UPDATED:
October 2014 – including pension freedoms and new options on death

Your options at retirement

How to take tax-free cash and income from your pension fund

HARGREAVES LANSDOWN

One College Square South,
Anchor Road, Bristol, BS1 5HL
www.hl.co.uk

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This guide is written to provide you with information so you can make your own investment decisions. It is not personal advice. Tax benefits are dependent on your own personal circumstances. This guide is based on our understanding (as at 22 October 2014) of current pension rules and announced changes for April 2015.

What's inside?

Why . . .
you no longer have to set up an annuity

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you can claim your tax-free cash

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happens when you die?

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pension rules are changing, and how you can get the best deal

Your retirement, your money

Ruth Richards
Head of Retirement

If you are retiring in the next few years, it is time to start thinking how your hard-earned pension fund can start paying you.

This guide explores the main options currently available, including new options proposed in the Budget, set to take effect from April 2015. It also covers more recent announcements to reduce the tax paid on pension lump sums when you die.

This guide is designed for people with a "money purchase" pension, such as a Personal Pension, Stakeholder Pension, Self-Invested Personal Pension (SIPP) or an Additional Voluntary Contribution (AVC) plan.

If you are in the fortunate position of expecting a final salary income (or scheme pension) from your employer, this guide will be relevant only if you are considering transferring your benefits, however before doing this you should seek independent advice. Please contact us if you would like to be put in touch with one of our financial advisers.

Your options

State pensions

If you reach state pension age before 6 April 2016 you will most likely receive a basic state pension. The amount you receive will depend on your national insurance record. The full state pension for tax year 2014/15 is £113.10 per week for a single person and £180.90 for those who are married or in a civil partnership if one person is relying on the other's national insurance record.

If you have been employed and contracted into the State Earnings Related Pension Scheme (SERPS) or State Second Pension (S2P), you will usually receive an Additional State Pension. People with a modest retirement income may also be entitled to an additional Pension Credit.

If you reach state pension age after 5 April 2016 you are likely to receive the new state pension, the full rate of which is expected to be around £150 per week. You can find out more about the state pension by calling the Department for Work and Pensions on **0345 606 0265** or by visiting **www.gov.uk/state-pension**.

Tax-free cash and your choice of taxable income:

Current options for most people, from age 55, include taking up to 25% tax-free cash and:

- Lifetime annuity
- Income drawdown
- Flexible drawdown
- Phased retirement
- Fixed term annuity
- Investment-linked annuity
- Take small pensions as cash
- A combination of the above

New options from April 2015

- New rules should give you unrestricted access to your pension with no limits on the income you can withdraw. You could take the whole pension as cash if you wish.
- A new option should become available which allows you to draw lump sums directly out of your pension without having to go into drawdown known as an uncrystallised funds pension lump sum.

What are the options for your other pensions?

Usually your pension fund does not automatically start paying you an income. Instead, usually from age 55, you have the choice of taking some of it as tax-free cash and then a further choice of how you take the rest, which is taxable.

There is usually no upper age limit on when you take your pension benefits. However, the

treatment of the pension on death changes once you reach 75 (see page 12 and our website at **www.hl.co.uk/pensions/death-tax** for more information).

If you want income - and most people do - the main options are an annuity or income drawdown. These options are explained in more detail on the following pages.

Up to 25% of the fund as tax-free cash

On retirement you will normally be given the option of taking a tax-free lump sum which you can spend or save as you wish. If you wish to reinvest your tax-free cash into a pension, you should check HMRC rules allow you to do so without tax penalties.

Lifetime annuity

An annuity is one of the few options which guarantees to pay a secure, taxable income for the rest of your lifetime.

Once set up, a conventional lifetime annuity cannot normally be changed, so whilst it can be inflexible you can rest safe in the knowledge that your annuity income will never run out.

Annuities are provided by insurance companies, such as Aviva, Canada Life and

Legal & General. Different insurance companies offer different annuity rates and these can change frequently. This means some companies are more competitive than others.

