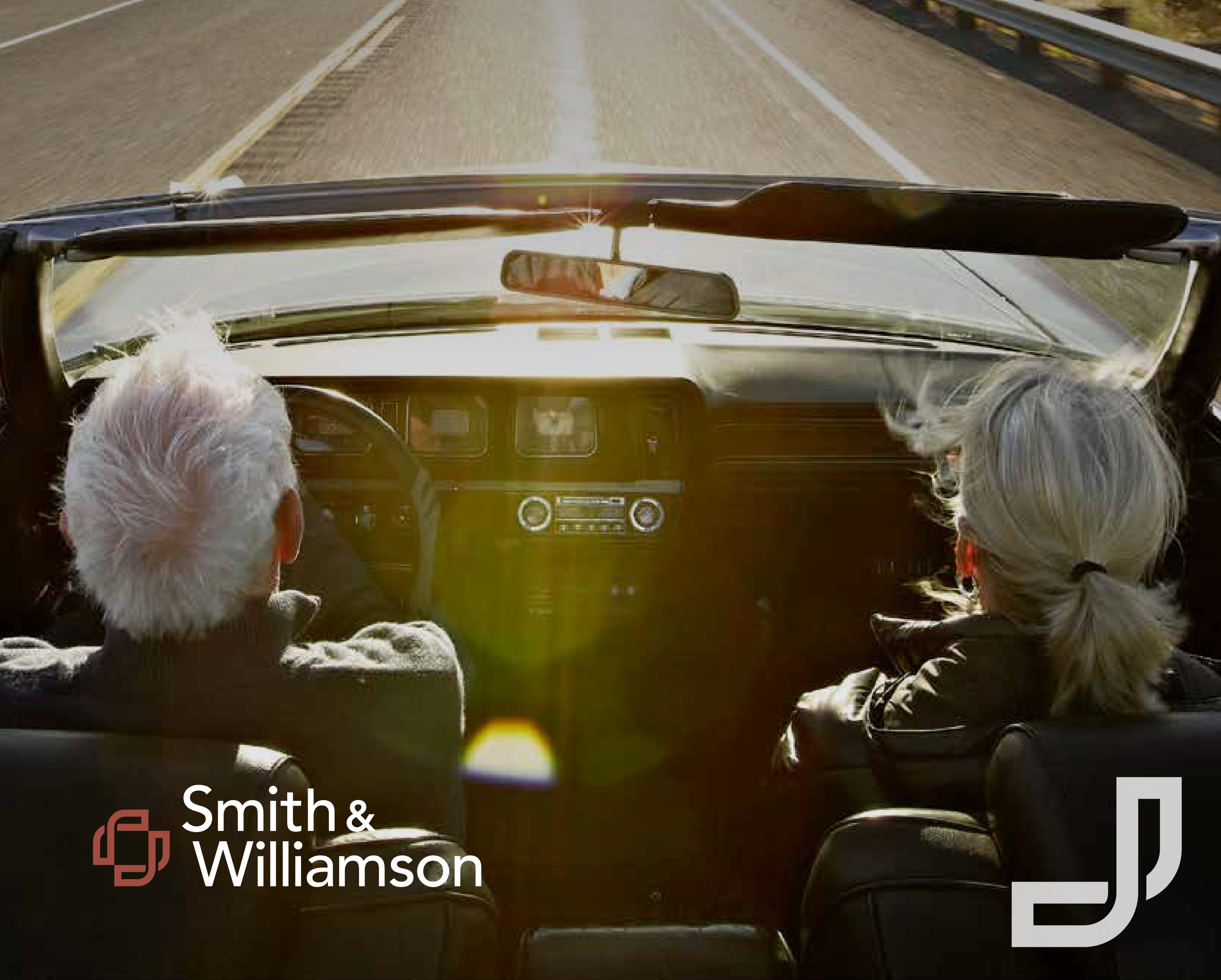
