



Your pension: it's time to choose



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Pension Wise

Free, impartial guidance – backed by government

Pension Wise is a free and impartial service backed by government that helps you understand what your choices are for using your pension pot and how they work.
pensionwise.gov.uk

Change to Money Purchase Annual Allowance

At the time the original version of *Your pension: it's time to choose* went to print it was expected that the **Money Purchase Annual Allowance (MPAA)** would be reduced from £10,000 a year to £4,000 a year with effect from 6 April 2017. However, this proposal was withdrawn from the Finance Bill and suspended until after the General Election.

On 13 July 2017, the Government issued a statement confirming that it expects to introduce a Finance Bill after the summer recess which will contain the previously withdrawn provisions (including the reduction to the MPAA). It also confirmed that the reduction will be backdated to the start of the 2017-18 tax year.

Our understanding of this statement is that the proposed reduction of the MPAA to £4,000 with effect from 6 April 2017 will be included in the next Finance Bill and provided there are no further amendments, the proposal will become law once the Bill receives Royal Assent.

Therefore for those people affected by the MPAA we suggest that the £4,000 limit is not exceeded during the 2017-18 tax year.

 For the **latest update** go to:
moneyadvice.service.org.uk/change-to-MPAA

What is the MPAA?

You can normally get tax relief on pension contributions of up to £40,000 a year or 100% of your taxable salary. This is known as your Annual Allowance. However, if you start to take money from a defined contribution pension, the amount you can pay into a pension and still get tax relief reduces. This is known as the Money Purchase Annual Allowance or MPAA.

As a basic guide, the main situations when you'll trigger the MPAA are:

- If you take your entire pension pot as a lump sum or start to take ad-hoc lump sums from your pension pot
- If you put your pension pot money into a flexi-access drawdown scheme and start to take an income
- If you buy an investment-linked or flexible annuity where your income could go down
- If you have a pre-April 2015 capped drawdown plan and start to take payments that exceed the cap

The MPAA won't normally be triggered if:

- You take a tax-free cash lump sum and buy a lifetime annuity that provides a guaranteed income for life that either stays level or increases
- You take a tax-free cash lump sum and put your pension pot into a flexi-access drawdown scheme but don't take any income from it
- You cash in small pension pots valued at less than £10,000

The MPAA only applies to contributions to defined contribution pensions and not defined benefit pension schemes.

The MPAA was £10,000 in the 2016-2017 tax year and is proposed as £4,000 for the 2017-2018 tax year.

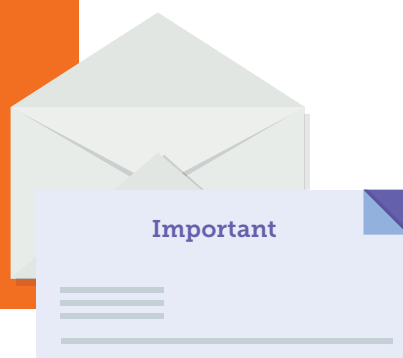
Here to help you

This guide is for you if you are planning to access a pension pot built up from contributions into a personal or workplace pension

It sets out your options for using your pot(s) for retirement income and the benefits and any potential risks of the different choices.

It also tells you about key actions you need to take as you approach retirement, or when you plan to access your pot, and how to access free guidance from Pension Wise – an impartial service backed by government that will help you weigh up your options for taking your pension.

This guide doesn't cover pension schemes where the pension you'll be getting is worked out as a proportion of your pay. These are known as defined benefit pensions or 'final salary' or 'career average' schemes. Speak to your pension scheme administrator or your employer to find out more.



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Getting started – your retirement options

Changes introduced from April 2015 give you freedom over how you can access your pension savings if you're 55 or over and have a pension based on how much has been paid into your pot (such as a defined contribution, money purchase or cash balance scheme).

With so many of us living longer, retirement is no longer the cliff edge it once was. Whether you plan to retire fully, cut back your hours gradually or carry on working for longer, you can now tailor when and how you use your pension savings – and when you stop saving – to fit with your particular retirement journey.

However, with greater freedom comes greater responsibility – to make sure you have enough to live on throughout your retirement, and that you can provide for any dependants after you die.

With many people living for 30 years or more after retiring, understanding the choices you have for accessing your pension pot – and careful planning based on your financial and personal circumstances – is essential to making the most of the new flexibility and avoiding costly mistakes, large tax bills or running out of money.

You'll need to look at how much money you have now, any loans or debts, and what income you'll need to support the lifestyle you want in retirement, including meeting unexpected costs as you grow older, such as long-term care costs.

You'll also need to consider how your choices will affect your tax and your entitlement to State benefits – both now and in the future. For example, your choice of retirement income may affect how your local authority assesses what you can afford to pay for long-term care should you need it.

Your health and life expectancy – and that of any partner or dependants – will also influence which choices are best for you.

This guide explains why these factors matter and will help you think them through. It will also help prepare you for a free Pension Wise appointment – available from age 50 and explained on page 6.

Don't be tempted to rush into making a decision – take the time to understand your options then get help.

Remember, what you decide now will affect your retirement income for the rest of your life.

Approaching retirement checklist

This checklist also applies if you're thinking of taking some of your pension pot early or retiring early (in which case read 'your retirement date' as 'the date you plan to access your pension pot').

Four to six months before your retirement date*

Whether you're thinking of retiring fully, gradually or even if you are delaying retirement, it's important to check your pension paperwork.

In particular you need to know about any rules, restrictions, guarantees, or charges that may affect when you can start taking your pension or your choices when deciding how to use your pension pot.

If you have more than one pension pot, now's the time to track them all down. It may make sense to combine them to get a better deal when you come to decide on which type of retirement income product(s) you want. Or you may find some have guarantees that you won't get elsewhere and it's better to leave them where they are. Either way, track them down and find out what each one can offer you.

*If you're in a workplace pension your retirement date is normally determined by the scheme's rules. If you have a personal pension it will be the date you chose when setting it up.

How to trace a lost pension

If you've lost track of a pension, The Pension Tracing Service is a free service that can help you find the address of your old pension provider online, over the phone or by writing to them. Find out more at [gov.uk/find-pension-contact-details](https://www.gov.uk/find-pension-contact-details). See *Useful contacts* on page 40.

What you need to do now:

- Read this guide.
- Check your retirement date and pension pot(s) size – found on your pension statements.
- Read all of the information sent by your pension scheme or provider – including the options they can offer you for taking your pension. Ask them to explain anything you don't understand.



- ✔ Check key dates – if you want to change your retirement date, ask your pension scheme or provider whether this is possible and ask what charges apply and if there are any deadlines for notifying them.
- ✔ Check whether your pension scheme guarantees to pay a certain level of income – called a guaranteed annuity rate or minimum income guarantee. If it does, this is likely to guarantee a highly competitive retirement income that will pay out until you die and you should think very carefully before giving this up. This is something you will want to discuss at your Pension Wise appointment or with a financial adviser. We explain guaranteed income products on page 12.
- ✔ Check whether there are any other conditions, special features, guarantees or charges that might affect when and how you take your pension or will apply if you transfer it to another scheme or provider.
- ✔ Visit the Money Advice Service retirement income options tool moneyadvice.service.org.uk/retirement-income-options to get a high level understanding of your choices for using your pension pot.
- ✔ If your pension scheme offers you options not covered by this guide (such as an income payable directly from your scheme) then you might want to discuss these with a financial adviser.

Other information to start gathering together

You'll need to find out how much State Pension you expect to receive – go to gov.uk/state-pension-statement. See *Useful contacts* on page 41.

You also need to gather together information about any pension based on your salary to which you are entitled, a summary of any other income or State benefits you receive and of any savings, loans or debts you have.

Getting guidance or financial advice

Before making any final decision book a free Pension Wise appointment to help you understand your options, and ideally follow this up by speaking to a regulated financial adviser who will be able to recommend which option is best for you based on your needs and circumstances.