What is the "Open Market Option"? And what difference could it make?

The "Open Market Option" is your legal right to shop around and buy your annuity with a more competitive provider. As the table below shows, shopping around could produce a better lifetime income in the vast majority of cases, at no extra cost. The top company can change frequently and will vary depending on your circumstances and the kind of annuity you choose.

Your options

It is quick and easy to use our service to "shop around" for you and seek out our best rates. Simply call us on **0117 980 9940**, or visit our website: **www.hl.co.uk/annuities**.

Rank	Annuity provider	Annual income
1	Just Retirement	£6,753.84
2	LV=	£6,602.00
3	Canada Life	£6,481.32
4	MGM Advantage	£6,469.68
5	Partnership	£6,430.56
6	Legal & General	£6,371.04
7	Aviva	£6,159.00
8	Friends Life	£6,111.96
9	Hodge Lifetime	£5,861.63
10	Prudential	£5,356.68
11	Standard Life	£5,146.80

This table shows the incomes available from various providers for a pension fund of £100,000 for a 65 year old who provides details of their lifestyle (they are a smoker). The top provider pays 31% more than the eleventh best one. This annuity is for their lifetime only, does not increase, is guaranteed for five years, paid monthly. Source: Hargreaves Lansdown annuity quotation website 16 October 2014.

What are your options if you buy an annuity?

If you opt for the most basic annuity, it will pay for your lifetime only, and won't increase. It will stop when you die. This is known as a single life, level annuity.

Three tips that could keep your annuity income alive after death

If you want your annuity income to survive you, you can choose one of these three options when you set up your annuity. Your choices cannot be changed once the annuity is set up, so consider them carefully:

- **Choose a joint life annuity –** Income will be paid to your dependant (usually your spouse or partner) if they outlive you. You can choose how much income they receive (usually 50%, 66% or 100%).
- **Choose a guaranteed period –** Income is guaranteed for a set number of years, even if you die before this. The income would then be paid to your beneficiaries for the rest of the guaranteed term.
- **Choose to build in an annuity protection lump sum (value protection) –** If you die before a pre-agreed age, the fund value, less income already paid, can be paid out to your beneficiaries, in some cases subject to a tax charge (see

www.hl.co.uk/pensions/death-tax for more details).

You can also choose to protect your annuity against inflation, by choosing an income which increases each year by a set percentage (e.g. 3% or 5%) or which moves in line with the Retail Prices Index (RPI). These options are more expensive and will reduce your starting income, but over time could pay out more income overall.

Higher annuity incomes due to your health or lifestyle (enhanced annuities)

It is estimated 70%* of the UK population at retirement could be eligible for higher annuity incomes because of their health and lifestyle. Even minor conditions or lifestyle choices can boost the income you receive, for life. Smoking, drinking alcohol, being overweight, or taking regular prescribed medication can all make a difference, as can over 1,500 medical conditions.

If you suffer from very serious ill health, you should seek advice. If your life expectancy is very short (under 12 months) you may be able to take the whole fund as a lump sum. An annuity is considered inflexible when compared to income drawdown as once it is set up it cannot usually be changed. If you are unsure you should seek advice.
**source MGM Advantage*

Your options

We can help you compare your options

The options we have listed are just some of the annuity options you can choose. Each will affect the amount of income you receive. We can provide you with a personal summary of different annuities to enable you to compare the various options.

Fixed term annuities

Some providers have launched short-term annuities, which pay out a fixed income for a set term, and provide you with a maturity amount at the end. You can then normally use this lump sum to buy another fixed term annuity, a lifetime annuity or go into drawdown.

These short term annuities can offer you the chance to delay your lifetime annuity purchase and keep your options open. This could be beneficial if annuity rates rise in future, or if your circumstances change.

