PENSION FLEXIBILITY

Understanding your options

This leaflet is intended to outline how you can use your pension savings from different types of pension schemes. We have included some of the issues you may need to take into account, but it is not tailored to your personal circumstances and does not cover every possibility. Making pensions decisions may not be easy and some options may better suit your needs than others, so it is important to consider seeking help.

You have a choice about how you use your pension savings

The "traditional" option is normally taking a regular retirement income for life and a tax-free retirement lump sum, but other flexible options may also be available to you. These can include taking some of your pension savings as a taxed lump sum and options on how pension savings may be passed on after your death.

For most people the earliest age from which they can take their pension and/or lump sum is currently age 55 (due to change to 57 in April 2028) and the choices they have will depend on the type of pension arrangements they have and on their rules.

Defined benefits (DB) pensions

A pension where the level of benefit you receive is set by the rules of the scheme, usually based on your salary and service. Examples include "final salary" and "career average" schemes.

Defined contribution (DC) savings

Savings in a pension scheme where the funds eventually available to provide your benefits depend on the contributions paid in and the investment growth over time. This may include any additional voluntary contributions (AVCs) that you have paid.

The current substantial flexibilities (introduced in 2015) apply largely to DC savings. Different pension schemes and providers offer different options and features. Speak to your scheme administrator to check your current options.

Transfer

If you have a DB pension or if your scheme does not provide the flexibility you want on retirement or death, and you are considering taking a transfer (to seek access to alternative options) you should consider some of the risks set out here: **www.fca.org.uk/consumers/pension-transfer-defined-benefit**. If you have DB and DC savings in the same scheme (typically from paying AVCs), you may be able to take all your retirement DC savings as cash without transferring. If not, you normally have the right to transfer both, or just the DB or DC parts of your savings.

- **Some important considerations and retirement risk warnings are set out in the following pages.**
- **Transferring your pension may not be good value or in your best interests and can lead to the loss of valuable protections and options.**
- **A decision to transfer cannot be reversed.**
- **The Pensions Regulator urges extreme caution when considering a transfer - don't make hasty decisions, seek regulated advice and be on your guard for scams.**

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What are my options?

A traditional pension income

This option of a regular retirement income for life is typically provided by a DB pension scheme, often with a lower income continuing after your death to a surviving spouse or dependant, and the option to take a tax-free retirement lump sum within certain limits. See also: **www.moneyhelper.org.uk/en/pensions-and-retirement/pensions-basics**

The option of a regular retirement income for life can also be achieved with DC savings where pension income is provided by an "annuity" - normally bought through an insurance company. See also: **www.moneyhelper.org.uk/en/pensions-and-retirement/pensions-basics**

Some things to consider when buying an annuity from DC savings:

- Once you have purchased an annuity, and the short "cooling-off" window has ended, it is unlikely that you will be able to reverse that decision at a later date.
- It's important to shop around. Different providers might pay a higher income. Remember it is a lifetime commitment and there's no rush to make a final decision.
- Different types of annuities are available and it is worth considering which best suits your needs.
- If you have a medical condition, are in poor health, smoke or are overweight, you may be able to get a higher income through taking an "enhanced annuity". You would need to answer questions about your health and lifestyle, and it's important you answer these questions honestly.
- You should think about what benefits are payable on death and whether you want to provide an income for a partner or another dependant.
- "Level" annuities provide a higher income to start with than annuities that increase but the payments will then stay the same for life. This means that the purchasing power of the annuity income will reduce over time, due to inflation.

A more flexible pension income

There are broadly three other options available from DC savings:

Flexible retirement income ("flexi-access drawdown")	This option allows you to take your tax-free lump sum, giving you flexibility on the set up of the rest of your DC savings. With this remaining balance, you can either delay taking any income or start to draw an income - which is normally taxed - as and when you like.
Taking your DC savings in cash in stages ("uncrystallised funds pension lump sums")	This option allows you to withdraw a series of lump sums from your DC savings over a period of time. The balance of your savings remains invested. Normally, one-quarter of each lump sum taken is tax-free and the rest is taxed as income.
Taking all your DC savings in cash in one go	This option allows you to withdraw all your DC savings in one go. Normally, one-quarter is tax-free and the rest is taxed as income.

Death benefits

You should consider how the rules on inherited pension assets might affect you and your family. These rules allow considerable scope to whom you can pass on DC pension savings on death and can generally be used to reduce the income taxes payable, particularly if you were to die before age 75. However, transferring your benefits can affect the normally favourable inheritance tax position if, for example, you are in ill health at the time of the transfer. Your adviser can tell you more about this.

