The Options Workplace Pension Trust

Retirement Planning & Options

What happens at retirement?

You may take your pension benefits anytime from age 55 (the government proposes to increase this to age 57 from 2028) and you don't need to stop working to take your pension. However, taking money out of your pension pot before your selected retirement age will affect how much you receive later.

You also have a 'selected retirement age', which is likely to be later than 55. The default age under the Options Workplace Pension Trust is age 65.

It's a good idea to review your selected retirement age and make sure it reflects roughly when you think you're going to retire.

State Pension

You can claim your State Pension when you reach your State Retirement Age. Getting to know your State Pension can help you plan ahead for your retirement.

The amount you receive depends upon the value of National Insurance contributions you have paid throughout your working life. In 2020/21 the full rate for the State Pension is £175.20 pw but not everyone will receive this amount.

Please visit www.yourpension.gov.uk to find out what could get under the current rules. You should also review what age you reach State Pension Age as the rules have changed over the last few years.

Work out your likely retirement income

As retirement approaches, it's crucial that you know how much your pension savings are worth to make sure they are on track to provide the level of retirement income you think you will need when you stop work. Once you know this, you'll be able to work out when you can afford to retire or whether you need to delay taking your pension.

Most people have more than one source of income in retirement.

Secure income

This is any income that is regular and guaranteed for life such as:

- your State Pension;
- a pension from a defined benefit scheme (also known as an employer's salary-related pension scheme such as a final salary or career average scheme);
- income from a lifetime annuity.

Flexible income

This is income you hope to get but the amount might vary and it's not guaranteed to last for the whole of your retirement. This includes income from:

- paid work;
- a drawdown scheme (where your pension pot remains invested but you can opt to draw an income from it);
- savings and investments;
- renting out a room in your home;
- any rental property you own.

What else will you have?

You may have non-pension assets which could affect what you decide to do with your pension pot. These might include:

- your home – you may plan to sell your home and buy a cheaper one in order to release some cash;
- other property which you could sell or rent out;
- savings and investments;
- personal possessions you plan to sell such as a car, jewellery, antiques etc.

If you have any outstanding loans, a mortgage or credit card debts, paying these off may seem a good idea. This would reduce your monthly spending and the amount of income you need in retirement. But it would also reduce the amount of money you have available to provide yourself with an income in retirement. This is the sort of decision that requires careful thought and which you may want to take advice on.

How much will you need?

Retirement outgoings

It's useful to work out your own outgoings so you can estimate how much you'll need. Some of your costs will go down when you retire, for example if you've paid off your mortgage or other debts. However, some may go up, such as fuel bills or entertainment.

As an example:

- Rent or mortgage
- Gas bill
- Electricity bill
- Council tax
- Water rates
- Food and alcohol
- Landline, mobile and broadband
- Clothing
- Travel and motoring
- Entertainment and going out
- Insurance
- Credit cards

Your options may be determined by how much you have saved and the lifestyle you desire during your retirement. As part of your retirement planning you should consider what likely requirements you will have in retirement:

- from covering basic necessities such as food and household costs;
- more desirable items such as holidays, entertainment and leisure time;
- Ideals beyond this such as leaving a legacy to children & grandchildren, or charities.

Many people underestimate how long they're going to live. This is not a problem if you have a guaranteed income for life. But if you don't, you need to make sure you don't run out of money so that you have enough to live on for the whole of your retirement. At the same time, you don't want to live more frugally than you actually need to because you're worrying too much about running out of money.

Your health may become an issue as you get older. So you may want to set aside some money or have a rising income so that if your health does deteriorate you can afford to pay for extra help around the home or for care fees.

Tax

Your pension income is taxable just like any other income.

When you're ready to start using your pension pot, you can usually take up to 25% of it as a tax-free lump sum. The rest can be used to provide you with an income and/or irregular lump sums, both of which are taxable. The amount of Income Tax you have to pay depends on your total income for the year.

Alternatively, you can take cash lump sums from your pension pot. The first 25% of any lump sum is usually tax-free and the rest is taxable. The taxable amount is added to the rest of your income for the year and you pay Income Tax on this in the usual way.

In both cases, if the amount of taxable cash you take pushes your annual income into a higher tax bracket, you'll have to pay higher-rate tax (or even additional-rate tax) on the part of your income that falls in that band.

More details on retirement can be found at https://www.moneyadviceservice.org.uk/en/retirement-income-options/retirement-options.

Options at retirement

Below we detail the options available to you at retirement. You will receive details of your retirement options at least 4 months before your chosen retirement date.

1. **Take your whole fund as cash in one go - Uncrystallised Pension Fund Lump Sum (UFPLS) or Small Lump Sum Payment (for funds of less than £10,000)**

   You are able to receive payment of your total fund as a lump sum and receive 25% tax free. The remainder of the fund will be taxed at your marginal rate. If you take your fund as an UFPLS, and you contribute to a pension after taking the lump sum, this will trigger a lower Money Purchase Annual Allowance (MPAA) which may have tax implications. We recommend you seek independent financial if you are considering this option.

2. **Use your fund to provide a flexible retirement income ('flexi-access drawdown')**

   Flexi-access drawdown allows you to withdraw as much or as little retirement income as you wish, while choosing how the remainder of your fund is invested. As part of the wide-ranging 2015 pension reforms, which allow those nearing retirement to gain greater control over their pensions, flexi-access drawdown is available from your 55th birthday and provides a hassle-free way to unlock cash from your pension. You may be considering this option.

   Drawdown is not available through our Master Trust,, however we offer Self-Invested Personal Pensions (SIPPs) for drawing down your pension income, which may be suitable for you depending on your circumstances. Alternatively, you may transfer your fund to another provider. If you are thinking about this option please contact us for further information.

3. **Use your fund to buy a guaranteed income for life (annuity).**

   You have the option of selecting an annuity (pension) that is payable for the rest of your life. You can do this by transferring your fund to an insurance company that provides it, this is called the "open market option".

   Examples of how your annuity can be used are detailed below:

   - a pension solely for yourself (with or without guaranteed annual increases).
   - a pension for yourself, together with a pension payable to your spouse or dependants in the event of your death.
   - a lump sum (currently payable tax free) and a lower pension for yourself.
   - a lump sum, a lower pension for yourself, and a pension payable to your spouse or dependant on your death.

   As there are so many factors in your personal circumstances that will affect how you choose the annuity that is right for you, we suggest you speak to Pension Wise to guide you through this process. Alternatively, you may also wish to consider seeking advice from an independent financial adviser (IFA) in relation to the type of annuity that would be suitable for you, and the different products available in the market. It is important that you consider obtaining advice as your final choice of pension benefits and annuity provider is a one-off decision, which cannot be changed at a later date. You will need to meet any fees or charges in connection with this appointment.

4. **Stay Invested**

   If you do not wish to take your DC Fund now, you do not need to do anything. Your fund will continue to be invested.

   if you die before the age of 75 your full pension pot can be passed on to your family members free of tax including inheritance tax. If you die after the age of 75 then your pension pot is still free of inheritance tax but those receiving the pot must pay tax at their marginal rate.

   Regardless of how you wish to receive your pension benefits, you have the opportunity to transfer your fund to a different pension provider at any time.

FOR MORE INFORMATION PLEASE CONTACT
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