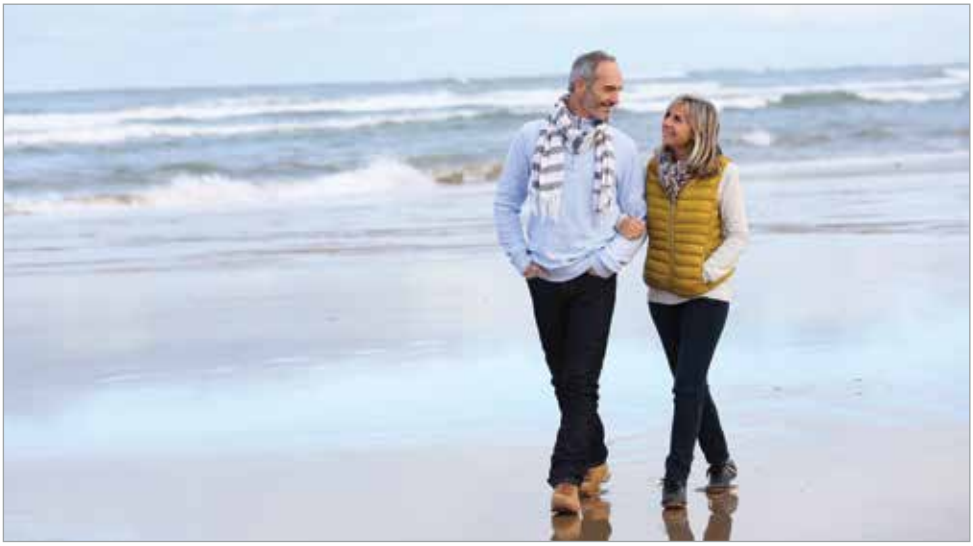
However these fixed term annuities only offer a secure income for the term, not your lifetime. You should consider the particular risks of these before you choose a fixed term annuity:

- Be completely clear about what happens if you die during the fixed term. You usually need to decide if there should be an income payable to your dependants, or if they should receive a lump sum (see page 12 and visit **www.hl.co.uk/pensions/death-tax** for more information on death benefits). If you don't include these options and you die, the income will cease and no maturity value will be paid.
- Annuity rates can change regularly and can go up and down. If rates fall, and you need regular secure income when the fixed term annuity matures, you may not be able to buy the same level of lifetime annuity you could have bought at the start of the term.

Investment-linked annuities and variable annuities

Unlike conventional lifetime annuities which are secure, investment-linked annuities depend on the performance of an underlying investment fund or funds, so they contain an element of investment risk. They are designed to give you an opportunity to increase your income, but as they are dependent on the stock market there is a chance income could fall as well as rise.

They can be complicated. If you are looking for something which falls between a secure annuity and the main alternative, income drawdown, you may wish to consider simply splitting your fund between an annuity and income drawdown.



Income drawdown

Income drawdown allows you to draw income directly from your fund, leaving the remainder invested and under your control. You can choose the level of income you receive, which will be unlimited from April 2015.

There is no minimum income, which means you can take tax-free cash and leave the remainder fully invested.

The death benefits can also be more attractive than those available under a lifetime annuity (see page 12 and **www.hl.co.uk/pensions/death-tax** for more information).

Income drawdown is considered high risk when compared to a lifetime annuity as the income is not secure and can fall as well as rise. If the fund performs well, income is likely to increase over the years and thus has some protection against inflation. However, if performance is poor, or the amount taken from the fund is too high, income and the fund value will dwindle.

You have the choice of continuing in income drawdown indefinitely. Alternatively an annuity can be bought with your drawdown fund at any time.

Your options

Income drawdown is a complex product so we strongly suggest seeking advice if you are at all unsure of its suitability for you. If the level of investment control and responsibility income drawdown demands makes you uneasy, then income drawdown may not be for you.

Flexible drawdown (flexible access drawdown)

Flexible drawdown works in exactly the same way as income drawdown, but you can draw as much income as you want, when you want it.

