
- The impact on any means tested benefits
- Do you have debt – how will taking your pension affect this?
- Are you aware of pension and investment scams and what they look like?

Current Options

1. You can leave your existing pension fund with your current provider. Then, if you wish, take a tax free cash sum (known as a Pension Commencement Lump Sum) and purchase a conventional Lifetime Annuity (Compulsory Purchase Annuity), from your current provider.
2. You could transfer the whole value of your pension fund to another provider who offers the best annuity rate for a Lifetime Annuity (this is known as exercising the Open Market Option).
3. You can use the whole of your pension fund after any tax free cash has been paid to purchase a Lifetime Annuity on a 'with-profits' or unit linked basis with your existing or another provider.

4. You may transfer your pension fund to a provider offering a Lifetime Annuity on a flexible basis (often called variable or third way annuities). These types of annuity look to combine the certainty of a lifetime annuity with investment growth as seen with Drawdown Pension.
5. You can transfer the whole value of your pension fund into a Drawdown Pension. This allows you to vary future income levels to fit in with your overall financial plan, either by use of drawdown pension or short term annuity.
6. You can take all your benefits as a lump sum, known as an Uncrystallised Funds Pension Lump Sum (UFPLS). The first 25% of the lump sum will be tax free with the remainder taxed as earned income.
7. You can convert your retirement fund in stages, over a number of years (often referred to as staggered vesting or phased retirement) into income using either Annuity, Drawdown Pension or UFPLS. This may be available with your current pension arrangement or you may need to transfer into a Personal Pension Plan or Self Invested Personal Pension first.
8. You may transfer your pension fund to a provider offering a Scheme Pension (usually only available with Defined Benefit pension schemes). This allows for income levels to be actuarially determined based on your personal circumstances.
9. You can also use the value of your pension fund to utilise a combination of these options.
10. If you meet the following conditions, it may be possible for you to take all your benefits from a defined benefit pension scheme as a lump sum (known as a trivial commutation lump sum):
 - The value of all your pension rights from all registered pension scheme sources (including the value of existing pensions in payment) must be £30,000 or less; and
 - You are aged 55 or above; and
 - You have some unused lifetime allowance left; and
 - The payment eliminates your defined benefit rights under the scheme in question; and
 - The payment is made within 12 months of your first trivial commutation lump sum being paid (if applicable and not including any trivial payments paid before 6th April 2006).

In addition to the above, if you are aged over 55 and have any small occupational and/or non-occupational pension pots with values of £10,000 or less each, you may be able to take those as lump sums irrespective of the value of your overall pension benefits. The number of small pots you can take in this way is restricted to three for non-occupational pensions (such as personal pensions, retirement annuities, stakeholder pensions) but is unlimited for occupational pots (such as final salary schemes, occupational money purchase schemes and public sector schemes).

If you have not previously taken benefits from the scheme paying the lump sum, only 75% of the lump sum will be taxable (as pension income). The other 25% will be paid tax free. If the lump sum is being paid from pension savings that you have already put into payment the whole lump sum will be taxable as pension income.

State Pension

The State Pension is intended to ensure that everyone has a basic amount of money to support them in their old age. The amount you will receive is based on your National Insurance (NI) record and to receive the full basic State Pension you will need to have 30 years' worth of contributions.

State Pension is paid every four weeks and can be paid straight into your bank account.

In addition to the changes to taking your defined contribution pension benefits, the State Pension is also being reformed from 2016, depending on whether you reach your state pension age before or after 6th April 2016:

Pre 6th April 2016 - There are two parts to the state pension, the basic state pension (BSP) and the additional state pension (ASP).

BSP – to qualify, at least one of these must apply to you:

- You have paid NI contributions
- You have claimed NI credits
- You have a spouse or civil partner whose NI contributions cover you for benefits.

If you have less than 30 years' credit you will receive a lower BSP, but you only need one year to qualify for some BSP. The maximum weekly BSP is currently £125.95.

ASP – this is based on your NI record and your level of earnings as an employee (ASP is not available in relation to periods of self employment). Until April 2002 it was called the state earnings-related pension scheme (SERPS) and from 2002 the state second pension (S2P). There is no need to apply separately for the ASP as it will be automatically worked out when you claim your state pension.

Post 5th April 2016 – The new State Pension will be a single tier or flat rate system providing a maximum pension in the region of £164.34 per week. To qualify for the new State Pension you need at least 10 qualifying years of NI contributions and at least 35 years to get the full State Pension - a proportionate amount will be paid for qualifying years between these levels.

Deferring your State Pension

You can put off claiming your state pension when you reach state pension age if you wish to. This will allow you to build up additional benefits which you can take in the form of extra state pension or a taxable lump sum (although it seems that the lump sum option will be available for those reaching state pension age after 5th April 2016 the terms are not particularly generous).

Voluntary National Insurance (NI) contributions

If you want to increase your Additional State Pension entitlement, you can make voluntary class 3A contributions between 12th October 2015 and 5th April 2017 which will enable you to increase the ASP by up to a maximum of £25 per week. This scheme is available to current pensioners and those reaching state pension age before 6th April 2016.

If you have gaps in your NI record it is also possible for some people to pay voluntary class 2 or 3 NI contributions in order to increase Basic State Pension entitlement. This facility isn't restricted to those reaching state pension age before 6th April 2016.

Annuities

Lifetime Annuity (Conventional)

This is the most basic type of annuity and pays you a guaranteed income for your lifetime.

A lifetime annuity pays a guaranteed income for your life from the funds you have built up in your pension plan. Your annuity provider will pay you a regular income taxed in the same way as earnings. The amount of income payable is dependent on your age and health, the size of your pension fund, economic factors, the type of annuity and the options you select. You should also be aware that once you have purchased an annuity you cannot cash it in or make changes to your selected options.

Annuity options include:

Single-life or joint-life - A joint life last survivor annuity pays out until the second person of a couple dies. It is possible for the annuity to continue at the same level to a survivor but most couples elect for a spouse/dependant's income of between 1/3rd and 2/3rds of the original amount. It is not necessary for a couple to be husband and wife and any person of either sex may be eligible for a dependant's pension, although it may be necessary in such circumstances to show financial dependency (the rules on who can be paid a survivor's pension were relaxed from 6th April 2015 although annuity providers will have their own restrictions in place). With some pension schemes a spouse's pension must be provided. The higher the level of spouse/dependant's pension included, the lower the starting income will be.

Frequency of Income - You may select at the outset how often you want to receive income each year. Most people choose monthly, but you can be paid quarterly, half-yearly or annually.

Income paid in advance or in arrears - Payments can be made either in advance or arrears. If you opt for monthly income and purchase your annuity on 1st January and you receive your payment on that day, you are being paid in advance. If your first payment is not made until 1st February, you are being paid in arrears. Payments made annually in arrears would give the highest income figure but the first payment would not be received until a year after annuity purchase.

With Or Without Proportion - When you die, an annuity with proportion will pay a proportionate amount to cover the period from the last payment until the date of death. This is most valuable when income payments are made on an annual basis. This option is only available for payments made in arrears. Without proportion represents the cheaper option.

Level, Escalating or Decreasing - A level annuity pays the same amount of income year after year. It pays a higher income compared to the initial starting income available under an escalating annuity, which will take a number of years to catch up and exceed a level annuity. An escalating annuity, on the other hand, is designed to increase each year. The greater the level of escalation chosen, the lower the initial income will be. It is possible to select a fixed rate of increase each year normally in the range of 3% to 8.5%. Alternatively, you can choose to link increases to reflect changes in the Retail Prices Index (RPI) - however, your income is not guaranteed to increase each year as the RPI may not rise and if it did fall, so might your income. Some annuities arising from occupational pension schemes can also escalate by Limited Price Indexation (LPI). LPI means your income increases each year in line with the RPI but only up to a maximum of 5% or 2.5% depending when the pension was earned. It is also now possible to purchase an annuity that has the facility to be decreased.