To find out more about Pension Wise see page 6. You can book an appointment from age 50, whatever your planned retirement date.

See page 29 to find out about getting financial advice, including new tax breaks available to help you pay for it.

Beware of scams

As you approach retirement, beware of firms claiming to be approved government advisers or trying to persuade you to take money out of your pension early. Find out how to recognise and report pension scams on page 31.

Pension Wise

Pension Wise is a free and impartial government service that helps you understand what you can do with your pension pot money.

It offers free guidance appointments over the telephone and/or face-to-face to help you understand your options and support you in making the right decision. Whatever your planned retirement date, you can book an appointment if you are aged 50 or over.

It also provides information on the Pension Wise website at **pensionwise.gov.uk** about your options for taking your pension pot, including understanding the tax implications of the different choices.

Pension Wise provides guidance on defined contribution pensions. It does not provide guidance on defined benefit pensions, which include 'final salary' and 'career average' pension schemes.

Pension Wise can help you:

- understand the right things to think about when considering your choices, such as your plans to continue working, your personal and financial circumstances, and leaving money after you die.
- understand the different options for accessing your pension pot(s), and the potential advantages and disadvantages of each.
- understand the tax implications of each choice.

Top Tip

➔ No matter how small your pension pot, we encourage you to take advantage of Pension Wise to help you understand what your choices are for using your pension pot.

The service is impartial and won't recommend companies or tell you how to use your pension pot or invest your money.

After taking guidance, we recommend that you shop around and consider getting financial advice when you need it. See *Shopping around and getting advice* on page 28.

How to get your free Pension Wise guidance

We recommend you visit the Pension Wise website at **pensionwise.gov.uk** to see what the service offers and to begin to understand your available options.

To book a telephone or face-to-face appointment visit the Pension Wise website or call **0800 138 3944**.

Preparing for your appointment

To make the most of a Pension Wise appointment it would be helpful to have:

- the value of your pension pot(s) and whether there are any guarantees or special features that apply to your pot – check your pension statement or ask your scheme or provider. If you have more than one pension pot, remember to gather information on all of them – see page 4 for how to contact The Pension Tracing Service who can help you locate the address of an old pension provider if you've lost track of a pension.
- an estimate of how much State Pension you may get – to get a State Pension statement go to **gov.uk/check-state-pension** See *Useful contacts* on page 41.
- notes on your financial circumstances, such as your salary and any relevant savings or debts, and the value of any State benefits you're currently receiving – this will help inform the context of your pension decision.

You will also be asked about any medical or health conditions that may affect your life expectancy and could result in your getting a better income in retirement.

After your appointment

Once Pension Wise has explained your available options, to help you make a decision we recommend you speak to a regulated financial adviser. If you are buying a retirement income product it's also crucial that you shop around and a financial adviser can help you do this.

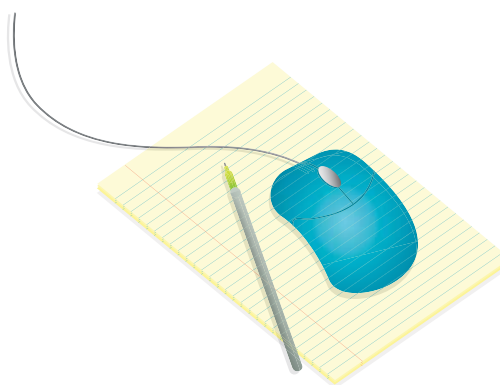
Financial advisers charge a fee but their expertise offers peace of mind and with regulated financial advice, you have protection should a product turn out to be unsuitable for you.

To find out more about shopping around and getting advice, see page 28

To find out about new tax breaks you can use to help pay for regulated financial advice see page 30.

If you are confident about which option and product is right for you, you could go direct to a product provider, but make sure you shop around thoroughly first. Don't just take the first product offered to you by your existing provider.

The Pension Wise website
pensionwise.gov.uk



Options for using your pension pot

You have the choice of accessing your pension pot through one of the options below, or a combination of them. Depending on your age and personal circumstances some or all of these options could be suitable for you.

Your main options are:

Keep your pension savings where they are – and take them later. See page 10.

Use your pension pot to get a guaranteed income for life – called a lifetime annuity. The income is taxable, but you can choose to take up to 25% (sometimes more with some policies) of your pot as a one-off tax-free lump sum at the outset. See page 12.

Use your pension pot to provide a flexible retirement income – Take the amount you are allowed to take as a tax-free lump sum (normally up to 25%) then use the rest to provide a regular taxable income. See page 17.

Take a number of lump sums – Usually the first 25% of each cash withdrawal from your pot will be tax-free. The rest will be taxed. See page 20.

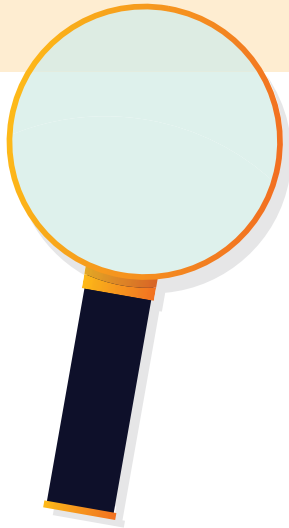
Take your pension pot in one go – Usually the first 25% will be tax-free and the rest is taxable. See page 23.

Mix your options – choose any combination of the above, using different parts of your pot or separate pots. See page 25.

You must have reached normal minimum pension age to access your pension pot – currently 55 (or earlier if you're in ill health or have a protected retirement age).

Key points

- Not all pension schemes and providers will offer every option and not all allow access at age 55.
- You may need to transfer to another scheme or provider to access your preferred retirement income option.
- Even if your scheme or provider does offer an option, be sure to shop around – see page 28.



Get free guidance and take financial advice

With freedom of choice comes responsibility. There's a lot to weigh up when working out which option or combination will provide you and any dependants with a reliable and tax-efficient income throughout your retirement.

For this reason we strongly recommend that you seek free Pension Wise guidance and then speak to a financial adviser before making a final decision. See pages 6 and 29 for more detail.

Your choices may affect your entitlement to State benefits – both now and in the future. Find out more about the effect of your pension income or savings on your entitlement to State benefits at **GOV.UK**.

Keep your pension savings where they are

You may be able to delay accessing your pension pot beyond the retirement age you agreed with your pension provider or your scheme's retirement age. Reaching age 55 is not a deadline to make a decision. If you avoid taking it early or even delay taking it, this will give your pension pot more chance to grow.

How it works

Your pot continues to grow tax-free until you need it – potentially providing more income once you start taking money out.

You (and your employer) can continue making contributions however there are restrictions on how much you can save each year and over a lifetime and still receive tax relief.

In most cases you can get tax relief on pension contributions, including any employer contributions, on the lower of 100% of your taxable earnings or up to £40,000 each year (2017-18 tax year) until age 75. However, if you are a high earner the limit on how much tax-free money you can build up in your pension in any one year depends on your 'adjusted income'. To find out more, see *Annual Allowance* on page 33, *Tapered Annual Allowance* on page 39.

If you don't pay Income Tax, you can still get tax relief on up to £3,600 of pension savings each year until age 75.

Things to think about

Be sure to check with your pension scheme or provider whether there are any restrictions or charges for changing your retirement date, and the process and deadline for telling them.

Ask whether there are any costs for leaving your pot where it is – some providers charge an administration fee for continuing to manage your pension.

Also check that you won't lose any valuable income guarantees – for example, a guaranteed annuity rate – if you delay your retirement date.

The money you have saved into your pension pot could continue to grow, but it could also go down in value, as with any investment. Remember to review where your pot is invested as you get closer to the time you want to retire and arrange to move it to less risky funds if necessary.

The longer you delay, the higher your potential retirement income, however bear in mind that this could affect your future tax – and your entitlement to State benefits. Find out more about the effect of your pension income or savings on your entitlement to State benefits at [GOV.UK](https://www.gov.uk).