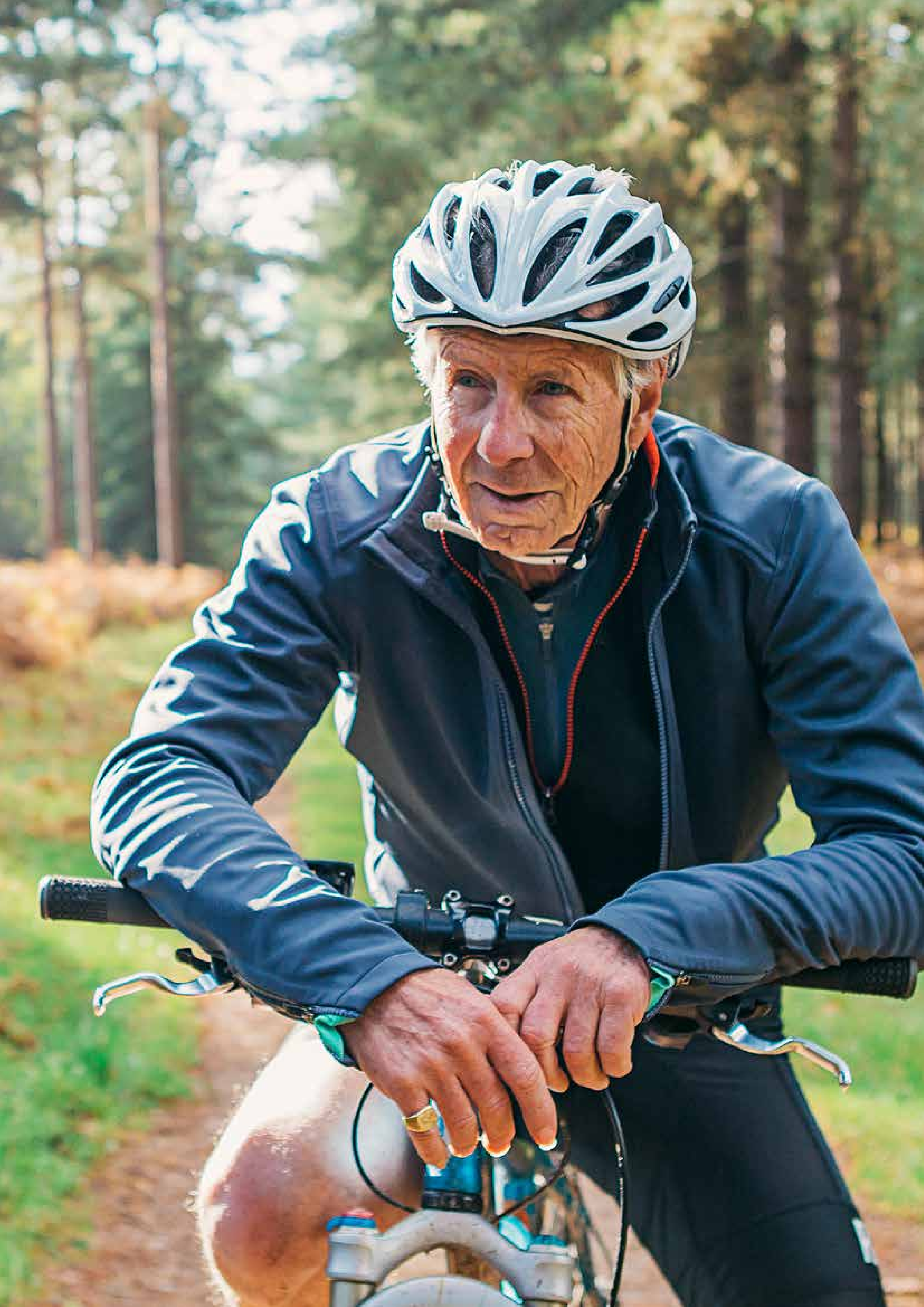
Your pension options at retirement