A guarantee period - If you select a guarantee period and you die within the period chosen, payments will continue for the balance of time remaining. Normally the guarantee period will be either 5 or 10 years. Remaining instalments would be paid as an income to the nominated beneficiary and would be tax free if you die before age 75 and subject to income tax at the beneficiary's marginal rate(s) if you die after age 75. The longer the guarantee period, the more costly the option is.

Annuity protection lump sum death benefit - This option allows for a return on death equal to the difference between the cost of annuity purchase and the gross income payments received. If you die before age 75 the payment to your beneficiaries will be tax free and if you die aged 75 or over it will be taxed at the beneficiary's own income tax rate(s) from 2018/19.

In addition to the options you can select there are also several different types of annuity as described below.

Enhanced / Impaired Life Annuity

Some annuity providers offer annuities which pay you a higher than normal income if you have a medical condition(s) which can affect your normal life expectancy. These are called impaired life annuities.

An enhanced annuity may be available if you smoke regularly, are overweight, if you have followed a particular type of occupation or live in certain parts of the country.

Main features of annuities

The main features of a lifetime annuity are:

Age and Health	<p>Annuity rates are calculated initially on age, so the older you are when you purchase an annuity, the higher the annuity will be.</p> <p>A higher than normal annuity can be purchased if you have a medical condition or qualify for an enhanced annuity as described above.</p>
Investment Risk	<p>The income will not keep pace with inflation (unless the annuity is set up to increase each year and the increase rate matches or exceeds inflation).</p> <p>There is no investment risk but you should be aware that you will not benefit from future growth on your pension fund</p>
Other risks	<p>In the event of death, depending upon the type of annuity you have purchased, benefits to your beneficiaries could be lower than those enjoyed under some of the other options available to you and briefly explained in this guide.</p> <p>Some pensions carry guaranteed annuity rates that you only be entitled to if you take your pension at a particular time and in a prescribed way.</p>

Flexibility	<p>You will be able to access your tax free cash lump sum immediately, to spend or invest as you wish.</p> <p>You receive a guaranteed level of gross income for life.</p> <p>The level of income is fixed at outset based on the available annuity rates and cannot be changed (except for any regular increases or decreases chosen).</p> <p>If you have a partner or dependants you wish to provide for on your death, you must make this election at outset and it cannot be changed.</p>
Taxation	<p>You can usually take up to 25% of your pension fund as a tax free lump sum.</p> <p>Your annuity will be taxed at your marginal rate(s) of tax, so if you are a non- tax payer you may receive some or all of your annuity tax free.</p>
Transfers & Withdrawals	<p>It is not usually possible to transfer your annuity once in payment.</p> <p>You receive a guaranteed level of gross income for life and will be taxed on this at your marginal rate(s).</p> <p>It is not usually possible to withdraw additional sums from your annuity. However some annuity products may be available that will allow further amounts to be withdrawn – subject to the terms and conditions defined at outset.</p>
Availability	<p>There are many annuity providers currently in the market and you need to ensure that you check the rates that are available as these will vary from provider to provider.</p>
Long term care	<p>Your pension income will be taken into account should you require care in the future.</p>
Treatment after death	<p>Your spouse/dependants/beneficiaries can enjoy a guaranteed level of gross income, in the event of your death (if this option is selected at outset). For survivors' annuities, the income will be tax free if you were to die before age 75 and taxed on the recipient at their marginal tax rate(s) if you die after age 75.</p> <p>Your pension can be payable for a guaranteed minimum period of time (e.g. 5 or 10 years).</p> <p>You have the option to include annuity protection – your beneficiaries will receive a lump sum on your death equal to the difference between the amount you paid to purchase the annuity and the gross annuity payments you had received up to your death (the payment will be tax free on death before 75 and taxed at the recipient's marginal income tax rate(s) from April 2016).</p>

Type of charges	An adviser charge is usually deducted by the annuity provider before the lifetime annuity is purchased, there are no ongoing product charges (the provider charges are accounted for within the annuity rate offered).
Future planning issues	If you decide to move abroad after retirement, you can arrange to have your pension paid to an overseas bank account if you wish to.

With Profits Annuity

A With Profits Annuity provides an income that is linked to the investment returns of an insurance company's with profits fund so the income payable can go down as well as up in the future. With Profit Annuities do however provide smoothed investment returns. Smoothed investment means, in poor years, your income will not necessarily go down as much as the underlying investments have gone down. It also means that in very good years, not all of the investment return is necessarily paid out (some is retained to cover the bad years). So, With Profit fund returns should be less volatile than other investment funds.

Typically, income is made up of two parts:

A minimum starting income

This is set at a low level but, unless investment conditions are very bad, you'll usually get at least this much income. Some with-profits annuities guarantee it.

Bonuses

The insurance company usually announces bonus rates once a year. The amount of bonuses depends on many factors, the most important of which is stock market performance.

When you start a With Profits Annuity, you normally select an anticipated bonus rate (ABR). The minimum and maximum rates of ABR you can choose vary by provider, but typically, the range is from 0% to 5% and normally once selected cannot be changed.

The insurance company announces new bonus rates every year. If the rate equals your chosen ABR, your income does not change. If the declared bonus is higher than the ABR, your income increases. But if the bonus is lower than the ABR, your income falls.

If you choose a low ABR, your starting income is low, but you increase the likelihood that future bonuses will exceed the ABR and that your income will rise in the future. You also reduce the risk that your income will fall.

If you choose a higher ABR, your starting income will be higher. If you choose the lowest ABR of 0% - in other words, assuming no bonuses at all - your starting income will be just the minimum. As long as the company declares any bonus at all, your income will increase.

In general, your income can't fall, because the bonus rate can never be lower than 0%. However, if long-term stock market performance was very poor, even this minimum starting income could be cut, except in the case of with- profits annuities that guarantee the minimum.

Some products offer more flexibility than others. For example, some providers allow you to change the anticipated bonus rate after the start of your annuity. This gives some control over the income levels and the risk of income falls in the future.

Some providers allow you to convert to a conventional lifetime annuity, which must be purchased with the same provider, at given points in the future. This means that you can change your annuity to one which provides fixed and guaranteed income levels and no investment risk. This can be useful if your circumstances or annuity rates change.