The Lifetime Allowance (the most you and any employer can build up into a pension for you in your lifetime while still getting tax relief) remains at £1m for 2017-18. If this is likely to affect you, we recommend you get financial advice. See page 35 for more details.

If you want your pot to remain invested after the age of 75, you'll need to check that your pension scheme or provider will allow this. If not, you may need to transfer to another scheme or provider who will.

Not all pension schemes and providers will allow you to delay. If you want to delay but don't have this option, shop around and ideally, get financial advice before moving your pension. See page 28 for how to do this.

What happens when you die

When you die, any unused pension pots normally fall outside your estate for Inheritance Tax purposes and can be passed on to any nominated beneficiary. The Income Tax rules for accessing it are set out to the right. In both cases the money continues to grow tax-free while still invested.

If you die before age 75:

- Your pension pot will pass tax-free to your nominated beneficiary provided the money is paid within two years of notifying the provider of your death. If it is paid after two years, the money will be added to the beneficiary's other income and taxed at the appropriate rate.

If you die age 75 or over:

- When the money is taken out (lump sum or income) it will be added to the beneficiary's income and taxed at the appropriate Income Tax rate(s).
- However, if the beneficiary is not an individual but is, for example, a company or trust, any lump sum will be taxed at 45%.

Lifetime Allowance charges:

If the total value of all your pension savings when you die exceeds the Lifetime Allowance, (currently £1m for the 2017-18 tax year), further tax charges will be payable by the beneficiary. To find out more about the Lifetime Allowance see page 35.

There's no hurry to start taking your pension if you don't need to but check whether restrictions apply or if you'll lose benefits if you take it later.

Use your pension pot to get a guaranteed income for life

A **guaranteed income for life** – known as a **lifetime annuity** – provides you with a guarantee that the money will last as long as you live.

How it works

You can normally choose to take up to 25% (a quarter) of your pot as a one-off tax-free lump sum at the outset. Some older policies may allow for more than 25% to be taken tax free – check with your pension provider.

As a rule of thumb, the older you are when you take out a guaranteed lifetime income product, the higher the income you'll get.

You can choose to receive your income monthly, quarterly, half-yearly or yearly, depending on the scheme or provider. This type of income is taxable. See *Tax you will pay* on page 15.

What is included?

Guaranteed lifetime income products include:

- basic lifetime annuities
- investment-linked annuities

Before buying a guaranteed income for life it's important you choose the product type and features best suited to your personal circumstances, your life expectancy and your attitude to risk. Your choices can make a big difference to how much income you will get.

Basic lifetime annuities

Basic lifetime annuities offer a range of income options designed to match different personal circumstances.

You need to decide whether you want:

- one that provides a guaranteed income for you only and stops when you die – a **single life annuity**, or one that also provides an income for life for a dependant or other nominated beneficiary after you die – a **joint life annuity** (normally provides a lower regular income as it's designed to pay out for longer)
- payments to continue to a nominated beneficiary for a set number of years (for example 10 years) from the time the guaranteed income starts, in case you die unexpectedly early – called a **guarantee period**. For example, if you opt for a guarantee period of 10 years and die after two years, the payments to a nominated beneficiary would continue for eight years.
- payments fixed at the same amount throughout your life – a **level annuity**, or payments to be lower than a level annuity to start with but rise over time by set amounts – **an escalating annuity** – or in line with inflation – **an inflation-linked annuity**.

- **value protection** – less commonly used and likely to reduce the amount of income you receive, but designed to pay your nominated beneficiary the value of the pot used to buy the guaranteed lifetime income less income already paid out when you die.

You may be able to combine some of these options. Your choices affect how much income you can get.

Where you expect to live when you retire may also affect how much income you get.

If you smoke, are on medication or have a medical condition, you may be eligible for an 'enhanced' guaranteed income (also known as an '**enhanced**', '**impaired**', '**lifestyle**' or '**underwritten**' annuity). These tend to pay a higher income because they expect to pay out over a shorter time. So be sure to opt into health and lifestyle questions and answer them honestly.

Investment-linked annuities

If you're willing to take more risk in return for a potentially higher income you could opt for an income that rises and falls in line with the value of investments you choose when you purchase your product. This is known as an investment-linked annuity. With this type of annuity you could receive more over the longer term than with a basic annuity, but your income could also fall.

Many investment-linked annuities guarantee a minimum income if the fund's performance is weak.

With investment-linked annuities you can also have a dependant's pension, guarantee periods, value protection and higher rates if you have a short life expectancy due to poor health or lifestyle.

Some investment-linked annuities allow you to change your investment options or allow you to take lower payments later.

Key points

- ➔ You don't have to buy your existing provider's guaranteed income product – most people get a better retirement income from a different provider.
- ➔ Take your time and shop around.
- ➔ Make sure you check whether you could get a better income because of your health or lifestyle – called an 'enhanced annuity'.
- ➔ Ask if your provider offers a 'guaranteed annuity rate' – if they do it's likely to offer a highly competitive income, which you may not want to lose.

Things to think about

Once you've bought a guaranteed income product (a lifetime annuity) you have very little time to change your mind – and after that the decision is irreversible, so think carefully before you commit. However, they do provide a regular income for life, so there's no risk of your money running out.

If you're unsure about committing to a guaranteed lifetime income product now you could use another option to start with and buy a guaranteed product later when you're likely to get a higher income due to your age.

If you have a very limited life expectancy, a guaranteed lifetime income product may not be the right option for you.

If your provider offers you a basic lifetime annuity with a 'guaranteed annuity rate' this may be hard to match in the market – however shop around to check. See page 28.

Think carefully about whether you need to provide an income for your partner or another dependant on your death.

Consider whether you should take a product which provides an increasing income. Inflation (the general rise in price of goods and services over time) can significantly reduce your standard of living over time.

Investment-linked annuities offer the chance of a higher income – but only by taking extra risk. Your income could reduce if the fund doesn't perform as expected. If you're considering this option look at what your provider can offer then get financial advice. See page 29.

If you buy guaranteed income with money from a pension pot you've already used for another income option (e.g. to provide a flexible retirement income – see page 17), you can't take a further tax-free lump sum – even if you chose not to take a tax-free lump sum with the other option.

Not all pension schemes and providers offer guaranteed lifetime income products. Some may only offer one type, or offer to buy one on your behalf. Whatever the case, shop around before deciding who to go with – you're likely to get a better income than sticking with your current provider. See page 28.

Tax you will pay

You will have to pay tax on the income you receive, in the same way you pay tax on your salary. How much you pay depends on your total income and the Income Tax rate that applies to you. See page 39 for an example of how pension income is taxed.

Your provider will take tax off your income before you receive it - called PAYE (Pay As You Earn). Because they won't know your overall income they will use an emergency tax code to start with. This means you may pay too much tax initially and have to claim the money back – or you may owe more tax if you have other sources of income.

If the value of all of your pension savings is above £1m (2017-18 tax year) and these savings haven't already been assessed against the Lifetime Allowance, further tax charges may apply when you access your pension pot. See *Lifetime Allowance* on page 35.

Tax relief on future pension savings

After buying a guaranteed income product you can in most cases continue to get tax relief on pension savings of up to the Annual allowance of £40,000 (2017-18).

However, if you buy a lifetime annuity where the the income you receive could go down, such as an investment-linked annuity, the maximum future defined contribution pension savings that can be made in a year that qualifies for tax relief is limited to the lower of £4,000 (the Money Purchase Annual Allowance) or 100% of your taxable earnings. If you want to carry on saving into a pension this option may not be suitable.

See 'Change to MPAA' at the beginning of this guide.

State benefits

The income generated by your guaranteed income product could affect your entitlement to State benefits now or in later life. To find out how income or savings can affect State benefits go to **GOV.UK**.

To find out more about the different guaranteed income product types and features, including examples of how different choices affect your income see our online guides and tools at moneyadvice.service.org.uk/retirement.

