

## The Retirement Options Fact Sheet

This fact sheet provides information about some of the options available to you upon retirement. It highlights what you need to consider and lets you know where to get more information.

### Pension Wise

The Pension Wise service has been introduced by Government to provide you with guidance and to help you understand the options available to you following the introduction of greater pension flexibility.

You can find out more about the Pension Wise service at the Government web site: [www.gov.uk/pensionwise](http://www.gov.uk/pensionwise).

The Pension Wise service is available from two sources:

1. The Pensions Advisory Service, if you would like to receive guidance by telephone please call 0300 330 1001. [www.pensionsadvisoryservice.org.uk](http://www.pensionsadvisoryservice.org.uk)
2. The Citizens Advice Bureau, if you would like face to face guidance. You can find your nearest bureau online by entering your postcode at [www.citizensadvice.org.uk](http://www.citizensadvice.org.uk) or by searching your local phone directory.

The services of both organisations are free and impartial to help you understand your options at retirement, rather than provide advice as to the specific course of action you should take.

Please note that Wealthtime is not authorised to provide pensions guidance or advice.

**WE STRONGLY RECOMMEND THAT YOU SEEK GUIDANCE FROM ONE OF THE ORGANISATIONS MENTIONED ABOVE OR ADVICE FROM A REGULATED FINANCIAL ADVISER TO UNDERSTAND YOUR OPTIONS AT RETIREMENT BEFORE DECIDING WHAT TO DO.**

### Your Options

The following is a summary of some of the options available to you at retirement and you may wish to seek further information on these options.

#### 1. Flexi-access Drawdown

##### What is flexi-access drawdown?

From 6 April 2015 under flexi-access drawdown (FAD) you can decide to take up to the whole of your pension fund in cash should you wish to do so. This will be subject to tax at your highest marginal rate except for 25% of any new funds designated to drawdown from uncrystallised funds, which are normally tax free. Please see below for more details of the tax implications.

**Please note that where you take FAD, whether on the whole or part of your fund, you will only be able to contribute to defined contribution pension schemes of up to £4,000 per annum in this and all future tax years.**

From 6 April 2015 flexi-access drawdown replaces flexible drawdown if you are currently taking benefits under this type of drawdown.

##### What are the tax implications?

Apart from any tax free amounts allowed by the regulations applicable at the time of the payment, all Pension Payments are subject to tax deductions under PAYE.

Unless a current P45 is provided from your previous pension scheme before we make the first payment to you, we are required to deduct tax using the emergency tax code on either a Week 1 or Month 1 basis, until such time as HM Revenue & Customs (HMRC) issue a revised coding notice to Wealthtime.

##### **WARNING**

Operating PAYE on pension payments using the emergency tax code can result in you paying significantly more or significantly less tax than would otherwise be the case. Depending on the frequency of the payments and/or the amounts to be taken, you may not be able to obtain a correction to any under / over payment until HMRC have reviewed your tax position at the end of the current tax year.

Please also note that if you decide to take all or a large part of your pension fund you may not have sufficient funds to last you for the whole of your retirement. Your level of pension income is not guaranteed as the fund remains invested in the market and any investment can fall in value. Please also bear in mind that any means-tested benefits may be affected when you receive any pension income.

It is for these reasons that Wealthtime expects all clients entering flexi-access drawdown to have taken professional advice on the likely implications before proceeding.

Please also note that you must inform all your other existing and future pension providers that you have entered flexi-access drawdown within 91 days of starting flexi-access drawdown or HMRC may impose severe penalties.

#### 2. Capped Drawdown

This is only available to you if you were already in capped drawdown before 6 April 2015. If you were in capped drawdown this may continue. You may designate further funds to a capped drawdown arrangement unless that arrangement was established as a capped drawdown transfer arrangement.

The calculation is determined by the Government Actuary's Department and we will inform you each pension year what your maximum permitted level of income is.

You may continue to receive a tax free lump sum of 25% of any new funds designated to capped drawdown from 6 April 2015.