Age and Health	<p>Annuity rates are calculated initially on age, so the older you are when you purchase an annuity, the higher the annuity will be.</p> <p>A higher than normal annuity can be purchased if you have a medical condition or qualify for an enhanced annuity as described above.</p>
Investment Risk	<p>Although an implicit rate of investment growth has been assumed when setting the annuity rate to provide your income there is no guarantee that investment returns will exceed or even match that assumed. Your income, therefore, could fall or fail to increase.</p>
Other Risks	<p>In the event of death, depending upon the type of annuity you have purchased, benefits to your beneficiaries could be lower than those enjoyed under some of the other options available to you and briefly explained in this guide.</p>
Flexibility	<p>You will be able to access your tax free cash lump sum immediately, to spend or invest as you wish.</p> <p>The level of initial income and anticipated bonus rate (ABR) are fixed at outset and cannot normally be altered in response to changing personal or financial circumstances.</p> <p>Your income may rise above the minimum guaranteed level if the with profits fund performs well.</p> <p>Some providers will allow you to convert your annuity into a conventional one which means your income would be guaranteed and you would no longer receive any bonuses.</p> <p>If you have a partner or dependants you wish to provide for on your death, you must make this election at outset and it cannot be changed.</p>
Taxation	<p>You can usually take up to 25% of your pension fund as a tax free lump sum.</p> <p>Your annuity will be taxed at your marginal rate(s) of tax, so if you are a non-tax payer you may receive some or all of your annuity tax free.</p>
Transfers & Withdrawals	<p>It is not usually possible to transfer your annuity.</p> <p>You usually receive a minimum guaranteed level of gross income for life and will be taxed on this at your marginal rate(s).</p> <p>It is not normally possible to withdraw additional sums from your annuity.</p>

Treatment after death	<p>Your spouse/dependants/beneficiaries can enjoy a semi or minimum guaranteed level of gross income, in the event of your death (if this option is selected at outset). For survivors' annuities, the income will be tax free if you were to die before age 75 and taxed on the recipient at their marginal rate(s) on death after 75.</p> <p>Your pension can be payable for a guaranteed minimum period of time (e.g. 5 or 10 years).</p> <p>You have the option to include annuity protection – your beneficiaries will receive a lump sum on your death equal to the difference between the amount you paid to purchase the annuity and the gross annuity payments you had received up to your death (the payment will be tax free on death before 75 and taxed at the recipient's marginal income tax rate(s) from April 2016.</p> <p>Your pension can be payable for a guaranteed minimum period of time (e.g. 5 or 10 years)</p>
Type of charges	<p>An adviser charge is usually deducted by the annuity provider before the lifetime annuity is purchased. There are no ongoing product charges (the provider charges are incorporated within the annuity/bonus rates offered).</p>
Future planning issues	<p>If you decide to move abroad after retirement, you can arrange to have your pension paid to an overseas bank account if you wish to.</p>

Unit Linked Annuity

With a unit linked annuity, your income in retirement will be linked directly to the value of an underlying fund of investments. Generally, there is a wide range of funds to choose from catering for most risk profiles including, fixed interest/deposits, property, equity and tracker funds.

The more risky the underlying fund you choose, the more your retirement income may vary – both up and down. Some unit-linked annuities work in a similar way to with-profits annuities.

Your starting income is based on an assumed growth rate and if the fund grows at that assumed rate, your income stays the same. If growth exceeds the assumed rate, your income increases. If growth is less than the assumed rate, your income falls. A few unit-linked annuities let you invest in a 'protected fund' which limits the fall in your income. Most unit-linked annuities do not guarantee any minimum income. Even if your income is based on an assumed growth rate of 0%, your income could still fall if the value of the underlying investment fund falls.

If the underlying assets are equities, the income payments made are likely to be more volatile compared to a with profits annuity. Although in the long term equities have produced the greatest returns, there is no guarantee that this will continue in the short term.

Age and Health	<p>Annuity rates are calculated initially on age, so the older you are when you purchase an annuity, the higher the annuity will be.</p> <p>A higher than normal annuity can be purchased if you have a medical condition or qualify for an enhanced annuity as described above.</p>
Investment Risk	Your income may fall even if a 0% assumed growth rate has been selected.
Other Risks	In the event of death, depending upon the type of annuity you have purchased, benefits to your beneficiaries could be lower than those enjoyed under some of the other options available to you and briefly explained in this guide.
Flexibility	<p>You will be able to access your tax free cash lump sum immediately, to spend or invest as you wish.</p> <p>Your income fully reflects the movements in the value of the underlying assets.</p> <p>Your income may rise above your chosen assumed growth rate</p> <p>If you have a partner or dependants you wish to provide for on your death, you must make this election at outset and it cannot be changed.</p>
Taxation	<p>You can usually take up to 25% of your pension fund as a tax free lump sum.</p> <p>Your annuity will be taxed at your marginal rate(s) of tax, so if you are a non-tax payer you may receive some or all of your annuity tax free.</p>
Transfers & Withdrawals	<p>It is not usually possible to transfer your annuity.</p> <p>You receive a minimum guaranteed level of gross income for life and will be taxed on this at your marginal rate.</p> <p>It is not normally possible to withdraw additional sums from your annuity.</p>
Availability	There are a small number of providers in the market who offer this product and you should review the product detail of each carefully.
Long term care	Your annuity payments will be taken into consideration should you require long term care in the future.

Treatment after death	<p>Your spouse/dependants/beneficiaries can enjoy a level of gross income, in the event of your death (if this option is selected at outset). For survivors' annuities, the income will be tax free if you were to die before age 75 and taxed on the recipient at their marginal rate(s) on death after 75.</p> <p>Your pension can be payable for a guaranteed minimum period of time (e.g. 5 or 10 years).</p> <p>You have the option to include annuity protection – your beneficiaries will receive a lump sum on your death equal to the difference between the amount you paid to purchase the annuity and the gross annuity payments you had received up to your death (the payment will be tax free on death before 75 and taxed at the recipient's marginal rate from April 2016, if death occurs after 75)</p>
Type of charges	<p>An adviser charge is usually deducted by the annuity provider before the lifetime annuity is purchased. There are normally no ongoing product charges.</p>
Future planning issues	<p>If you decide to move abroad after retirement, you can arrange to have your pension paid to an overseas bank account if you wish to.</p>

Lifetime Annuity (Flexible) also referred to as Variable or Third Way Annuities

Until fairly recently the UK retirement market had been dominated by providers of conventional lifetime annuities and drawdown pension plans but new products are increasingly emerging which attempt to combine the certainty of a conventional annuity with the prospect of investment growth seen with drawdown pension i.e. in an attempt to offer the best of both worlds.

With a flexible annuity (not a drawdown pension product), the range of income you can draw is 50% - 120% of the annual rate of a level annuity which could be purchased with the pension fund, for the same term ('level annuity' means either a single life level annuity or a joint life level annuity depending which type has been purchased).

Generally speaking flexible (variable or third way) annuities fall into two main categories:

- Annuities with flexibility- these are similar to conventional lifetime annuities i.e. payable throughout lifetime but with a degree of income and/or investment flexibility.
- Fixed term annuities – these provide a guaranteed income for a set period of time with a guaranteed or reviewable maturity value.

A third category which is made up of drawdown pension products with income guarantees is also available:

- Drawdown Pension with income guarantees – these are similar to standard drawdown pension plans (see Drawdown Pension section below) but with some level of underpinning income guarantee which will continue no matter how the underlying investment performs. Some plans provide an income for life whilst with others the guarantee is for a specific time period.