What happens when you die

If you have a single life guaranteed income product and no other features, your pension stops when you die. Otherwise, the tax rules vary depending on your age as shown below.

If you die before age 75:

- Income from a **joint guaranteed income product** will be paid to your dependant or other nominated beneficiary tax-free for the rest of their life.
- If you die within a **guarantee period** the remaining payments will pass tax-free to your nominated beneficiary then stop when the guarantee period ends.
- Any lump sum payment due from a **value protected guaranteed lifetime income product** will be paid tax-free. It will also normally fall outside your estate for Inheritance Tax purposes.

If you die age 75 or over:

- Income from a **joint guaranteed income product** or a **continuing guarantee period** will be added to the beneficiary's overall income and taxed at the appropriate Income Tax rate. See page 39 for an example of how pension income is taxed.
- Joint payments will stop when your dependant or other beneficiary dies and any **guarantee period payments** stop when the guarantee period ends.
- Any lump sum due from a **value protected guaranteed income product** will be added to the beneficiary's overall income and taxed at the appropriate Income Tax rate.
- Lump sums due from a **value protected guaranteed income product** normally fall outside your estate for Inheritance Tax purposes.

Find a financial adviser

Use the Money Advice Service Retirement Adviser Directory at moneyadvice.service.org.uk/directory to find the right adviser for you.

All of the advisers listed will offer regulated financial advice specific to your needs and circumstances and can choose products from a wide range of providers. The Money Advice Service maintains the directory using information directly from the FCA so you can have peace of mind that you are always dealing with an authorised and regulated firm.

Use your pension pot to provide a flexible retirement income

You can move all or some of your pension pot into an investment specifically designed to provide an income for your retirement. The income normally isn't guaranteed but you have flexibility to make changes. This is sometimes called 'flexi-access drawdown'.

How it works

You can normally choose to take up to 25% (a quarter) of your pension pot as a tax-free lump sum. You then move the rest within six months into one or more funds (or other assets) that allow you to take income at times to suit you – e.g. monthly, quarterly, yearly or irregular withdrawals. Many people use it to take a regular income.

Once you've taken your tax-free lump sum, you can start taking the income right away, or wait until a later date.

The income is taxable. See *Tax you will pay* on page 18.

You choose to invest in funds (or other assets) that match your income objectives and attitude to risk and set the income you want, though this may be adjusted periodically depending on the performance of your investments.

You can also move your pension pot gradually into a flexible retirement

income product. In this case, each time you can take up to a quarter of the amount you move from your pot tax-free, then invest the rest.

To help provide more certainty, you can at any time use all or part of the money in your flexible retirement income scheme to buy a guaranteed income for life (an annuity) or other type of retirement income product. What's available in the market will vary at any given time so you'll need to discuss your options with a financial adviser. These products may use a variety of different structures to let you take a regular income – with guarantees about investment growth, income and/or how much you'll have left to convert into retirement income later on.

You won't be eligible for another tax-free lump sum if you later use your flexible retirement income funds to take out any other retirement income products.

We strongly recommend that you speak to a regulated financial adviser if you are choosing a flexible income product. A financial adviser will confirm whether it's suitable for you, help you choose the right funds and tailor a plan to fit your individual circumstances. See page 29 for more detail.

Things to think about

Unlike with a guaranteed income for life (a lifetime annuity), the retirement income you receive from a flexible retirement income product is not normally guaranteed to last as long as you live, so you should think carefully about how much you withdraw.

Deciding how much income you can afford to take needs careful planning – it depends on how much money you put in from your pension pot, the performance of the funds, what other sources of income you have, and whether you want to provide for a dependant or someone else after you die. It also depends on how long you will live – and many people underestimate this.

Your retirement income could fall or even run out if you take too much too soon and start eating into the money you originally invested to produce the income – especially if stock markets fall.

Investment choice is key – you will need to review where your money is invested regularly to ensure it continues to meet your long-term retirement income needs.

Investments can fall as well as rise – you'll need to know how you'll cope if your income suddenly drops. A financial adviser can help you plan for this.

To provide more security, you can at any stage use some or all of your flexible retirement income funds to buy a guaranteed income for a set term or for life (a fixed-term or lifetime annuity). A financial adviser will talk you through this.

Your provider will charge for managing your pension pot in this way and/or whenever you require a payment, or for annual or ad hoc reviews – this can reduce the size of your investments and your money may run out. Ask about fees beforehand.

Not all pension schemes and providers offer flexible retirement income products – if yours doesn't, you can transfer your pension pot to another provider who does but again there may be a fee to do so.

Different providers will offer different features and charging structures on their products – and the choice is likely to increase. So even if your own scheme or provider offers this option it's still worth shopping around and getting advice.

➔ You can use our online tool at moneyadvice.service.org.uk/drawdown-tool to find out which other providers offer flexible retirement income products; however, we recommend getting financial advice. Comparing these products is complicated. See page 28 for information on shopping around and getting financial advice.

Tax you will pay

You pay tax on the income withdrawals (outside the tax-free cash allowance). How much tax you pay depends on your total income and the Income Tax rate that applies to you. See page 39 for an example of how pension income is taxed.

Your provider will take tax off your income payments in advance – called PAYE (Pay As You Earn). Because they won't know your overall income they will use an emergency tax code to start with which means you may initially pay too much tax – and have to claim the money back – or you may owe more tax if you have other sources of income.

If you have other income, you'll need to plan carefully how much flexible retirement income to take, to avoid pushing yourself into a higher tax bracket.

If the value of all of your pension savings is above £1m (2017-18 tax year) and these savings haven't already been assessed against the Lifetime Allowance, further tax charges may apply when you access your pension pot. See *Lifetime Allowance* on page 35.

Tax relief on future pension savings

Once you have started to take any money from your flexible retirement income product, the maximum future defined contribution pension savings that can be made in a year that qualifies for tax relief is normally limited to the lower of £4,000 (the Money Purchase Annual Allowance – down from the usual £40,000 Annual Allowance in 2017-18) or 100% of your taxable earnings. If you want to carry on building up your pension pot, this may influence when you start taking your flexible retirement income.

See 'Change to MPAA' at the beginning of this guide.

The tax relief you get for future pension savings is not affected if you take the tax-free lump sum but no income.

State benefits

The income you receive – and in some cases the value of your remaining flexible retirement income funds and any untouched pension pot – could affect your entitlement to State benefits now or when you grow older. To find out how income or savings can affect State benefits, go to **GOV.UK**.

What happens when you die

Any remaining flexible retirement income funds when you die normally fall outside your estate for Inheritance Tax purposes. The Income Tax rules for beneficiaries are set out below.

If you die before age 75:

- Any untouched part of your pension pot will pass tax-free to your nominated beneficiary provided the money is paid within two years of notifying the provider of your death. If it is paid after two years the money will be added to the beneficiary's other income and taxed at the appropriate rate.

If you die age 75 or above:

- Anything remaining in your fund that you pass on – either as a lump sum or income – will be taxed at the beneficiary's appropriate Income Tax rate. See page 39 for an example of how pension income is taxed.

Take your pension pot as a number of lump sums

You can leave your money in your pension pot and take lump sums from it when you need it, until your money runs out or you choose another option.

How it works

You take cash from your pension pot as and when you need it and leave the rest invested where it can continue to grow tax-free.

For each cash withdrawal normally the first 25% (quarter) will be tax-free and the rest is taxable. See *Tax you will pay* on page 21.

There may be charges each time you make a cash withdrawal and/or limits on how many withdrawals you can make each year.

Unlike with the flexible retirement income option – see page 17 – your pot isn't re-invested into new funds specifically chosen to pay you a regular income.

Things to think about

This option won't provide a regular income for you, or for any dependant after you die.

Your pension pot reduces with each cash withdrawal. The earlier you start taking money out the greater the risk that your money could run out – or what's left won't grow sufficiently to generate the income you need to last you into old age. Remember – your pension pot needs to fund not just your immediate needs but also your expenses in the future.

