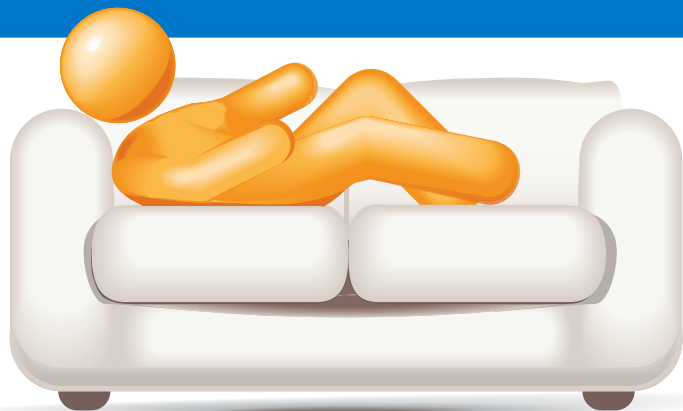


Securing your retirement income: what you can do and need to know



Deciding how to secure the income you need for the rest of your life is one of the biggest decisions you will ever have to make. Once you have made your decision it may well be impractical to revise your choices.

While the “pension freedom” changes that came into effect in April 2015 are, on the whole, for the better, they make drawing your pension more complicated and wrong decisions could have costly and far-reaching consequences.

Who is affected?

You can take advantage of pension freedom when you reach the age of 55 if you have a defined contribution pension (whether from previous or current employers), pay additional voluntary contributions (AVCs) or have a personal pension.

If your Teachers’ or Local Government scheme is your only pension scheme and you don’t have additional pension savings, for instance a personal pension, pensions from previous employers or additional voluntary contributions (AVCs) you are unlikely to be affected.

What can you do with your additional pension?

Exchange it for an income for life

In other words buy an annuity. However, once you have done this you generally can’t change your mind and you no longer own your pension fund. Also, you need to think about whether the income you get will keep pace with inflation – while it may cover your expenditure now, can you be sure it will do so in 10 or even 20 years’ time? However, this might be an option if your Teachers’ or Local Government pension doesn’t cover your regular expenditure when you retire.

Take all the money out

Only the first 25% of the money you take out is tax-free and if you take out more

you could end up paying a lot of income tax and possibly moving to a higher rate tax band. You need to plan carefully to minimise the tax implications when you take income or capital from your pension. And clearly, the more you take out, the less you have for future needs.

Leave all the money in

You could do this if you have enough income from other sources, for instance your Teachers’ or Local Government pension, and you want to leave your pension fund to your loved ones.

A combination of the three options above

You could use part of your fund to secure any additional income you need and then draw the rest as income or capital as and when you need it or want to treat yourself. This may suit you if your Teachers’ Pension provides you with enough income to cover your regular expenditure.

What you need to think about:

- Is the amount of income you need (and want) likely to increase or decrease at any time?
- Do you want your spouse or other dependants to receive income if you die before them?
- How healthy are you?
- Do you have income from other sources, or other assets?
- What will happen to your pension fund when you die?
- How much tax you will pay whatever you decide.
- Might you run out of money? If you did, would your state pension give you enough income?

Four things you may not know about accessing additional pensions:

1. Some traditional pension schemes may not allow you to benefit from the new rules.
2. You don’t have to take the 25% tax-free cash as a single lump sum. You can spread it across withdrawals as you wish, up to the 25% limit.
3. Any money you withdraw over and above your 25% tax-free amount could result in you having to pay more tax than you expect. Make sure you understand the tax implications before taking action.
4. Your pension pot can be taken into account when calculating means-tested income-related state benefits, depending on your age and other criteria.

Beware the upper limit

The lifetime allowance is the maximum amount you can hold in pension funds when you start taking money, is currently £1 million. It is the total value of all your pension pots, including the value of your Teachers’ or Local Government pension. A million pounds might sound a lot. However, if you are in your 40s and your pension fund is worth £350,000 or more you could find that you have more than a million pounds in their fund when you access your pension if you continue contributing at the same rate.