Age and Health	<p>Annuity rates are calculated initially on age, so the older you are when you purchase an annuity, the higher the annuity will be.</p> <p>A higher than normal annuity can be purchased if you have a medical condition or qualify for an enhanced annuity as described above.</p>
Investment Risk	<p>Although an implicit rate of investment growth has been assumed when setting the annuity rate to provide your income there is no guarantee that investment returns will exceed or even match that assumed. Your income, therefore, could fall or fail to increase.</p>
Other Risks	<p>In the event of death, depending upon the type of annuity you have purchased, benefits to your beneficiaries could be lower than those enjoyed under some of the other options available to you and briefly explained in this guide.</p>
Flexibility	<p>You will be able to access your tax free cash lump sum immediately, to spend or invest as you wish.</p> <p>You may receive a minimum guaranteed level of gross income for life or for a fixed period.</p> <p>You may have flexibility in terms of altering the income payments to reflect changes in personal or financial circumstances.</p> <p>Your income may fully/partially reflect the movements in the value of the underlying assets.</p> <p>Your income may rise above the minimum guaranteed level if the underlying investments perform well.</p> <p>Subject to limits imposed by legislation, you will be able to plan in advance the level of income that you wish to take each year, so that you can take into account any other sources of income which may become available to you.</p>
Taxation	<p>You can usually take up to 25% of your pension fund as a tax free lump sum.</p> <p>Your annuity will be taxed at your marginal rate(s) of tax, so if you are a non-tax payer you may receive some or all of your annuity tax free.</p> <p>You can structure your income to mitigate liability to personal income tax. By reducing your income in some years you may be able to avoid a higher rate tax liability.</p>
Transfers & Withdrawals	<p>It is not usually possible to transfer your annuity.</p>
Availability	<p>There are a small number of providers in the market who offer this product and you should review the product detail of each carefully.</p>
Long term care	<p>Your annuity payments will be taken into consideration should you require long term care in the future.</p>

Treatment after death	<p>Your spouse/dependants/beneficiaries can receive an income in the event of your death (if this option is selected at outset). For survivors' annuities or survivors' drawdown, the income will be tax free if you were to die before age 75 and taxed on the recipient at their marginal rate(s) if you die after age 75.</p> <p>Your pension can be payable for a guaranteed minimum period of time (e.g. 5 or 10 years).</p> <p>You have the option to include annuity protection – your beneficiaries will receive a lump sum on your death equal to the difference between the amount you paid to purchase the annuity and the gross annuity payments you had received up to your death (the payment will be tax free on death before 75 and taxed at the recipient's marginal rate from April 2016, if death occurs after 75)</p>
Type of charges	There will usually be an initial set up charge and ongoing annual charges.
Future planning issues	<p>At the end of each fixed period you will normally have the option to purchase a conventional annuity.</p> <p>If you decide to move abroad after retirement, you can arrange to have your pension paid to an overseas bank account if you wish to.</p>

Drawdown Pension

Drawdown Pension is only available from money purchase schemes (or by first transferring into a money purchase scheme, which is likely to involve charges). There are two types of drawdown pension arrangement, income withdrawal and short-term annuity.

You do not have to buy an annuity when you want to start taking an income from your pension fund. Instead, you can put off buying an annuity, perhaps indefinitely, and in the meantime, you can take an income direct from your pension fund. This facility is referred to as Drawdown Pension.

If you want to take part of your pension fund as a tax- free lump sum (usually up to 25% of the fund) you do this before starting to take income from the fund. All income from drawdown pension or short-term annuity contracts (if it exceeds your Personal Allowance) is subject to income tax in the same way as earnings.

If you have never had a drawdown pension plan before then the drawdown product available to you is flexi-access drawdown. If you already have a capped drawdown plan you may be able to choose to either place further funds into your capped drawdown plan or take out a flexi-access drawdown plan as described below:

Capped Drawdown

New capped drawdown contracts are no longer available (from 6th April 2015) but if you already have some funds in a capped drawdown plan, you may be able to add additional pension funds to the plan. Existing capped drawdown plans can continue and can remain subject to the current rules on income limits and income reviews. As long as no more than the maximum income level is withdrawn each year, the plan can remain as capped drawdown.

Should you withdraw income above the maximum limit your plan will become a flexi-access drawdown plan (see below). You can also ask your capped drawdown provider to alter your plan to a flexi-access drawdown plan if required.

For most people the maximum amount of income that can currently be drawn each year under capped drawdown is 150% of a comparable lifetime annuity based on tables published by the Government Actuary's Department. You could choose to take a level of income below the maximum or you could elect not to draw any income at all. Any amount of income from zero through to the 150% maximum can be selected. The plan and maximum income will be reviewed every 3 years up to the anniversary of entering drawdown after the 75th birthday and annually thereafter.

The main advantage of keeping withdrawals within the maximum limit is that the £4,000 Money Purchase Annual Allowance described below under Flexi-access will not apply to you. You will keep the full annual allowance (£40,000 in 2017/18) and can therefore continue to fund pensions up to this level (without suffering a tax charge). Anyone who wishes to continue to fund their money purchase pension plans at a level above £4,000 per annum gross needs to bear this in mind.

Flexi-access Drawdown

Flexi-access drawdown is the new term for drawdown pension which allows you to place your pension funds in a drawdown plan and from age 55 withdraw as much or as little as you want over any period. Up to 25% of the fund can be taken as a tax free lump sum when the fund is placed in drawdown and any income taken will be taxed as pension income.

You will be able to make further pension contributions, however, if you take any income or withdraw a lump sum in addition to the tax free lump sum, you will have a reduced annual allowance of £4,000 for future contributions to defined contribution plans. This is known as the Money Purchase Annual Allowance and where you remain a member of a defined benefit occupational pension scheme, you will also benefit from the standard annual allowance for these contributions.

You should think about reviewing your income every year as well as the decision on whether it might be appropriate to purchase an annuity at that point.

If you die with funds remaining in a drawdown plan your beneficiaries will have the option of continuing to take Drawdown Pension, buying an annuity or taking the remaining fund as a lump sum. If you die aged under 75, drawdown income, annuity income and lump sum payments will be tax free and if you die on or after age 75 the income payments or lumps sums are taxed on the recipients at their marginal rate(s) (From April 2016)

Drawdown Pension (Capped and Flexi-access)

<p>Age and Health</p>	<p>The amount of income you can withdraw under a capped drawdown plan is based on the Government Actuary's Department (GAD) tables which are based on age but do not take health into account.</p> <p>For flexi-access drawdown you can choose how much income you want to withdraw without reference to any rates or limits other than the size of your pension fund.</p> <p>If you or your spouse is relatively young, a secured pension (lifetime annuity or scheme pension) would be less attractive due to the lower mortality factor and, in addition, there is a longer timescale to take advantage of the potential investment rewards and risks of Drawdown Pension.</p> <p>You can delay purchasing a Lifetime Annuity if you think annuity rate will improve.</p>
<p>Investment Risk</p>	<p>Investing in relatively safe areas such as cash and gilts is unlikely to enable a higher lifetime income to be achieved than with a secured pension therefore investing in the type of assets that might achieve the extra returns necessary will involve risk. The shorter the term to the intended date of purchasing a secured pension, the greater the risk.</p> <p>The value of your pension fund may go down as well as up and investment returns may be less than those shown in the illustrations.</p> <p>Taking withdrawals may erode the capital value of the fund, especially if investment returns are poor and a high level of income is being taken. This could result in a lower income if/when an annuity is eventually purchased.</p> <p>If investment returns do not at least match the critical yield (in simple terms, the value of growth required to provide an equivalent income at the age you intend to purchase an annuity) your eventual income is likely to be less than that which could have been available via the annuity route.</p>