The administration charges for each withdrawal could eat into your

remaining pot – check how much these are.

The value of your pot's investments could fall in value – further adding to the risk of running out of money. It's therefore especially important to review it regularly – and it may mean you need to move or reinvest your pot at a later date. This is likely to involve charges.

The money you leave in your pension pot will continue to be invested. Once you take it out, it will be added to your other income (State Pension, benefits, salary etc) and taxed. If you spread the money you take over a number of tax years, you may reduce your tax bill. See more under *Tax you will pay* on page 21 and the example of how pension income is taxed on page 39.

Remember, the buying power of cash reduces because of rising prices over time (inflation) – using cash sums to fund your long-term retirement isn't advisable.

If you plan to use cash withdrawals to make a one-off purchase or to pay down debts, you must also be sure that you have enough left to live on for the rest of your life.

➔ To find out where to get free debt advice use our Debt advice locator tool at moneyadvice.service.org.uk/debt

Not all pension providers or schemes offer the ability to withdraw your pension pot as a number of lump sums. Shop around if you want this option but can't get it with your current provider, as charges and restrictions will vary. We would also recommend getting financial advice. Find out how to shop around on page 28.

You may not be able to use this option if you have certain protections that relate to the Lifetime Allowance.

➔ You can find out more about these protections at moneyadvice.service.org.uk/lifetime-allowance

It's best to talk to your scheme provider if you have one or more of these protections and find out what your options are.

Tax you will pay

Usually three-quarters (75%) of each cash withdrawal counts as taxable income.

This could increase your tax rate when added to your other income. How much tax you pay depends on your total income and the Income Tax rate that applies to you. See page 39 for an example of how pension income is taxed.

Your pension scheme or provider will pay the cash and take off tax in advance – called PAYE (Pay As You Earn). Because they won't know your overall income they will use an emergency tax code to start with. This means you may pay too much tax and

Key points

- ➔ This option won't provide a regular retirement income for you or for any dependants after you die.
- ➔ The funds your existing pot is invested in could fall in value.
- ➔ Three-quarters (75%) of each cash sum withdrawn counts as taxable income – taking lots of large cash sums could increase your tax rate.

have to claim the money back – or you may owe more tax if you have other sources of income.

If the value of all of your pension savings is above £1m and these savings haven't already been assessed against the Lifetime Allowance (2017-18 tax year), further tax charges may apply when you access your pension pot. See *Lifetime Allowance* on page 35.

Once you reach age 75, if you have less remaining Lifetime Allowance available than the amount you want to withdraw, the amount you will get tax-free will be limited to 25% (a quarter) of your remaining Lifetime Allowance, rather than 25% of the amount you are taking out. See page 35 to find out about the Lifetime Allowance.

Tax relief on future pension savings

Once you have taken a lump sum, the maximum future defined contribution pension savings that can be made in a year that qualifies for tax relief is normally limited to the lower of £4,000 (the Money Purchase Annual Allowance – down from the £40,000 Annual Allowance for most people in 2017-18) or 100% of your taxable earnings. If you want to carry on saving into a pension, this option may not be suitable. **See 'Change to MPAA' at the beginning of this guide.**

To find out more see *Annual Allowance* on page 34 and *Money Purchase Annual Allowance* on page 36.

State benefits

Taking cash lump sums could reduce your entitlement to State benefits now or as you grow older. To find out how income or savings can affect State benefits, go to **GOV.UK**.

What happens when you die

When you die, any untouched part of your pension pot normally falls outside your estate for Inheritance Tax purposes. The Income Tax rules for beneficiaries are set out to the right.

If you die before age 75:

- Any untouched part of your pension pot will pass tax-free to your nominated beneficiary provided the money is paid within two years of notifying the provider of your death. If it is paid after two years the money will be added to the beneficiary's other income and taxed at the appropriate rate.

If you die age 75 or over:

- Any untouched part of your pension pot that you pass on - either as a lump sum or income - will be added to the beneficiary's overall income and taxed at the appropriate Income Tax rate. See page 39 for an example of how pension income is taxed.

Lifetime Allowance charges:

- If the value of all of your pension savings is above £1m when you die further tax charges may apply. See *Lifetime Allowance* on page 35.

To find out where to get free debt advice use our Debt advice locator tool at moneyadvice.service.org.uk/debt

Take your pension pot in one go

You no longer have to convert your pension pot into an income if you don't want to. You can take out all of your pension savings in one go if you wish.

How it works

You close your pension pot and withdraw it all as cash. Normally the first 25% (quarter) will be tax-free and the rest will be taxable. See *Tax you will pay* on page 24.

Things to think about

This option won't provide a regular income for you – or for your spouse, civil partner or any dependant after you die. Get guidance from Pension Wise and consider taking financial advice before you commit.

Whatever is left after you take your tax-free cash is taxable when it is drawn as income, so there's a strong chance your tax rate would go up when the money is added to your other income.

If you choose this option you can't change your mind – so you need to be certain that it's right for you. For many or most people it will be more tax efficient to consider one or more of the other options.

If you plan to use the cash to clear debts, buy a holiday, or indulge in a big-ticket item you need to think carefully before committing to this option. Doing so will reduce the money you will have to live on in retirement, and you could end up with a large tax bill.

If you have received a share of an ex-spouse or ex-civil partner's pension as a result of a divorce, you may not be able to take this option with that

pension pot. Check with your pension scheme or provider.

You may not be able to use this option if you have certain protections that relate to the Lifetime Allowance.

→ You can find out more about these protections at moneyadvice.service.org.uk/lifetime-allowance

It's best to talk to your scheme provider if you have one or more of these protections and find out what your options are.

There may be charges for cashing in your whole pot. Check with your scheme or provider.

Not all pension schemes and providers may offer this option, and to access your money you may first need to transfer to another scheme or provider who will. However, this is likely to incur charges and you may give up valuable benefits. We strongly suggest you speak to Pension Wise and take financial advice before considering this.

Tax tip

Taking your whole pot as cash could land you with a large tax bill – for most people it will be more tax efficient to use one of the other options. Get guidance or advice before you commit.

Tax you will pay

Normally the first 25% (quarter) will be tax-free and the rest will be treated as taxable income. (Although note that some older policies may allow you to take a higher amount tax free – check with your policy provider). How much tax you will pay depends on your total income and the Income Tax rate that applies to you.

There is a high risk that your tax rate will go up with this option as your total income for the year will be increased.

Your pension scheme or provider will pay the cash and take off tax in advance using PAYE (Pay As You Earn). Because they won't know your overall income they will use an emergency tax code to do this. This means you may pay too much tax and have to claim the money back – or you may owe more tax if you have other sources of income.

If the value of all of your pension savings is above £1m (2017-18) and these savings haven't already been assessed against the Lifetime Allowance, further tax charges may apply when you access your pension pot. See *Lifetime Allowance* on page 35.

Once you reach age 75, if you have less remaining Lifetime Allowance available than the amount you want to withdraw, the amount you will receive tax-free will be limited to 25% (a quarter) of your remaining Lifetime Allowance rather than 25% of the amount you are taking out.

See page 35 to find out about the Lifetime Allowance.

Tax relief on future pension savings

Once you have cashed in your pension pot, the maximum future defined contribution pension savings that can be made in a year that qualifies for tax relief is limited to the lower of £4,000 (the Money Purchase Annual Allowance - down from the usual £40,000 Annual Allowance which will apply for most people in 2017-18) or 100% of your taxable earnings.

See 'Change to MPAA' at the beginning of this guide.

However, the exception to this rule is that any number of defined benefit pension pots below £10,000 and/or a maximum of three personal pension pots below £10,000 can be cashed in without affecting the Annual Allowance.

State benefits

Taking a large cash sum could reduce any entitlement you have to State benefits now, or as you grow older – for example to help with long-term care needs. To find out how income or savings can affect State benefits go to **GOV.UK**.