Your choices explained

Please read the important information



Smith & Williamson



Designing an income that suits you

Everyone has different retirement plans and financial circumstances. There is no one-size-fits-all approach to taking an income when you retire.

Questions to consider

Before choosing how to take an income from your pension, there are several important questions to consider:

- Do you need a guaranteed income?
- Would you like the freedom to change the amount of income you take over your retirement?
- Do you want your income to increase over your retirement?
- Are you happy to leave your pension invested over your retirement (with the risk that it could fall in value)?
- Do you want to manage your Income Tax bill by controlling how much income you take?
- Will your partner need an income after your death?
- Do you want to pass your pension on to your beneficiaries after your death?

The available choices

There are four different options for taking an income when you retire:

- **Lump sum withdrawals** — where you take ad hoc sums of money as and when you need to
- **Annuities** — where you use all or part of your pension to buy a fixed income
- **Income drawdown** — which allows you to take a variable income from your pension
- **Leave your pension invested** — and take an income from other sources, such as your investment portfolio

Combining the different options

For many people, the best outcome is to take a combination of the different options. For example, you might take a lump sum at the beginning of retirement to pay off your remaining mortgage.

You could then use part of your pension to buy an annuity for a guaranteed income. This could be added to your State Pension payments to cover regular living expenses.

The remainder of your pension can stay invested and be taken through income drawdown or lump sum withdrawals. The money could be used for hobbies, holidays or other spending.

Lump sum withdrawals

You are able to take as many lump sum withdrawals from your pension as you like from age 55. You can take 25% of your pension as tax-free cash with the remainder taxed as regular income.

Unlimited lump sum withdrawals

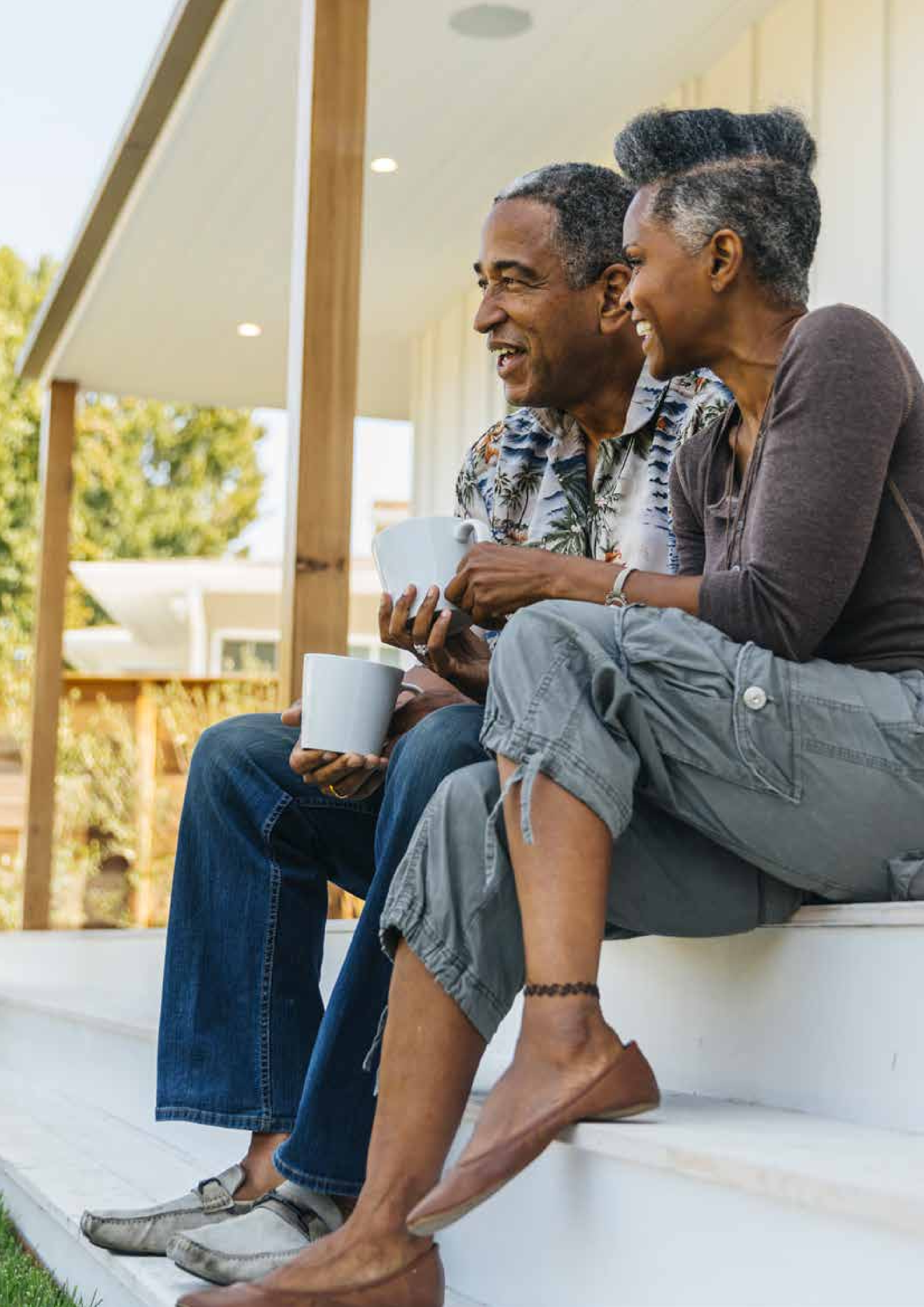
You are able to take unlimited lump sums from your pension. Ex-Pensions Minister Steve Webb famously hinted at the possibility of withdrawing your entire pension to buy a Lamborghini. The money is yours to spend as you like, but remember that your pension is designed to provide an income for your whole retirement.