Other Risks	<p>Annuity rates may be at a lower level if/when annuity purchase takes place and there is no guarantee that your income will be as high as that offered under the other options referred to earlier.</p> <p>There is no guarantee that annuity rates will improve in the future. They could be lower if/when you decide to purchase an annuity than they are currently. Your pension may be lower than if you bought a lifetime annuity now.</p> <p>High levels of drawdown pension may not be sustainable in the longer term.</p> <p>If you intend to invest some or all of your pension fund there may be charges involved with the new investment.</p> <p>If you withdraw large amounts of capital from your drawdown fund these may impact on any means tested benefits you are in receipt of.</p>
Flexibility	<p>You can take your tax free cash lump sum immediately to spend or invest as you wish without the need to take any income at all if this suits your circumstances.</p> <p>Subject to limits imposed by legislation (with capped drawdown), you will be able to plan in advance the level of income that you wish to take each year, so that you can take into account any other sources of income which may become available to you.</p> <p>There are products available which offer a level of guaranteed income which is paid regardless of the performance of the investments in your pension fund thereby removing some of the risk involved with Drawdown Pension (albeit at a price and subject to specified conditions being met).</p> <p>If the Drawdown Pension product is set up within a Self Invested Personal Pension (SIPP) wrapper, this will permit access to a wide range of investments and enable the investments to be rearranged easily if required (and usually more cost effectively than switching between product providers).</p>
Taxation	<p>You can usually take up to 25% of your pension fund as a tax free lump sum.</p> <p>You can structure your income to mitigate liability to personal income tax. By reducing your income in some years you may be able to avoid a higher rate tax liability.</p> <p>If in flexi-access drawdown you may withdraw an unlimited amount from your pension fund, although all amounts withdrawn will be taxed as income at your marginal income tax rate(s).</p>
Transfers & Withdrawals	<p>It is possible to transfer your drawdown plan from one provider to another.</p> <p>You will be taxed on any income withdrawn at your marginal rate(s).</p> <p>You can make ad hoc withdrawals instead of, or in addition to, taking a regular income from your fund.</p>

Availability	There are many drawdown providers in the market and you should ensure you consider costs, service standards and investment choice before selecting a provider.
Long term care	Your income payments will be taken into consideration should you require long term care in the future. If greater than the actual income being taken, an income in line with that available from an annuity based on your age at that time will be taken into account.
Treatment after death	Your beneficiaries can continue to take withdrawals from any remaining drawdown fund on your death (annuity purchase is also an option) or take the remaining fund as a lump sum. If you die before age 75 any income or lump sums taken by your beneficiaries will be tax free . If you die after age 75, any lump sums or income taken by your beneficiaries will be taxed at the recipient's marginal income tax rate(s) from 2016/17).
Type of charges	Drawdown Pension products tend to have higher charges than Secured Pension products due to the greater amount of administration and advisory input they involve.
Future planning issues	If you decide to move abroad after retirement, you can arrange to have your pension paid to an overseas bank account if you wish to. If your health/circumstances change, you may change the amount of income you are drawing and or/purchase an annuity.

Short Term Annuity

Short term (or fixed term) annuities fall under drawdown rules and are an alternative way of receiving an income rather than withdrawing amounts directly from the drawdown fund. After taking your tax free cash lump sum, some of the balance is used to secure a temporary annuity not exceeding five years. As a temporary annuity costs less to provide than a similar lifetime annuity, the bulk of your fund will be available for investment. The maximum initial income that may be paid by the temporary annuity will be limited if purchased using funds from a capped drawdown plan (in the same way as described in the capped drawdown section above and including the requirement for regular reviews). If the annuity is purchased from a drawdown fund subject to the flexi-access drawdown rules then the amount of income is unlimited and no reviews are required.

After the chosen term the temporary annuity will cease and you then have three options with the remaining drawdown pension fund. You can decide to secure another short term annuity, take income withdrawals from the Drawdown Pension fund or buy a lifetime annuity. You may repeat this process over and over again as long as you have funds remaining in drawdown.

Additional pension benefits can be taken before the end of the term of the existing short-term annuity contract. Where Drawdown Pension is used or additional short-term annuity contracts are purchased the level of income already paid, or to be paid, from the existing annuity contract must be taken into account (if subject to the capped drawdown rules) when considering how much additional Drawdown Pension/Short term annuity can be paid or secured. If subject to the flexi-access drawdown rules, the level of income is unlimited.

As with standard annuities, there is no return on death unless you select an annuity certain (which guarantees payment of the annuity for the term chosen even if you should die sooner) and or a survivor's pension. However, this product does allow you to change the survivor's pension provisions each time a new short-term annuity is purchased to reflect changes in your circumstances.

<p>Age and Health</p>	<p>If you or your spouse is relatively young, a secured pension (lifetime annuity or scheme pension) would be less attractive due to the lower mortality factor and, in addition, there is a longer timescale to take advantage of the potential investment rewards and risks of Drawdown Pension.</p> <p>You can delay purchasing a Lifetime Annuity if you think annuity rates will improve.</p> <p>As you get older there is the prospect of annuity rates rising and providing you with higher income. This is because life expectancy is shorter for someone older and it therefore costs less to provide them with the same given level of income than for a younger person, assuming all other things being equal.</p>
<p>Investment Risk</p>	<p>Investing in relatively safe areas such as cash and gilts is unlikely to enable a higher lifetime income to be achieved than with a secured pension therefore investing in the type of assets that might achieve the extra returns necessary will involve risk. The shorter the term to the intended date of purchasing a secured pension, the greater the risk.</p> <p>The value of your pension fund may go down as well as up and investment returns may be less than those shown in the illustrations.</p> <p>If investment returns do not at least match the critical yield (in simple terms, the value of growth required to provide an equivalent income at the age you intend to purchase an annuity) your eventual income is likely to be less than that which could have been available.</p> <p>Depending upon investment returns, which can fall as well as rise and are not guaranteed, this may provide the opportunity to achieve sufficient growth to improve your ultimate benefits when you decide the time is right to purchase a Lifetime Annuity or Drawdown Pension.</p> <p>The rate of growth needed within the investment element to provide an annuity at the end of the chosen period which is at least equal to the annuity level at outset may not be achieved.</p>

<p>Other Risks</p>	<p>Annuity rates may be at a lower level when lifetime annuity purchase takes place and there is no guarantee that your income will be as high as that offered under the other options referred to earlier.</p> <p>There is no guarantee that annuity rates will improve in the future. They could be lower if/when you decide to purchase a lifetime annuity than they are currently. Your pension may be lower than if you bought a lifetime annuity now.</p> <p>Using short-term annuities to take high levels of income may not be sustainable in the longer term.</p> <p>In the event of death, benefits for your beneficiaries could be lower than those enjoyed under some of the other options available to you and briefly explained in this guide.</p>
<p>Flexibility</p>	<p>You can take your tax free cash lump sum immediately to spend or invest as you wish without the need to take any income at all if this suits your circumstances.</p> <p>Subject to limits imposed by legislation (with capped drawdown), you will be able to plan in advance the level of income that you wish to take each year, so that you can take into account any other sources of income which may become available to you. The income from the short term annuity element is fixed for the term chosen (as selected at outset).</p> <p>The level of income from the short-term annuity is fixed for the term chosen (up to 5 years) and cannot respond to changing personal financial circumstances (although if the maximum level of income is not being taken under capped drawdown, or flexi-access drawdown applies, it is possible to purchase an additional short-term annuity or use income withdrawals from the Drawdown Pension fund to achieve further income (up to the maximum allowed if capped drawdown applies). Alternatively, a lifetime annuity could be purchased with some or all of the remaining pension fund).</p> <p>The pension fund value (less the amount used to purchase the short-term annuity and associated charges) will continue to be invested for you until you decide to purchase further short-term annuities, a Lifetime Annuity or Drawdown Pension.</p> <p>Your pension can be guaranteed for the full five years (or selected term if less) by choosing an 'annuity certain'.</p>
<p>Taxation</p>	<p>You can usually take up to 25% of your pension fund as a tax free lump sum.</p> <p>Annuity payments are taxed as earned income. You can structure your income to mitigate liability to personal income tax. By reducing your income in some years you may be able to avoid a higher rate tax liability. The income from the short-term annuity element is fixed for the term selected.</p>