What happens when you die

Whatever age you die, any money remaining or investments bought with cash taken out of your pension pot will count as part of your estate for Inheritance Tax. By contrast, any part of your pot that was untouched would not normally be liable.

Mix your options

You don't have to choose one option – you can mix and match as you like over time or over your total pension pot, whichever suits your needs. You can also keep saving into a pension if you wish, and get tax relief up to age 75.

How it works

Which option or combination is right for you will depend on:

- when you stop or reduce your work
- your income objectives and attitude to risk
- your age and health
- the size of your pension pot and other savings
- any pension or other savings of your spouse or partner, if relevant
- the possible effect on your entitlement to State benefits
- whether you have financial dependants
- whether your circumstances are likely to change in the future.

You'll be talked through all of the options at your free Pension Wise appointment. See page 6.

Not all pension schemes and providers will offer every option – but you still have the choice. See page 28 for how to shop around.

Allocating pots when mixing options

When mixing your options you might:

- use different parts of one pot for more than one option
- use separate pots for separate options
- combine smaller pots before choosing one particular option.

Not all providers will allow you to use your pot for more than one option – you may need to transfer to another provider in order to do so.

If you have several pots we recommend getting financial advice to work out how best to use them. An adviser will also tell you when it makes sense to combine pots. See page 29 for information on getting financial advice.

Examples

If you have one pot you could take 25% (a quarter) of your pension pot tax-free, use 50% (half) to buy a guaranteed income for life, and leave the remaining 25% in your pension pot to access on a flexible basis.

Or if you have more than one pot, you could buy a guaranteed income for life with one and receive a flexible retirement income from another.

Tax-free lump sums when mixing options

Note that depending on how you access money from your pension pot you may only get one chance to take your tax-free amount.

For example, if you transfer your whole pension pot to a flexi-access drawdown scheme and take no tax-free cash at the time you transfer, you can't go back and access a tax-free amount later.

However, if you only transferred part of your pot to a flexi-access drawdown scheme and left some of your original pension pot untouched, you could take up to 25% of the remaining money as tax-free cash.

What happens when you die

The same rules apply for passing on your remaining pension as already set out for each option.

Notes for chart opposite:

1. Applies to the amount of your pension pot you choose to use to buy this product. If you use all of your pot to buy the product and don't take any tax-free cash at the time, you can't go back and take it later. Note that with some older policies a higher rate of tax-free cash might be available.
2. If choosing the flexible retirement income option you can take income at times to suit you, although most people will use it to take a regular income.
3. But some providers may offer 'specialist' flexible retirement income products that also guarantee a minimum income for life.
4. The part you've not cashed in continues to grow tax-free and can be used to buy any retirement income product.
5. Your Annual Allowance is not affected unless you take out a lifetime annuity which could decrease (such as an investment-linked annuity), in which case your allowance reduces to £4,000 a year.
6. See *Money Purchase Annual Allowance* on page 36 for full details and **Change to MPAA** at the beginning of this guide.

Options at a glance

Remember – you can mix these options. Ask about this at your free Pension Wise appointment then shop around or get financial advice.

	Get a Guaranteed income for life (annuity)	Take a Flexible Retirement Income	Take a number of lump sums	Take whole pot in one go
How much tax-free cash can I get?	Usually up to 25% of pot ¹	Usually up to 25% of pot ¹	Usually 25% of each withdrawal	Usually 25% of pot
Regular income?	Yes	Yes ²	No	No
Guaranteed income for life?	Yes	No ³	No	No
Do I need to review my pension pot regularly?	No	Yes	Yes	N/A
Could my money run out later in retirement?	No	Yes	Yes	Yes
Pays higher income for medical conditions?	Yes	No	N/A	N/A
Can I change my mind and use my pot differently?	No	Yes	Yes ⁴	No
Will my tax rate go up when I access my pot?	Depends on level of income paid and other income	Depends on level of income taken and other income	Depends on the size of your cash withdrawals and other income	Highly likely
Is tax relief on my pension savings affected?	No ⁵	Yes ⁵	Yes ⁵	Yes ⁵

Shopping around and getting advice

After your Pension Wise appointment, it's essential to shop around – don't just settle for your own pension scheme or provider's products.

Follow the steps below to inform yourself about what's on offer both from your own provider and the wider market. Once you've done this, we recommend getting financial advice.

If the prospect of shopping around feels too daunting, get advice at the outset – see page Step 3, page 29. Comparing products is complicated and it's vital that you make the right choice.

How to shop around

Step 1 – Check what your current scheme or provider can offer

Ask your current scheme or provider what they can offer you and get quotes for all the options you're interested in to use as a baseline for comparison.

After shopping around – and even if you're thinking of delaying taking your pension – we recommend that you get financial advice. See page 29.

- Check whether they offer a guaranteed annuity rate. If they do, it's likely to be hard to match the rate elsewhere if you're interested in a guaranteed income for life – but still shop around to check.
- Check whether there are any other guarantees that will be lost, or conditions or charges that will apply if you transfer to another provider.
- If you are looking to buy a lifetime annuity, answer any medical and lifestyle questions fully and accurately, as this could significantly increase the lifelong regular income you could get. (You can get a copy of the questions you will be asked at retirementhealthform.co.uk).

Step 2 – Compare quotes, features and fees for the options that interest you

Comparing guaranteed income quotes (annuities):

- You can compare basic guaranteed lifetime income products (annuities) using the Money Advice Service Annuity comparison table at moneyadvice.service.org.uk/annuities.

- Or you can use an annuity broker who will do the quote gathering for you. However, be careful because most don't offer advice or will tell you which annuity is the best one for you. The decision is yours and if you choose the wrong one, you can't make a complaint or get compensation
- Or you can take regulated financial advice. A financial adviser will also do the quote gathering for you but unlike a broker will recommend the most suitable product that meets your particular needs and circumstances. Find out more at Step 3.

Comparing flexible retirement income products

- Flexible retirement income products are complicated to compare yourself as the choice is vast and what's best for you will depend on many factors.
- However, you can see a snapshot of what's currently on offer, and see a list of providers who offer these products, by using the Money Advice Service Flexible retirement income tool at moneyadvice.service.org.uk/drawdown
- But bear in mind that the product list you'll find isn't exhaustive and we strongly recommend getting financial advice – see next step – before you make any decision.

Step 3 – Speak to a regulated financial adviser

Retirement income planning is complicated and the options you have – including postponing taking your pension – differ in suitability depending on your personal circumstances. The choices you make will affect your income for the rest of your life. We therefore recommend that you speak to a regulated financial adviser unless you are certain that you understand which option is right for you.

Complex products such as investment-linked annuities and flexible retirement income products are difficult to compare yourself and an adviser will talk you through the detail and recommend whether one of these or a guaranteed income product is right for you. Equally, if you're thinking of delaying taking your pension a financial adviser will be able to confirm whether this is a sensible choice and help you plan ahead.

Financial advisers are qualified professionals who will only recommend which course of action is right for you after taking account of your overall financial and personal circumstances. They are regulated by the Financial Conduct Authority (FCA) and must follow their rules. If the advice they give you turns out to be unsuitable you can make a complaint and if necessary, go to the Financial Ombudsman Service.

The new Pensions Advice Allowance offers tax breaks to help you pay for financial advice. See page 30.

Independent or restricted advice

Independent financial advisers look at all financial product types and all providers. Financial advisers offering 'restricted advice' specialise in certain product types and/or restrict how many providers' products they look at.

For the widest choice of retirement income products, you ideally want an adviser who can recommend products from the whole of the market they are advising on.

What does it cost?

A financial adviser will charge either a percentage of your pension pot, a charge per hour or a fixed fee. You can pay up front, or have the fee deducted from the pension pot after any tax-free amount is withdrawn. Most offer an initial meeting for free. Advisers will always give you an estimate of how much their services will cost before you commit yourself.