Currently, there are a number of requirements to qualify for flexible drawdown, but from next April nearly everyone over the age of 55 should be eligible. Until April 2015 the main requirement is having £12,000 per annum of secure pension income in payment.

Phased or partial retirement

Rather than convert your entire pension fund into an annuity or drawdown all in one go, phased or partial retirement allows you to do it in stages, gradually drawing on your fund over a period of time.

Each time you can take up to 25% tax-free cash, plus a taxable income. It can be tax efficient if you control your tax-free cash and income to take advantage of personal tax allowances.

Like all options which involve a deferral of your annuity purchase, if annuity rates fall in future then your eventual income will be lower than the income you might have received by buying an annuity earlier.

Mix and match the different options

You don't need to make a single choice. You can set up a series of annuities. Or you can use an annuity for some of your pension to provide your essential living costs, and use drawdown for the rest, as long as you accept the income from drawdown is not guaranteed.

Uncrystallised funds pension lump sum

Under this new option you should be able to take lump sums out of your pension without having to go into drawdown or purchase an annuity. 25% of each lump sum you take will be tax-free, the rest will be taxable.

This option may be worth considering if you don't want to take all your tax-free cash up front or if you want phased retirement without using drawdown.

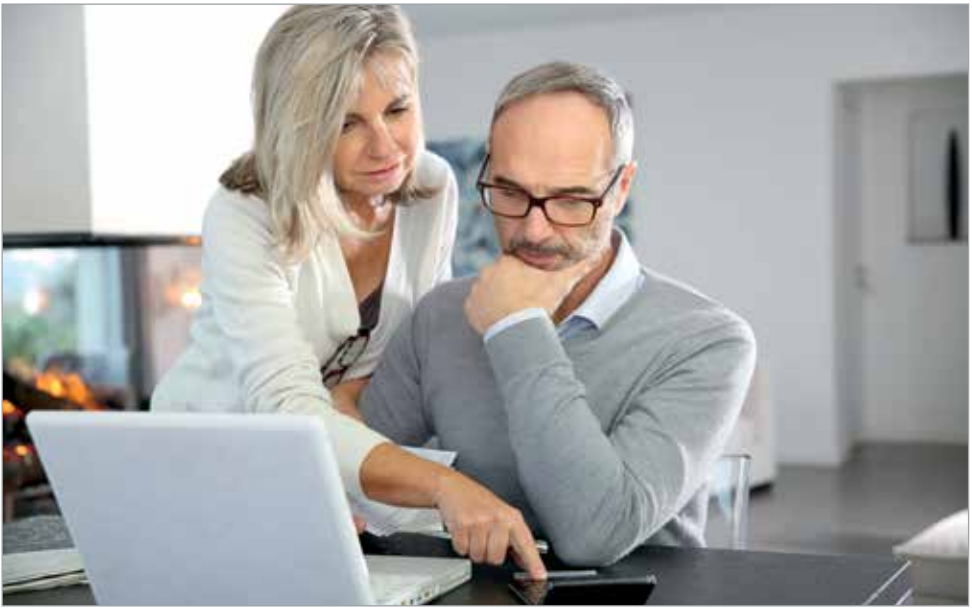
Taking your pension as cash

If you are over 60 and either have total pension savings worth up to £30,000 or individual pension pots worth up to £10,000 you may be able to take your entire pension as cash now. Other conditions apply and you need to be comfortable you will still have sufficient retirement income.

New rules will give you the freedom and choice to do what you like with your pension pot at retirement. From April 2015, you could withdraw the entire lot, if you wish. While this may sound appealing, it comes with caveats. The first 25% will be tax-free, and the rest subject to Income Tax at your highest rate.

You could face a hefty — but avoidable — tax bill if you cash in your entire pension at once, rather than in stages. Your pension is meant to provide for your retirement. Few believe state benefits will be much more than meagre, so it would be unwise to take all your pension out early, then rely on the state.