Transfers & Withdrawals	<p>It is possible to transfer your drawdown plan from one provider to another although not your short term annuity.</p> <p>You will be taxed on the income at your marginal rate(s). You can make ad hoc withdrawals instead or in addition to taking a regular income from your fund.</p> <p>You receive a guaranteed level of gross income over the term chosen (up to 5 years).</p>
Availability	<p>There are many drawdown providers in the market and you should ensure you consider costs, service standards and investment choice before selecting a provider.</p>
Long term care	<p>Your income payments will be taken into consideration should you require long term care in the future. If greater than the actual income being taken, an income in line with that available from an annuity based on your age at that time will be taken into account.</p>
Treatment after death	<p>Your beneficiaries can continue to take withdrawals from any remaining drawdown fund on your death (annuity purchase is also an option) or withdraw the remaining drawdown fund as a lump sum. If you die before age 75 any income or lump sums taken by your beneficiaries will be tax free.</p> <p>If you die after age 75, any lump sums/income taken by your beneficiaries will be taxed at the recipient's marginal income tax rate(s) from 2016/17).</p> <p>Depending on the options selected when the short term annuity was purchased, your beneficiaries may receive any outstanding annuity payments or a survivor's pension if you should die during the annuity term (taxed as described above).</p>
Type of charges	<p>Drawdown Pension products tend to have higher charges than Secured Pension products due to the greater amount of administration and advisory input they involve.</p> <p>Short term annuity charges will be incorporated within the annuity rate offered.</p>
Future planning issues	<p>If you decide to move abroad after retirement, you can arrange to have your pension paid to an overseas bank account if you wish to.</p> <p>If your health/circumstances change, you may change the way/amount of income you are drawing and or/purchase a lifetime annuity.</p>

Uncrystallised funds pension lump sum (UFPLS)

You can withdraw a single or series of lump sums from your pension without the need to move the funds into a drawdown plan first. 25% of the fund (or 25% of each payment of UFPLS if less than the total fund is withdrawn) may be taken tax free with the balance taxed at your marginal rate(s) of income tax. Some pensions may not offer the flexibility to withdraw in a series of lump sums and it will be necessary to transfer to a more flexible arrangement unless you wish to withdraw the entire fund.

In order to take advantage of UFPLS there are a number of conditions that will need to be met:

You must be aged 55 or over or, if younger, meet ill-health conditions.

The payment must be payable from your uncrystallised rights held in a money purchase pension.

If you are aged under 75, you must have more lifetime allowance remaining than the lump sum required.

If aged over 75, you must have some lifetime allowance remaining.

If you have primary or enhanced protection with protected tax free cash or a lifetime allowance enhancement factor but the lump sum allowance is less than 25% you can't take your benefits as a UFPLS.

Where scheme specific lump sum protection exists, the right to the higher TFC would have to be given up in order to use UFPLS.

Money Purchase Annual Allowance (MPAA)

Anyone accessing their defined contribution pension funds by taking an UFPLS (or taking income via flexi-access drawdown as described earlier) will have their annual allowance reduced to £4,000 for future contributions to defined contribution pension plans. If they exceed this level, the excess contributions will effectively have the tax relief clawed back thereby removing one of the main advantages of pension funding. For anyone considering taking benefits from their pension plans whilst continuing with pension funding this needs to be borne in mind. The purchase of a lifetime annuity does not cause the reduced annual allowance to apply.

Age and Health	<p>You can choose how much you want to withdraw without reference to any rates or limits other than the size of your pension fund.</p> <p>If you or your spouse is relatively young, a secured pension (lifetime annuity or scheme pension) would be less attractive due to the lower mortality factor.</p>
Investment Risk	<p>The value of any uncrystallised segments may go down as well as up and investment returns may be less than those shown in the illustrations.</p> <p>This could result in a lower income if/when an annuity is eventually purchased.</p>
Other Risks	<p>Annuity rates may be at a lower level when annuity purchase takes place and there is no guarantee that your income will be as high as that offered under the other options referred to earlier.</p> <p>There is no guarantee that annuity rates will improve in the future. They could be lower if/when you decide to purchase an annuity than they are currently. Your pension may be lower than if you bought a lifetime annuity now.</p>

Flexibility	<p>You can take all of your pension fund as a lump sum or take your fund in stages over a number of years.</p> <p>An annuity or drawdown pension can be purchased with any of the funds you withdraw (or you can utilise the funds in any way you see fit).</p> <p>You can elect to take any uncrystallised pension funds by any of the other options covered in this guide.</p> <p>Your uncrystallised pension funds continue to be invested, thus providing you with the possibility of higher future income. This depends largely on how much you take out of the pension fund and future investment returns achieved on the residual fund.</p> <p>You will be able to change the shape of your retirement income to reflect your personal circumstances in the future. Should your health deteriorate, it may be possible to achieve a better annuity rate (ie. higher income) in future. It is also possible to postpone the choice of whether to include any survivor's pensions until a lifetime annuity is purchased – this could be valuable for someone whose spouse is in poor health.</p>
Taxation	<p>You will receive the first 25% of all withdrawals tax free and the remainder will be taxed at your marginal rate(s) of tax.</p> <p>You will not receive all of your tax free cash as a lump sum at outset, if you are accessing your pension fund gradually over time and using the cash to supplement your income.</p> <p>You can structure your income to mitigate liability to personal income tax. By reducing your withdrawal in some years you may be able to avoid a higher rate tax liability.</p>
Transfers & Withdrawals	<p>The first 25% of any lump sum is tax free and you will be taxed at your marginal rate(s) on the remainder.</p> <p>You can take all or part of your pension fund at any time.</p>
Availability	<p>Some products will not be able to support UFPLS and you may need to transfer your pension fund before being able to withdraw your funds.</p>
Long Term Care	<p>Any uncrystallised segments will be taken into consideration should you require long term care in the future. If you have withdrawn all of your pension fund and it is in a bank account or other savings vehicle it may also be taken into account.</p>

Treatment after death	Any pension funds that are still uncrystallised on your death (ie. remain in your pension plan untouched) can be paid to your beneficiaries as a lump sum, used to provide an annuity income or moved into drawdown to be drawn on as and when required. Funds withdrawn as a lump sum or as annuity or drawdown income will be tax free if you died before age 75. On death after age 75, income and lump sum payments (annuity or drawdown) are taxed on the recipients at their marginal tax rate(s) from 2016/17). If you take the UFPLS and do not spend it, it will be included in your estate and be assessable for inheritance tax.
Type of charges	There may be ongoing charges for any uncrystallised segments
Future planning issues	If your health/circumstances change, you can move any uncrystallised segments into drawdown and or/purchase an annuity.

Phased Retirement

It is not necessary for all of the benefits to be taken from a Personal Pension at the same time (subject to any restrictions the product provider may impose). Some personal pensions are arranged not as single plans, but as clusters of many smaller separate plans, sometimes called 'segments'. The segments can then be used to buy annuities or converted into drawdown pension at different times. It is no longer necessary for a Personal Pension to be physically split into segments in order to take benefits at different times – the pension provider would just need to be informed how much of your pension fund you wish to take benefits from.

The process described above is known as 'phased retirement' (or 'staggered vesting').

Phased Retirement Using Annuities

Each time you convert a segment (or portion of your pension fund) to an annuity, you can first take part of that portion as tax-free cash (normally 25% of the portion). Converting portions of the fund regularly, e.g. once a year, means you can effectively use the tax-free cash, as well as the annuity, to provide your income. The drawback is that if you stagger the conversion of your pension fund into annuities, you will not be able to take all your tax-free cash from your total pension fund at once as a single lump sum.