If you draw out more than this maximum your capped drawdown fund automatically becomes a flexi-access drawdown fund and from that time you are able to withdraw as much of your fund as you wish as explained under the flexi-access drawdown section of this fact sheet.

For as long as you continue in capped drawdown from 6 April 2015 you may continue to contribute to your pension funds up to your normal Annual Allowance (which is £40,000 per annum in the current tax year).

As with flexi-access drawdown all capped drawdown benefit payments have tax deducted under PAYE. Please also bear in mind that any means-tested benefits may be affected when you receive any pension income.

### 3. Purchase an Annuity through exercising an Open Market Option

#### What is an Open Market Option (OMO)?

An 'Open Market Option' is the term used to describe the choice you have to buy an annuity from an insurance company that is not your current pension provider.

This option allows you to shop around to see whether another insurance company can provide you with a better annuity rate, and therefore, a higher retirement income, than is available from your current pension provider. This is important, as an annuity is a product that once bought cannot normally be changed.

The Open Market Option is available to all SIPP Clients, although it is not a requirement to purchase an annuity under it.

#### When can I buy an annuity or take income?

You can buy an annuity, or take income, from your own pension provider, where they offer annuities, or by using the Open Market Option, at any time from age 55. There is no upper age limit for purchasing an annuity.

You are entitled to use all or part of your fund to buy an annuity, allowing you to phase in your retirement.

The older you are, the more annuity you can buy for your money. However, annuity purchase rates can change all the time, up and down, and if you leave it until the last moment, you will have to buy at whatever annuity rates are available at that time, good or bad. Please note that any delay in making a decision may affect the annuity rate you are offered.

#### What options do I have when I decide to buy an annuity?

There are a wide range of different annuity options available and the choices you make and the type of annuity you select will affect the amount of income you receive.

As you will not normally be able to change the type of annuity you buy, you will not only need to look at your circumstances at the time you choose to buy an annuity, but think about what income you or your financial dependants may need in the future and whether your pension is your main source of income.

- Level annuity – with income remaining level year after year.
- Escalating annuity – with income rising each year, either at a fixed rate or in line with inflation.
- Joint Annuity if you have a partner – with income paid for your lifetime and to a partner if they survive after your death.
- Guaranteed Annuity – guaranteed for a specific number of years, so that if you die before the guaranteed period is up, your partner or estate will continue to receive the income.
- Investment Linked Annuity – offers the chance to have a higher income than a level or escalating annuity, but linking to the value of the annuity investments so income could go down as well as up.

There are a number of other decisions you must make regarding your annuity and you should consider these carefully at the time of purchase.

There are also other types of annuity that may be available to you depending on your lifestyle or state of health, for example, an enhanced annuity or an impaired life annuity.

If you require this document in an alternative format please contact us.

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#### How is an annuity worked out?

There are a number of factors that will affect the income you get from an annuity, for example:

- The value of your pension fund(s).
- The amount of pension commencement lump sum you choose to take.
- The annuity rate offered by the insurance company – this rate can vary between different companies.
- The type of annuity you choose to buy, for example single or joint, level or increasing income payments.
- Your age and health.

#### Should I shop around for an annuity?

Yes. As Wealthtime is not an annuity provider, should you wish to purchase an annuity, you will need to shop around for an annuity. Different insurance companies offer different annuity rates and different types of annuity products and you should shop around to get the best deal, and consequently a higher rate of pension income.

#### How do I shop around for the best deal?

Wealthtime can give you an estimate of the value of your SIPP, which can be used to purchase an annuity using the Open Market Option. You will then be able to ask insurance companies to provide you with a quote for the type of annuity you have chosen. Most quotes will be fixed for a number of days, normally up to 28 days.

You will need to speak to a Financial Adviser to find out which type of annuity suits your needs and the finance pages of newspapers and financial pages on the internet will also give you more details.

#### Do I have to pay tax on the income from an annuity?

Yes, the income you receive will be taxed under PAYE.