What happens to your pension when you die?



This is one of the most common questions we are asked by people coming up to retirement. The options vary and will depend on how you choose to use your pension fund to provide an income.

The Chancellor intends to change the tax treatment of benefits paid from pensions on death, for payments made from April 2015.

For instance:

- ✓ Your surviving beneficiaries could take the whole of the remaining pension fund as cash, tax-free in some circumstances.
- ✓ They could use the fund to provide an income, tax-free in some circumstances.
- ✓ You could choose to leave the remaining pension fund to charity.
- ✓ In some circumstances your pension could just stop when you die, with nothing available to your spouse or partner.

Please see www.hl.co.uk/pensions/death-tax for the latest information. Tax treatment of pensions paid on death is subject to change.

Annuity vs drawdown: the pros and cons

Below is a quick summary of the main advantages and disadvantages of annuities and income drawdown. You may wish to split your fund and do a mixture of the two.

Lifetime annuity			
Advantages		**Disadvantages**	
✓	Simple and easy to understand. No ongoing reviews required.	✗	Current annuity rates are low. Therefore the potential income you purchase may be lower than desired.
✓	Once set up income is fixed and secure.	✗	Inflexible. Once set up, features and income will not change.
✓	Available for any size pension fund, with a number of different features.	✗	Death benefits must be set up at outset so don't take account of changing circumstances.
✓	The income will never run out, however long you live.	✗	An annuity (without value protection) cannot generally be passed on to your beneficiaries as a lump sum.
✓	Not affected by stock market falls, or economic slumps.	✗	Not affected by stock market rises.
✓	Higher incomes available if you have health issues. Up to 70% of retirees could be eligible for enhanced terms based on health conditions (source: MGM Advantage).	✗	A level annuity has no protection against inflation meaning income in real terms will reduce over time.

Income drawdown			
Advantages		**Disadvantages**	
✓	More flexible; you keep your options open.	✗	Income is not secure. The income and value of the fund can fall and, at worst, the income could run out.
✓	You retain investment choice and control.	✗	More complex, you may need advice. Requires regular monitoring and reviews.
✓	Flexible death benefits; which include passing on your fund as a lump sum (potentially tax-free).	✗	None of us know how long we will live for, if you live longer than anticipated or your investments perform badly, your pot may not be able to support your prolonged retirement and/or dependants when you die.
✓	You can change the income you receive to match your requirements and investment performance.	✗	An annuity set up on day one may have offered a greater total income over your lifetime.
✓	Potential for growth, increasing income and protection from inflation.	✗	Can be expensive: may not be cost effective for smaller funds in the long-term.

A quick comparison of the current options

	Lifetime annuity	Income drawdown	Flexible drawdown	Taking the pension as cash
Consider this option if . . .	. . . you need some form of secure income and accept that once set up the income is fixed. This is one of the few ways of providing a guaranteed income for life.	. . . you don't need a secure income yet and want to keep your options open. You need to be comfortable with the possibility that income could fall as well as rise.	. . . you meet the eligibility criteria, you don't need a secure income yet and you want to keep your options open. You need to be comfortable with the possibility that income could fall as well as rise.	. . . you meet the small funds criteria now, or are willing to wait until April 2015.
Can you take tax-free cash?	Yes	Yes	Yes	Yes
What happens to the rest of the pension?	You convert it into secure taxable income for life.	The pension remains invested. You draw a taxable income directly from the fund.	The pension remains invested. You can take out as much as you like, less income tax.	You take it as a taxable lump sum.
Is income secure?	Yes	No	No	There is no income.
Might the pension run out later in retirement	No – it's paid for life.	Yes	Yes	Yes – you have cashed-in your pension.
Do you retain control over the pension? Do you need to review regularly?	No	Yes	Yes	Not applicable – you have cashed-in your pension.
What happens to the pension when you die?*	Nothing payable, unless you have chosen a spouse's pension, value protection, or guarantee at outset.	The remaining pension can be used to provide an annuity or drawdown income for your dependant or the fund can be passed on to your beneficiaries. In some cases this could be tax free from April 2015 (currently, less 55% tax charge).		Not applicable – you have cashed-in your pension.
Do you need to decide on the death benefits at the start?	Yes	No – you can keep your options open. It may be worth completing an expression of wish form.		Not applicable – you have cashed-in your pension.