You must convert enough of your pension fund each time to buy an annuity.

Phased retirement can be a very useful financial planning tool, for example, if you want to ease back gradually on work and start to replace your earnings with pension income. It also provides more flexible help for your survivors if you die. It is possible to vary the type of annuity on each occasion and it need not be on the same basis as the first or subsequent years.

On death, the balance of the pension fund that has not yet been converted to annuities can provide a pension or a lump sum for your beneficiaries, depending on the terms of the pension plan. Phased retirement is generally suitable only if you have a fairly large pension fund, or have other assets or income to live on. This is because the bulk of your pension savings remain invested, usually in the stock market, which may be more risky than buying an annuity straight away.

Age and Health	<p>Annuity rates are calculated initially on age, so the older you are when you purchase an annuity, the higher the annuity will be.</p> <p>A higher than normal annuity can be purchased if you have a medical condition or qualify for an enhanced annuity as described above.</p>
Investment Risk	<p>Deferring the purchase of the annuity does not guarantee a higher level of future income and the value of your remaining pension fund, when aggregated with any annuity you have purchased, may not achieve the required level of growth to maintain income levels at the same level as could be achieved through the purchase of a conventional Lifetime Annuity with the entire pension fund (excluding tax free cash) at outset. This is because withdrawals of tax free cash and annuities purchased may erode the value of your pension fund if investment returns are not sufficient to make up the balance (including charges for the ongoing administration of the plan).</p>
Other Risks	<p>In the event of death, depending upon the type of annuity you have purchased, benefits to your beneficiaries could be lower than those enjoyed under some of the other options available to you and briefly explained in this guide.</p> <p>There is no guarantee that your income will be as high as the income available under the Lifetime Annuity routes referred to earlier.</p> <p>You may feel that the possibility of future higher income does not compensate you for being unable to enjoy a guaranteed and secure level of income today and for the rest of your life.</p>
Flexibility	<p>You can use tax free cash as 'income' and thus, for a given level of income, reduce your overall liability to Income Tax.</p> <p>You will not receive all of your tax free cash as a lump sum at outset, because you are accessing your pension fund gradually over time and using the cash to supplement your income.</p> <p>Unless you opt to take out a drawdown pension, you must still purchase an annuity to provide income whenever you draw part of your tax free cash sum and annuity rates at that time may not be favourable.</p> <p>You will be able to change the shape of your retirement income to reflect your personal circumstances in the future (although each time you purchase an annuity, that income will continue for the rest of your life). Should your health deteriorate, it may be possible to achieve a better annuity rate (ie. higher income) in future with the unused portion of your pension fund. It is also possible to postpone the choice of whether to include any survivor's pensions until further annuities are purchased – this could be valuable for someone whose spouse is in poor health.</p> <p>You may have flexibility in terms of altering the income payments to reflect changes in personal or financial circumstances.</p>

Taxation	<p>Your annuity will be taxed at your marginal rate(s) of tax, so if you are a non-tax payer you may receive some or all of your annuity tax free.</p> <p>You can structure your income to mitigate liability to personal income tax. By reducing your income in some years you may be able to avoid a higher rate tax liability</p>
Transfers & Withdrawals	<p>It is not usually possible to transfer your annuity.</p> <p>You will be taxed on the income at your marginal rate(s).</p> <p>You can withdraw additional segments and purchase another annuity (or select an alternative route such as drawdown) at any point in the future.</p>
Availability	<p>There are a large number of providers in the market and you should ensure that you consider the rates available each time you take a segment of your pension fund.</p>
Long Term Care	<p>Your annuity payments will be taken into consideration should you require long term care in the future.</p> <p>Any remaining uncrystallised funds (i.e. segments not yet used to provide tax free cash or income) will also be taken into account when assessing your income on the basis of the annuity they could provide.</p>
Treatment after death	<p>Annuities Your spouse/beneficiaries can enjoy a guaranteed level of gross income, in the event of your death (if this option is selected at outset). For survivors' annuities coming into payment after 5th April 2015, the income will be tax free if you were to die before age 75 and taxable at the recipient's marginal rate(s) if you die after age 75.</p> <p>Your pension can be payable for a guaranteed minimum period of time (e.g. 5 or 10 years).</p> <p>You have the option to include annuity protection – your beneficiaries will receive a lump sum on your death equal to the difference between the amount you paid to purchase the annuity and the gross annuity payments you had received up to your death (the payment will be tax free on death before 75 and taxed at the recipient's marginal income tax rate(s) from April 2016 on death after 75.</p> <p>Uncrystallised funds Your beneficiaries can choose from a variety of options ,(as long as the product provider allows them):</p> <ul style="list-style-type: none"> • Take the remaining fund as a lump sum (tax free if you died before age 75, taxed at the recipient's marginal income tax rate(s) from 2016/17 • Take income by purchasing a lifetime annuity or via drawdown pension (tax free if you died before age 75, taxed at the recipient's marginal income tax rate(s) if you died after age 75).

Type of charges	<p>Ongoing charges will continue in respect of your uncrystallised pension.</p> <p>An adviser charge is usually deducted by the annuity provider before the lifetime annuity is purchased. The product charges are allowed for within the annuity rate offered.</p>
Future planning issues	<p>You can take additional segments or fully crystallise your pension fund at any time in the future as your requirements change.</p> <p>If you decide to move abroad after retirement, you can arrange to have your pension paid to an overseas bank account if you wish to.</p>

Phased Retirement Using Drawdown Pension

It is also possible to combine Phased Retirement with Drawdown Pension which would mean that you would move only part of your pension fund into drawdown and take the tax free cash and income (if required) from just that part. The balance of your pension fund would remain uncrystallised. To increase your income at a later date, you could either increase the rate of withdrawal (provided you did not exceed the maximum limit if using Capped Drawdown) or move a further part of your pension fund into drawdown and start to draw an income, including the tax free cash sum, from this further slice of your pension fund.

Each time you start using a segment (or portion of your pension fund) for Drawdown Pension, you can first take up to 25% of that portion as tax-free cash. Converting portions of the fund regularly, for example once a year, means you can effectively use the tax-free cash, as well as the Drawdown Pension payments, to provide your income. The drawback is that if you stagger the conversion of your pension fund into Drawdown Pension, you will not be able to take all your tax-free cash from your total pension fund at once as a single lump sum.

Phased retirement can be a very useful financial planning tool, for example, if you want to ease back gradually on work and start to replace your earnings with pension income. It also provides more flexible help for your survivors if you die. On death, the balance of the pension fund that has not yet been used for Drawdown Pension and any remaining drawdown pension fund can provide a pension for your surviving beneficiaries or a lump sum, depending on the terms of the pension plan. Phased retirement is generally suitable only if you have a fairly large pension fund, or have other assets or income to live on. This is because the bulk of your pension savings remain invested, usually in the stock market, which may be more risky than buying an annuity straight away.

Phased retirement could also be used with a combination of annuity purchase and drawdown pension as required.