Before you decide - consider:

- For "flexi-access drawdown", what kind of flexibility is being offered? Are there limits on the amount that can be drawn and how?
- Will you have to pay tax at a higher rate than you are used to, depending on how you decide to take a taxable pension income or lump sum?
  This depends on the amount you withdraw when taken together with your other income (see example on page 4).
- Do you expect to make pensions savings in the future?
  Taking one of the flexible options may result in a restriction on any future contributions you can make (or have made for you) to DC pension arrangements before a special tax charge will apply. This limit, beyond which this tax charge applies, is called the 'Money Purchase Annual Allowance' and is £10,000 from the 2023/24 tax year.
- How much will you withdraw, how often will you do so and how long does your money need to last?
  On average people aged 55 today will live to their mid-to-late 80s. Remember that if you take too much money too quickly the amount left could fall drastically or even run out. As with many investments, the value of a pension pot can go up or down.
- What is the impact of charges which may apply:
  - when money is withdrawn
  - on an on-going basis to the pot left behind
  - where any new investments are made and
  - in connection with transferring to a new arrangement.
- Have you shopped around to check whether you have found the best deal for you taking everything into account including your health and lifestyle?
- How might your choice affect what, if anything, is paid to your family after you die whether as a lump sum or as regular income?
- Look at your overall financial position. Taking cash may have important implications for people with debt or those who may be entitled to means-tested benefits.

People who are concerned about this may want to contact MoneyHelper at **www.moneyhelper.org.uk**

Pension scams

There has been a dramatic rise in pension scams.

If you are taking a transfer or a lump sum from your pension to invest somewhere else, be aware that scammers may operate in these markets.

You can find out more about how to identify scams at:

www.fca.org.uk/scamsmart

www.thepensionsregulator.gov.uk/en/pension-scams

www.moneyhelper.org.uk/en/money-troubles/scams/help-with-scams/how-to-spot-a-pension-scam.html

Tax example (2021/22 allowances used)

Joe has DC savings of £40,000 and is able to take £10,000 from these savings as a tax free lump sum. He has a single person's personal tax allowance of £12,570 and the basic rate tax band applies to taxable earnings up to £37,700. If he has earned £25,000 this will use up all of his tax free allowance and £12,430 (£25,000-£12,570) of the basic rate tax band (leaving £25,270 of that band).

If he wants to take all his DC savings as cash in one go in 2021/22, the tax payable on his DC savings is just under £7,000 as shown opposite.

Were he to delay taking £5,000 of his DC savings as taxable income into 2022/23 (assuming no other changes) none of it would be taxed at 40%, cutting his tax bill by around £1,000.

Note - slightly different tax rates and bands can apply in Scotland.

DC savings: £40,000	
Tax free lump sum (normally 25%) = £10,000 leaving £30,000 as taxable	
Basic rate tax of 20% on £25,270	£5,054
40% tax on balance of £4,730 (£30,000 - £25,270)	£1,892
Total tax	(£6,946)
Net cash payable	**£33,054**

What should I do now?

Speak to your scheme administrators to check your options

Get help from MoneyHelper

This is a free government-backed service offering impartial guidance for anyone with a DB or DC pension who have a range of questions about their pension benefits.

Online at:

www.moneyhelper.org.uk

Get help from Pension Wise

This service is also offered through MoneyHelper and provides impartial guidance specifically for people aged 50 or over with DC pensions savings. They can help you understand the implications of the different options available when you are considering taking any DC pension benefits and provide tips on how to shop around to get the best deal if for example you may want an annuity.

Online at:

www.pensionwise.gov.uk

On the phone:

0800 138 3944

For face to face, call for an appointment

Seek independent advice

Consider seeking appropriate independent advice before making any decisions.

When looking for an adviser you should always check that they are authorised by the Financial Conduct Authority (FCA).

You can find advisers on **www.moneyhelper.org.uk/en/pensions-and-retirement/taking-your-pension/find-a-retirement-adviser** and check they are FCA regulated at **https://register.fca.org.uk/**

LCP is not authorised to provide you with advice, nor generally are pension scheme trustees managers or administrators.

If you are considering taking a DB transfer to a DC arrangement (because you are seeking other flexible options or for other reasons) you need to think carefully about this, and you will normally be required to seek appropriate independent advice from an FCA authorised adviser.

The FCA suggests you read these notes about taking advice:

www.fca.org.uk/consumers/pension-transfer/what-ask-adviser

In particular, if you are considering taking a transfer:

www.fca.org.uk/consumers/advice-what-expect

www.fca.org.uk/consumers/pension-transfer-defined-benefit

If you have DC savings, consider reviewing your investment strategy to make sure it remains appropriate. You should think carefully and consider getting investment advice before switching funds during periods of market volatility.

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