*More information available at www.hl.co.uk/pensions/death-tax

This year, next year, or some other time?

Waiting for the new pension rules to come into effect?

From April 2015, the Chancellor intends to allow everyone, from age 55, to take an unlimited income from their pensions. The first 25% will be tax-free but you will have to pay tax on the rest.

It may be enticing to take your whole pension as cash. However you should carefully consider the tax implications. Taking your pension all in one go could mean 75% of it is subject to Income Tax.

There are other considerations too: your retirement could last decades, and you will need to ensure you have enough income.

Your income needs are likely to change as you get older and your circumstances (including health and care needs) could also change. You may not want to rely on the state.

The new rules mean you won't have to buy an income if you don't want to - but if you, like most people, do need some form of secure retirement income then it is worth

considering a lifetime annuity. This is one of the few retirement options which provide a guaranteed income for life.

This year or next year?

There is no rush - most providers will let you leave your pension untouched up to the age of 75 (but you should ask your pension provider if they will let you do this and how this could affect your pension).

However, if you are ready to start drawing your pension, and are deciding whether to do it this year or when the new rules come in, the following points may be worth bearing in mind:

- **Not all providers will be ready for pension freedom**
  There will be no regulatory obligation for providers to offer new pension freedoms. In the past, when pension rules have changed, some providers have not offered the new options at all and some have, but only after a delay.

  Hargreaves Lansdown will offer the new pension freedoms in income drawdown: indeed some flexibility is available already.

- **Do you plan to make future contributions to pensions?**
  If you intend on making large pension contributions in future, and are also interested in income drawdown, you might want to consider your options now. This is because from 6 April 2015, the annual allowances for pension contributions are restricted for people who go into income drawdown after that date, but can remain unchanged for those who are already in income drawdown. To find out more, you can request our guide to income drawdown, or call **0117 980 9940**.

Where to invest your pension fund before retirement

Even if you are not planning to retire for several years, you should consider the structure and investment strategy of your pension fund. Act now and you could make all the difference to your retirement income. Consider if you are on track to provide the income you need, and top up your pensions if you are short.

If you are thinking of buying an annuity soon, you may wish to consider switching to lower risk investments, such as gilts and bonds (known as fixed interest) and cash. This may protect your pension fund from market volatility prior to retirement and can help preserve its annuity purchasing power. However, by doing this you will not benefit from any stock market rises.

If you are planning to keep your pension fund invested during some or all of your retirement, for instance by using income drawdown, there is less of a requirement to protect your fund before retirement. You may want some money held in cash for any tax-free cash and/or income you are planning to take when you retire.

Important investment & technical notes

All investments should normally be held for the long-term as their value can fall as well as rise, therefore you could get back less than you invested. Taking benefits from an annuity or drawdown plan can also reduce some means tested benefits and income protection policies.

The pension and tax rules are subject to change by the government. The earliest age at which you can normally take pension benefits is currently 55. Tax reliefs and state benefits referred to are those currently applying at the time of writing (22 Oct 2014). Their value depends on your individual circumstances.

Before transferring a pension you should find out if exit or initial charges will be levied. Then carefully consider whether you believe it will be beneficial for you to proceed and that the new benefits will be at least as good (ensure you will not be sacrificing guaranteed annuity rates or investment returns). You may be out of the market while you transfer in which case you will not be affected by market rises or falls during this time.