<p>Age and Health</p>	<p>Flexi-access drawdown allows you to choose how much income you want to withdraw without reference to any rates or limits other than the size of your pension fund.</p> <p>If you or your spouse is relatively young, a secured pension (lifetime annuity or scheme pension) would be less attractive due to the lower mortality factor and, in addition, there is a longer timescale to take advantage of the potential investment rewards and risks of Drawdown Pension.</p> <p>As you get older there is the prospect of annuity rates rising and providing you with higher income. This is because life expectancy is shorter for someone older and it therefore costs less to provide them with the same given level of income than for a younger person, assuming all other things being equal.</p> <p>You can delay purchasing a Lifetime Annuity if you think annuity rates will improve.</p>
<p>Investment Risk</p>	<p>Investing in relatively safe areas such as cash and gilts is unlikely to enable a higher lifetime income to be achieved than with a secured pension therefore investing in the type of assets that might achieve the extra returns necessary will involve risk. The shorter the term to the intended date of purchasing a secured pension, the greater the risk.</p> <p>The value of your pension fund may go down as well as up and investment returns may be less than those shown in the illustrations.</p> <p>Taking withdrawals may erode the capital value of the fund, especially if investment returns are poor and a high level of income is being taken.</p> <p>This could result in a lower income if/when an annuity is eventually purchased.</p> <p>If investment returns do not at least match the critical yield (in simple terms, the value of growth required to provide an equivalent income at the age you intend to purchase an annuity) your eventual income is likely to be less than that which could have been available.</p> <p>Deferring the purchase of the annuity does not guarantee a higher level of future income and the value of your remaining pension fund, when aggregated with any income you have taken, may not achieve the required level of growth to maintain income levels at the same level as could be achieved through the purchase of a conventional Lifetime Annuity with the entire pension fund (excluding tax free cash) at outset. This is because withdrawals of tax free cash and income withdrawals may erode the value of your pension fund if investment returns are not sufficient to make up the balance (including charges for the ongoing administration of the plan).</p>

Other Risks	<p>Annuity rates may be at a lower level when annuity purchase takes place and there is no guarantee that your income will be as high as that offered under the other options referred to earlier.</p> <p>There is no guarantee that annuity rates will improve in the future. They could be lower if/when you decide to purchase an annuity than they are currently. Your pension may be lower than if you bought a lifetime annuity now.</p> <p>There is no guarantee that your income will be as high as the income available under the Lifetime Annuity routes referred to earlier.</p> <p>You may feel that the possibility of future higher income does not compensate you for being unable to enjoy a guaranteed and secure level of income today and for the rest of your life.</p>
Flexibility	<p>Your uncrystallised pension funds and any drawdown pension fund not being withdrawn as income continue to be invested, thus providing you with the possibility of higher future income. This depends largely on how much income you take out of the pension fund (especially in the early years) and future investment returns achieved on the residual pension fund.</p> <p>If the Drawdown Pension product is set up within a Self Invested Personal Pension (SIPP) wrapper, this will permit access to a wide range of investments and enable the investments to be rearranged easily if required (and usually more cost effectively than switching between product providers).</p> <p>You will be able to change the shape of your retirement income to reflect your personal circumstances in the future. Should your health deteriorate, it may be possible to achieve a better annuity rate (ie. higher income) in future. It is also possible to postpone the choice of whether to include any survivor's pensions until a lifetime annuity is purchased – this could be valuable for someone whose spouse is in poor health.</p>
Taxation	<p>You will not receive all of your tax free cash as a lump sum at outset, because you are accessing your pension fund gradually over time and using the cash to supplement your income.</p> <p>You can structure your income to mitigate liability to personal income tax. By reducing your income in some years you may be able to avoid a higher rate tax liability.</p>
Transfers & Withdrawals	<p>It is possible to transfer your drawdown plan from one provider to another.</p> <p>You will be taxed on any income withdrawn at your marginal rate(s).</p> <p>You can make ad hoc withdrawals instead or in addition to taking a regular income from your fund.</p>

Availability	There are many drawdown providers in the market and you should ensure you consider costs, service standards and investment choice before selecting a provider.
Long Term Care	Your income payments will be taken into consideration should you require long term care in the future. If greater than the actual level of income you are taking, an annuity based on your age at that time will be taken into account.
Treatment after death	Whether uncrystallised or in drawdown pension, any remaining pension fund on death can be paid to your beneficiaries as a lump sum or as income payments, tax free if you died before age 75. On death after age 75, if beneficiaries take the death benefits as a lump sum an income tax charge of the recipient's marginal income tax rate(s) from 2016/17. On death after 75, if death benefits are taken as income (drawdown or annuity) they will be taxed on the recipient at their marginal tax rate(s).
Type of charges	Drawdown Pension products tend to have higher charges than Secured Pension products due to the greater amount of administration and advisory input they involve.
Future planning issues	<p>If you decide to move abroad after retirement, you can arrange to have your pension paid to an overseas bank account if you wish to.</p> <p>If your health/circumstances change, you may change the way/amount of income you are drawing and or/purchase an annuity.</p>

Scheme Pension

A defined benefit scheme has to provide a Scheme Pension whereas other types of pension arrangement are not compelled to do so. This has led to a number of providers deciding to offer this option alongside others such as Drawdown Pension. With regard to defined contribution schemes, a Scheme Pension can only be taken after the offer and refusal of an annuity, at any time, after age 55.

It is an alternative way to take an income but is based on your individual circumstances. There are regular reviews and these again are based on your circumstances prevailing at the time of the actuarial review.

It is also possible to provide a dependant's Scheme Pension.

Age and Health	A Scheme Pension is determined by an actuary with the maximum income based on your age, state of health, mortality, any escalation or guaranteed period and fund value. In many situations this will potentially allow a larger income to be taken.
Investment Risk	There is no investment risk but you should be aware that you will not benefit from future growth on your pension fund.

Other Risks	The payment of a scheme pension depends on the financial health of the paying pension scheme, unless the financial liability has been passed to an insurance company. With regard to a defined benefit (final salary) scheme, scheme pensions may be protected by the Pension Protection Fund in the event of the pension scheme winding up. The level of protection varies depending whether you retired before or on/ after the scheme's normal pension age which may mean your scheme pension is not fully protected.
Flexibility	<p>You will be able to access your tax free cash lump sum immediately, to spend or invest as you wish.</p> <p>There are regular reviews and these again are based on your circumstances prevailing at the time of the actuarial review. This can be particularly useful where your state of health has worsened and the actuary is able to reset the income at a level whereby the reduced longevity can be reflected by an increase in the amount of Scheme Pension payable</p> <p>A scheme pension cannot normally be reduced.</p>
Taxation	<p>You can usually take up to 25% of your pension benefits as a tax free lump sum.</p> <p>Your scheme pension will be taxed at your marginal rate(s) of tax, so if you are a non- tax payer you may receive some or all of your annuity tax free.</p>
Transfers & Withdrawals	It is not possible to withdraw additional sums from your scheme pension or to transfer once in payment.
Availability	There are very few providers in the market who offer scheme pensions so you should compare this option against the others described in this guide carefully.
Long Term Care	Your pension income will be taken into account should you require care in the future.
Treatment after death	<p>Pension protection may be included on death (on death a lump sum is paid which is equal to 20 times your starting scheme pension less the gross pension payments you had received up to the date of death – tax free if you died before age 75 and taxed at the recipient's marginal income tax rate(s) from April 2018.</p> <p>It is possible to provide a dependant's Scheme Pension although it cannot be higher than the Scheme Pension the deceased received. This will be taxable on the recipient at their marginal income tax rate(s) whatever your age at date of death.</p>
Types of charges	An adviser charge is usually deducted by the provider before the scheme pension is purchased. The provider charges are allowed for within the rate of scheme pension offered.
Future planning issues	If you decide to move abroad after retirement, you can arrange to have your pension paid to an overseas bank account if you wish to.





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