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Your pension is measured against the lifetime allowance when you start drawing it. To work out whether you are likely to be affected, multiply the annual income you will get from your Teachers' or Local Government pension by 20, and add to this the value of any retirement lump sum and AVCs or other pensions.

If your Teachers' or Local Government pension exceeds the allowance, the scheme pays the excess charge and reduces the excess portion of your pension by 25%. The rules are different if you take your pension because of ill health. If it is below the lifetime allowance but other pension savings push you over it, you will have to pay the excess charge yourself.

If your total pension fund was worth more than £1m at 5 April 2016 you may be able to protect some or all of the excess.

Passing it on

You are now able to pass on your additional pension fund when you die, irrespective of whether or not you have started taking your pension, to any beneficiary you nominate. Pension funds generally fall outside your estate for inheritance tax purposes. However, your

beneficiaries may have to pay income tax on the funds they inherit.

If you die before turning 75, your beneficiaries won't have to pay tax if the money is paid to them within two years of your death. If you die after turning 75, your beneficiaries will pay income tax at their highest marginal rate, unless the entire fund is withdrawn as a lump sum, in which case they will pay 45% tax (tax year 2017/18).

You therefore need to think about whether you should take income or lump sums from other assets before touching your pension, as this may be more tax-efficient. Also, pension funds are not taken in to account when calculating payment for long-term care. These changes also apply to annuities bought on or after 6 April 2015. If you have a joint life, guaranteed term or value-protected annuity and you die before turning 75, your beneficiaries will be able to receive payments tax-free. If you die after turning 75, they will pay income tax at their marginal rate.

Guidance... and advice

The government is offering free guidance to help you understand your options.

However, they are unlikely to have specialist knowledge about Teachers' or Local Government pensions and won't provide you with comprehensive advice that takes into account your particular situation and needs. For advice and recommendations specific to you, you need to talk to a professional financial adviser, such as Lighthouse Financial Advice, who has detailed knowledge of pensions, including The Teachers' and Local Government schemes.

Call 08000 85 85 90 or email appointments@lighthousefa.co.uk to book an appointment with one of our professional financial advisers.

The value of your investments can go down as well as up, so you could get back less than you invested. A pension is a long-term investment. The fund value may fluctuate and can go down. Your eventual income may depend upon the size of the fund at retirement, future interest rates and tax legislation. The Financial Conduct Authority does not regulate tax advice which does not contain an investment element.

Five steps to secure your income in retirement

1: Understand the basics

People estimate that living reasonably comfortably in retirement requires around 60% of the income they had while they were working. You are likely to get a tax-free lump sum from your Teachers' or Local Government pension and can take up to 25% of your additional pension pot tax-free. Any additional money taken from your pensions is added to any other income, eg. paid work, taxable income from savings and your State Pension, and you are taxed on your total income.

2: Compare your options

As we explained on page 1, you have four options for drawing your income from your additional pension. You don't have to choose a single option – you can mix and match to suit your needs:

- a guaranteed income for life: an annuity
- flexible access: flexible drawdown or partial encashment.
- take it all in cash
- leave it for now.

3: Find out what your income could be

Find out how much your Teachers' or Local Government pension and

each of the above options could give you and how much tax you will pay when taking all or some of your money out. If you have the information about your pensions, you can use one of the many online calculators to work this out, or ask a professional financial adviser.

4: Important things to consider

Don't rush into anything – there are lots of things to think about. You need to understand the features and constraints of your pension plan and what they could mean for you. It is advisable to compare

products and providers to ensure you get the best result.

You also need to be sure you understand how much tax you'll be paying on any income or money you take. You should take professional financial advice specifically for you – it could cost less than you think and mean you get a higher retirement income.

5: Choose your income

Choosing a suitable way of taking is a big decision that will affect the rest of your life. You need to be confident that you are making the right choice.