Lifetime Allowance

- The value of your total pension savings will be subject to a lifetime allowance which for tax year 2014/15 is £1.25 million. Any funds over the value of the lifetime allowance could be subject to a tax charge of up to 55% at retirement.

- The lifetime allowance is tested when you take benefits (e.g. via an annuity or income drawdown) or when you reach 75. The rules require a check to be made to ensure the lifetime allowance is not being breached. Your pension or annuity provider may need to obtain details of all your pensions for confirmation on how much of the lifetime allowance you have already used up. We believe it is very important that you seek independent financial advice as soon as possible if your pension fund is likely to exceed the lifetime limit now or at some point in future.

Tax-free cash recycling

If you significantly increase pension contributions in the year of taking tax-free cash from a pension or in the two years before or after, this may be deemed as recycling of tax-free cash and subject to a punitive tax charge.

This is a brief summary of the main restrictions; however it cannot cover every scenario. You should seek advice if you think you may be affected. If you have any questions please call our pensions helpdesk. If you require advice we can put you in touch with an adviser.

Annuity option

- Although annuity providers provide cancellation rights, these are only available for a limited time and once the

annuity is set up you cannot normally cancel it or switch to another provider.

- Annuity rates change and are only guaranteed for a limited time.

- Annuities are covered by the Financial Services Compensation Scheme (FSCS). This could act as a safety net should an annuity company become unable to meet its annuity obligations.

Income drawdown option

- High income withdrawals may not be sustainable while you are in drawdown.

- Taking withdrawals may erode the capital value of the pension fund, especially if investment returns are poor and a high level of income is being taken. This could result in a lower income when an annuity is eventually purchased.

- The investment returns may be less than those shown in illustrations.

- Annuity rates may be at a lower level when the annuity purchase takes place.

- Moving into flexible drawdown will effectively prevent you making contributions until April 2015.

- Investment in a SIPP will in most cases give you entitlement to the FSCS in the event that the SIPP company becomes unable to pay claims against them. In addition some, but not all, of the investments you may hold within a SIPP wrapper will also be covered by the FSCS. For further information on the investments covered and the way in which the scheme operates please contact the FSCS.

All Options

- Past performance is not a guide to future performance.

- All investments should be held for the long term as their value can fall as well as rise, therefore you may get back less than you have invested.

- This booklet is based upon our understanding as at 22 Oct 2014 of current and prospective pensions legislation. This is subject to change. The options described in this guide are those generally available however please note pension scheme rules can be more restrictive than the legislation.

- This guide to options at retirement is not personal advice. If you are at all uncertain about the suitability of an investment for your circumstances you should seek financial advice. Please contact us to speak to a financial adviser.

How we can help

Taking a secure income (annuity service)

The Hargreaves Lansdown annuity service will shop around for you from a panel of the UK's top annuity providers. It could boost income significantly.

Call us on **0117 980 9940**

Or visit **www.hl.co.uk/annuities**

The service is not personal advice and is designed for clients with total pension funds under the lifetime allowance.

Income drawdown and flexible drawdown

This is available as an option in our Vantage SIPP, a low cost Self-Invested Personal Pension. For further details please contact us to request an income drawdown information pack.

Call us on **0117 980 9940**

Or visit **www.hl.co.uk/drawdown**

Advice on your retirement options

Retirement is an important financial decision, and it's one of the key reasons people approach us for advice. We have a number of professional advisers who are able to offer independent, impartial advice. Please call us on **0117 317 1690** and we can put you in touch with an adviser.

Financial News Awards for Excellence in Institutional Pensions UK 2013 Winner

What Investment Readers' Awards Winner Best SIPP Provider - Hargreaves Lansdown 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014

Money Direct Awards 2014 Best Direct SIPP Provider 2013 & 2014 Hargreaves Lansdown

UK Stock Market Awards 2013 Winner

10/14

Hargreaves Lansdown Asset Management Ltd, One College Square South, Anchor Road, Bristol, BS1 5HL.
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Enquiries: 0117 980 9940