25% tax-free cash

You can take 25% of your pension as a tax-free lump sum. Many people use their tax-free cash to settle their mortgage, pay for a child's house deposit or simply enjoy a well-earned holiday. You are free to take the whole amount in one withdrawal, or you can split it into several smaller lump sums over a number of years.

Are you thinking of making lump sum withdrawals?

If you are planning to take a lump sum in excess of your 25% tax-free cash, you could benefit from speaking to an expert first. Our financial planners can show you how much you can afford to withdraw and how your withdrawals may affect your Income Tax bill.



Annuities

Annuities pay a fixed income that usually lasts for your whole life. They have become less popular in recent years, but remain a good option for those who would like the security of guaranteed income.

A secure retirement income

When you buy an annuity, you exchange all or part of your pension for a fixed income. Annuities are often used to cover regular living expenses, such as food and utilities. Falling interest rates mean they are less popular now than they once were. However, their guaranteed payments can form the backbone of a secure retirement income.

The different types of annuity

There are different types of annuity available, each with their own features and benefits. They include:

- Conventional annuities — which pay a fixed income that is agreed from the outset
- Enhanced annuities — where your health and lifestyle choices influence the amount of income you receive
- Variable annuities — where your income is based on the performance of selected investment funds

Extra features

Annuity providers offer extra features that will affect the level of income you are paid. Popular examples include a guarantee period, where your income is guaranteed for a minimum period of time, or a joint-life contract that pays an income to your spouse after you die.

Income drawdown

Income drawdown lets you take an income directly from your pension. You have the freedom to choose how much income to take and when to take it.

More control over your income

With income drawdown you choose when and how much income to take from your pension. This allows you to:

- Increase or decrease your income in line with any changes to your lifestyle
- Plan your withdrawals around your other sources of income
- Carefully manage your Income Tax bill

Your pension remains invested

With income drawdown your pension stays invested while you take an income from it. This means it has the potential to carry on growing throughout your retirement, but it can also fall in value. If you choose income drawdown it is important to review your pension investments throughout your retirement (or have an expert do it for you).

How much can you afford to withdraw?

Many people enjoy the freedom of taking income from their pensions as and when they please. However, too many early withdrawals can mean a shortfall in later life. It may be helpful to speak to a financial planner to find out how much you can afford to withdraw from your pension – or how long your pension will last.

Leaving your pension invested

There is no requirement to access your pension when you retire. Some people leave their pension invested while they continue working part time or take an income from other sources.

Keep making pension contributions

You can receive tax relief on pension contributions up to age 75. It is possible to continue paying into your pension when you retire, but you may have a lower annual allowance.

Take an income from other sources

You do not have to use your pension to take an income in retirement. Alternative options include income-paying investments such as bonds, property and dividends. You could also take an income by gradually selling a portfolio of investments.

The State Pension

The State Pension can provide an income once you reach state retirement age. The level of income you receive depends on the amount of National Insurance contributions you make over your working life.

Tax-free income from your ISAs

Savings and investments held within ISAs are free from Income Tax and Capital Gains Tax. They can be used to provide a tax-free income after you retire. See page 9 for more information on managing your tax bill in retirement.

Make retirement less taxing

It's important to make sure that your retirement planning doesn't just suit your income needs, but your tax situation too. You can make your retirement as tax-efficient as possible by considering all of your pensions, investments and tax allowances together. In fact, with some careful planning you could pay no Income Tax at all.

Your 25% tax-free lump sum

You can withdraw up to 25% of your pension as tax-free cash. You can take the money as a single withdrawal or split it up into smaller amounts.

Your personal allowance

Everyone has a personal Income Tax allowance – £12,500 for most people in 2020/21. You can potentially take this much income from your pension without paying any tax, but of course your other sources of income may also be counted against this allowance.

Individual Savings Accounts

Many people have saved into ISAs (Individual Savings Accounts) over their working lives. ISA portfolios can be used to generate a substantial tax-free income in retirement.