The Pension Advice Allowance

To help pay for financial advice a new Pension Advice Allowance was introduced from April 2017 for anyone with a defined contribution pension. It allows you to withdraw £500 tax-free from your pension pot up to three times (no more than once in a tax year), to be used to pay for advice from a regulated financial adviser, either face-to-face, by telephone or online.

You can find a regulated financial adviser from the Money Advice Service Retirement Adviser Directory

 moneyadvice.service.org.uk/directory.

Getting help or advice from product providers

You can also talk direct to a product provider – but be sure to ask whether they are offering you financial advice and a recommendation or just information.


If they are offering just information you must be confident that any retirement income product you may choose is right for you and that you can't get a better deal elsewhere. You have no protection if the product you buy turns out to be unsuitable for you.

If you are at all unsure, ask for advice – they may be able to recommend a list of financial advisers or offer their own advice service. However, if they offer advice this is likely to be limited to their own products.

What does it cost?

If you use a provider's advised service you'll pay a fee as described above. If you buy without advice, the cost of their service may be built in to the quote they offer you – this won't necessarily be any cheaper than getting advice.

Top tip

 Choose a financial adviser who can recommend products from a wide range of providers.

How to spot pension and investment scams

Pension and investment scams are on the increase in the UK. Every day fraudsters are using sophisticated ways to part savers from their money. Check the facts before you make an irreversible decision – a lifetime's savings can be lost in moments.

In particular, beware of people contacting you out of the blue about your pension or running advertisements claiming to offer 'free pension reviews', 'no-obligation consultations', unrealistic investment returns or tax loopholes.

Also beware of promises to access your pension pot below the age of 55 – sometimes known as 'pension liberation' or 'pension loans'. Only in very rare cases is this legally possible – such as if you're in very poor health – so don't believe them. The aim of these unscrupulous firms or individual is to persuade you to cash in your pension pot and hand the money to them to invest.

These outfits may be very sophisticated and have convincing websites. Some may imply that they are part of the government-backed Pension Wise guidance service or the Pensions Advisory Service by including the terms 'pension' and 'wise' or 'guidance' in their name. Some may even imply they are from the Money Advice Service.

Scammers may:

- try to persuade you to take your entire pension as cash – or a large lump sum – and let them invest it for you, often in unregulated investments (meaning you have no protection if things go wrong).
- promise extra tax savings and/or very high returns from overseas investments or new or 'creative' investments.
- say they can help you or someone else unlock your pension before age 55, for example by transferring to another pension scheme.

Once you've transferred your pension or handed over your lump sum it may be too late. Many victims have lost their entire pension savings to scams. Even if you don't lose your money, you could face a large tax bill from HM Revenue and Customs.

None of the government-backed services (Pension Wise, Pension Advisory Service or Money Advice Service) will ever contact you out of the blue. Put the phone down if you receive an unexpected call and always check you have the right website. See Contacts on page 40.

How to spot a scam

As well as the points above, watch out for one or more of these common features or scams:

- being approached out of the blue over the phone, via text message or in person door-to-door.
- you aren't given long to make a decision or you feel pressured into making one immediately.
- the only contact details they give you or on their website are a mobile phone number and a PO box address.
- a firm doesn't want or allow you to call them back.

For further information on pension scams and to see videos with real life examples of people who have lost their money, visit thepensionsregulator.gov.uk/pension-scams

Always check the credentials of anyone who contacts you

The law requires all firms offering regulated financial products or advice to be registered with the Financial Conduct Authority (FCA) to conduct business.

If you're unsure about a firm that has contacted you, use the FCA's online register to check if a firm is registered at fca.org.uk/register or call them on **0800 111 6768**.

Check the facts before you make any irreversible decision. Remember you could lose your lifetime's savings.

If you think you're being targeted

- Don't be rushed into making a decision. Before you sign anything, contact the Pensions Advisory Service (TPAS) on **0300 123 1047**.
- Make sure the firm is registered with the Financial Conduct Authority (FCA) before you agree to anything.
- Check the FCA's Scamsmart website pages at fca.org.uk/scamsmart – they will tell you the names of known investment scheme scams and allow you to check whether a firm appears on their warning list.

If you've accepted an offer or lost money

- If you've already signed something you're now unsure about, contact your pension provider straight away. They may be able to stop a transfer that hasn't taken place yet. Then call Action Fraud on **0300 123 2040** to report it.

Top Tip

- ➔ Any firm that passes itself off as part of the government's Pension Wise service is committing a criminal offence. Only contact Pension Wise through its website or call 0800 138 3944.

Jargon buster

Adjusted income

Your annual income before tax plus the value of your own and any employer pension contributions.

Alternative Annual Allowance

The limit on how much tax-free money you can build up in a Defined benefit pension in any one year once you trigger the Money Purchase Annual Allowance. The Alternative Annual Allowance for most people is £30,000 (plus any carry forward allowance from the previous three tax years). If you have defined benefit pension savings and exceed the Alternative Annual Allowance (where it applies to you) a tax charge is made which claws back any tax relief that was given on the excess pension savings. If your 'adjusted income' is over £150,000 the Alternative Annual Allowance is reduced by £1 for every £2 that your income exceeds £150,000, up to a maximum reduction of £30,000.

See also *Defined benefit pension* and *Money Purchase Annual Allowance*.

Annual Allowance

The limit on how much tax-free money you can build up in your pension in any one year based on your own contributions, any employer contributions and any contributions made on your behalf by someone else. In the tax year 2017-18, the Annual Allowance is £40,000 for most people.

The Annual Allowance applies across all your pension savings, not per scheme. If you exceed the Annual Allowance, a tax charge ('the Annual Allowance charge') is made which claws back any tax relief that was given at source. See also *Money Purchase Annual Allowance*.

If your taxable earnings in the year are below the Annual Allowance then tax relief on pension contributions from all sources is limited to 100% of your earnings (or to £3,600 if you have no earnings).

If your 'adjusted income' is above £150,000 the Annual Allowance is gradually reduced or 'tapered'. See *Adjusted Income* and *Tapered Annual Allowance*.

Annuity

A type of retirement income that provides you with a regular income – either for life or for a set period. See also *Lifetime annuity*, *Fixed-term annuity* and *Investment-linked annuity*.

Cash balance pension

A pension arrangement where your employer promises you a pension pot of a specified amount, when you reach retirement age. Typically, the amount is calculated as a proportion of your salary for each year of service.

You know how much your pot will be, but there is no promise as to the amount of pension you will be able to buy (or take) from it.

Defined benefit pension

Pays a retirement income based on your salary and how long you have worked for your employer. Defined benefit pensions include 'final salary' and 'career average' pension schemes. Generally now only available from public sector or older workplace pension schemes.

Defined contribution pension

Builds up a pension pot to pay you a retirement income based on contributions from you and/or your employer. Your pot is put into various types of investments, including shares. The amount in your pension pot at retirement is based on how much has been paid in and how well the investments have performed. Also known as 'money purchase' schemes. Includes workplace and personal pensions, including stakeholder pensions. Might be run through an insurance company or master trust provider, or through a bespoke scheme set up by your employer.

Drawdown

See '*Flexi-access drawdown*'.

Fixed-term annuity

A retirement income product that guarantees a regular income for a set period – typically 5 or 10 years – and pays out a 'maturity amount' at the end. Normally bought using funds from a flexible retirement income product.

Financial adviser

See '*Regulated financial adviser*'.

Final salary pension

See *Defined benefit pension*.

Flexi-access drawdown

Referred to as 'flexible retirement income' in this booklet. Allows you to use your pension pot to provide a regular retirement income by reinvesting it in funds specifically designed and managed for this purpose. The income isn't guaranteed for life but you have the flexibility to make changes to how much you take or to later switch to more secure retirement income products.

Replaced flexible drawdown and capped drawdown from April 2015, though existing users of capped drawdown can continue in that plan.