Capital gains allowance

You could boost your income by selling other investments held outside an ISA. You won't pay tax on these if your realised gains are within your annual Capital Gains Tax allowance – currently £12,300.

Dividend allowance

With this allowance, your first £2,000 of income from dividends is paid tax-free.

Personal Savings Allowance

Basic-rate taxpayers can receive up to £1,000 of interest from savings without paying any Income Tax. The allowance reduces to £500 for higher-rate taxpayers and does not apply for additional-rate taxpayers.

Investment Bonds

You can withdraw up to 5% of your total payments into a bond each year without any immediate tax to pay. This applies until your initial investment has been fully withdrawn.

Tax-led investments

Specialist investments such as Venture Capital Trusts can also provide tax-free income. These are generally only suitable for investors with a high risk appetite and who have a sizeable portfolio of other investments.

Passing on your pension

Until recently there was tax to pay if you left your pension to your beneficiaries when you died. This has now changed, and pensions have become a more popular option for passing on an inheritance.

How are pensions taxed upon death?

The amount of tax your beneficiaries will pay on your pension depends on how you have taken your money:

Cashing in your pension

Any cash taken from your pension forms part of your estate on death – if you haven't spent it all, the remainder could be subject to Inheritance Tax.

Income drawdown

Any savings left in your pension will pass to your beneficiaries tax-free if you die before age 75. If you die after your 75th birthday, they will pay Income Tax on any withdrawals at their marginal rate.

Annuities

Usually there are no more income payments from an annuity after you die, unless you choose a guaranteed payment period or a joint-life annuity.

Small cash withdrawals

If you have taken an income through small lump sum withdrawals, any money left in the pension will be passed on with the same tax rules as for income drawdown.

Contact us

For further details on how we can help, please contact us.

London

25 Moorgate
London EC2R 6AY

t: 020 7131 4000
f: 020 7131 4001

Belfast

The Linenhall
32-38 Linenhall Street
Belfast BT2 8BG

t: +44 (0)28 9072 3000
f: +44 (0)28 9072 3001

Birmingham

9 Colmore Row
Birmingham B3 2BJ

t: 0121 710 5200
f: 0121 710 5201

Bristol

Portwall Place
Portwall Lane
Bristol BS1 6NA

t: 0117 376 2000
f: 0117 376 2001

Dublin

Paramount Court
Corrig Road
Sandyford Business Park
Dublin D18 R9C7
Ireland

t: +353 1 495 9200
f: +353 1 495 9201

Alexandra House, Ballsbridge
Park, Ballsbridge, D04 C7H2

t: +353 1 500 6500
f: +353 1 500 6501

Glasgow

206 St Vincent Street
Glasgow G2 5SG

t: 0141 222 1100
f: 0141 222 1101

Guildford

Onslow House
Onslow Street
Guildford, GU1 4TL

t: 01483 407100
f: 01483 407101

Jersey

3rd Floor
Weighbridge House
Liberation Square
St. Helier
Jersey JE2 3NA

t: +44 (0)1534 716 850
f: +44 (0)1534 716 851

Salisbury

Old Library Chambers
21 Chipper Lane
Salisbury
Wiltshire SP1 1BG

t: 01722 431 000
f: 01722 431 001

Southampton

4th Floor Cumberland House
15-17 Cumberland Place
Southampton SO15 2BG

t: 023 8082 7600
f: 023 8082 7601

Subscribe to receive the latest Smith & Williamson insights, events and publications here: www.smithandwilliamson.com/subscribe

Important information

Past performance is not a guide to future performance. Wy necessity, this briefing can only provide a short overview and it is essential to seek professional advice before applying the contents of this article. This briefing does not constitute advice nor a recommendation relating to the acquisition or disposal of investments. No responsibility can be taken for any loss arising from action taken or refrained from on the basis of this publication.

Tax legislation is that prevailing at the time, is subject to change without notice and depends on individual circumstances. Clients should always seek appropriate tax advice before making decisions. HMRC Tax Year 2021/22.

Smith & Williamson LLP Regulated by the Institute of Chartered Accountants in England and Wales for a range of investment business activities. **Smith & Williamson Financial Services Limited** Authorised and regulated by the Financial Conduct Authority. Registered in England No. 3133226. FRN: 180563. 52121lw exp: 5/4/22