Flexible investment-linked annuity

Pays a lifelong regular retirement income that may rise and fall in line with underlying investments, but where a minimum monthly payment is guaranteed for life. Also allows you to choose and change monthly payment amounts, including opting for lower payments later in life. Sometimes called a variable annuity.

Guaranteed annuity rate (GAR)

A valuable guaranteed income often offered by your own pension scheme or provider if you take a lifetime annuity with them. Likely to be hard to match by shopping around.

Guaranteed drawdown

A hybrid product that combines a guaranteed income for life with the features of a flexible retirement income product.

Hybrid products

Products that combine features of annuities and flexible retirement income products to provide a retirement income

Income drawdown

A term often used to describe taking your pension as a flexible retirement income. Also referred to as 'flexi-access drawdown' or 'drawdown'.

Income Tax rates

Income Tax is split into bands and you pay different rates: 20%, 40% and 45% based on these bands. Your pension income is added to your other earnings and then taxed according to which tax band it falls inside. If it pushes your overall income into a new tax band you may pay tax on it at two rates. See page 38 to understand more about Income Tax bands and for a worked example that includes pension income.

Inflation

Increase in the general level of prices of goods and services.

Investment-linked annuity

A retirement income product that guarantees to pay out for life but not a set amount – payments will rise and fall in line with the value of the underlying investments. A minimum monthly income is guaranteed if performance is weak.

Lifetime Allowance

The total amount you can save into pensions in your lifetime while still getting tax relief. If you go over the allowance you will pay a tax charge on the excess when you draw out your savings as cash or pension. For the tax year 2017-18 the Lifetime Allowance is £1m.

If you exceed the allowance you pay tax on the excess amount (called the 'Lifetime Allowance charge') at 55% if taking the pension as a lump sum or at 25% if you take it as income. (If taking it as income you will also pay tax on it at your usual Income Tax rate). The same savings aren't assessed twice. So if, for example, you put £2m from your pension pot into a flexible retirement income product, this will have been tested and the excess taxed at that time and no further Lifetime Allowance charge is due.

If you die leaving untouched pension savings that exceed the Lifetime Allowance – and they have not already been assessed against it – then your nominated beneficiary will be liable for the extra tax charges on the amount that exceeds the Lifetime Allowance.

This applies whether you die before or after age 75. (Pots can normally pass tax-free to nominated beneficiaries if you die before age 75.)

Lifetime annuity

A retirement income product that guarantees a regular income for the rest of your life. The income may stay level, be linked to inflation or rise gradually at set rates, depending on which features you choose. Includes the option to provide for a dependant for life after you die in return for a lower income.

Market value reduction

A reduction to your pension pot that could apply if you want to cash in your with-profits policy before or after its maturity date or other date(s) specified in the policy. May apply, for example, following or during a period of poor stock market performance.

Money purchase pension

See *Defined contribution pension*.

Money Purchase Annual Allowance (MPAA)

If you start to take money from your defined contribution pension, this can trigger a lower annual allowance of £4,000 (2017-18) known as the Money Purchase Annual Allowance (MPAA).

This means you'll normally only receive tax relief on pension contributions of up to 100% of your taxable earnings or £4,000, whichever is lower.

As a basic guide, the main situations when you'll trigger the MPAA are:

- If you take your entire pot as a lump sum or start to take ad-hoc lump sums from your pension pot
- If you put your pension pot money into a flexi-access drawdown scheme and start to take an income

- If you buy an investment-linked or flexible annuity where your income could decrease
- If you have a pre-April 2015 capped drawdown plan and start to take payments that exceed the cap

The MPAA won't normally be triggered if:

- You take a tax-free cash lump sum and buy a lifetime annuity that provides a guaranteed income for life (that either stays level or increases)
- You take a tax-free cash lump sum and put your pension pot into a flexi-access drawdown scheme but don't take any income from it
- you cash in most small pension pots valued at less than £10,000.

The MPAA of £4,000 only applies to contributions to defined contribution pensions and not defined benefit pension schemes.

See '**Change to MPAA**' at the beginning of this guide.

Pension Advice Allowance

Allows you to withdraw £500 on up to three occasions from your defined contribution pension pot/s tax-free, to put towards the cost of pensions or retirement advice. Can only be used once in any tax year. May be used at any age and redeemed against the cost of regulated financial advice either face-to-face, by telephone or online. Not available with defined benefit schemes, but can be used if you have a 'hybrid' pension that has a defined contribution element.

Regulated financial adviser

A qualified professional who is authorised and regulated by the Financial Conduct Authority (FCA) and must follow their rules when giving financial advice. Will recommend financial products only after taking account of your overall financial and personal circumstances. If the advice they give you turns out to be unsuitable you can make a complaint and if necessary take your case to the Financial Ombudsman Service.

'Independent financial advisers' look at all financial product types and all providers. Financial advisers offering 'restricted advice' specialise in certain product types and/or restrict how many providers' products they look at.

State Pension

A regular payment from government that you qualify for when you reach State Pension age. The State Pension age for men and women is increasing and will reach 66 by 2020. It's due to rise further to 67 by 2028. The amount you get depends on your National Insurance record.

Tapered Annual Allowance

The Annual Allowance of £40,000 (see earlier) is reduced or 'tapered' if your 'adjusted income' (your annual income before tax plus the value of your own and any employer pension contributions) is over £150,000. In this case the Annual Allowance will reduce by £1 for every £2 that your income

exceeds £150,000, up to a maximum reduction of £30,000. In practice this reduces the Annual Allowance to £10,000 once adjusted income reaches £210,000. If your annual income after tax and excluding pension contributions is below £110,000 the tapered reduction will not normally apply.

Similar tapering applies to the Alternative Annual Allowance if you are in a defined benefit pension. See *Alternative Annual Allowance*.

Tax-free lump sum

An amount of cash set by law that you can take at retirement free of tax.

It's usually up to a quarter (or 25%) of your pension although some older policies may allow you to take more – check with your policy provider. Sometimes simply referred to as 'tax-free cash'.

Uncrystallised pension fund

A pension pot that has not been accessed for retirement income.

Uncrystallised funds pension lump sum (UFPLS)

A cash sum taken from a pension pot that has not paid out any retirement income. Referred to in this booklet as 'a number of lump sums'. For each withdrawal the first 25% (quarter) will be tax-free and the rest will be taxed at your appropriate tax rate. Forms part of the cash option for withdrawing your pension.

How your pension income is taxed

Income Tax bands

Income Tax is split into bands and you pay different rates: 20%, 40% and 45% based on these bands. The practical effect for the 2017-18 tax year is seen in the table below.

Income Tax rates 2017-18		
Taxable income	Value of tax band	Tax rate for most people*
Up to £11,500	£11,500	No income tax payable ('Personal Allowance')
Between £11,501 & £45,000 (£43,000 in Scotland)**	£33,500 (£31,500 in Scotland)**	20%
Between £45,001 (£43,001 in Scotland)** and £150,000	£105,000 (£107,000 in Scotland)**	40%
Above £150,000	Unlimited above £150,000 of income	45%

*Where your total income is more than £100,000, your Personal Allowance goes down by £1 for every £2 that your income is above £100,000. This means your allowance is zero if your income is £123,000 or above.

** For 2017-18 the higher rate tax threshold in Scotland is £43,000.

Effect of pension income on your tax band

Your pension income is added to your other earnings/income and then taxed according to which tax band it falls inside.

If it pushes your overall income into a new tax band you may pay tax on it at two rates, as seen in the example on the opposite page.

How much Income Tax you pay on your pension depends on which tax band(s) it falls into after adding it to your other income.

Taking large cash sums from your pension could mean you pay more tax and/or affect your entitlement to income-related benefits.

Tax on your pension income – example

The table below shows how pension income can push you into a new tax bracket when added to your other earnings/income. This example assumes:

- Taxable earnings and/or other income of £32,000 (e.g. any salary plus taxable savings/investment/rental income)
- Taxable pension income of £15,000 (after any tax-free amount has been taken)
- Tax is paid in England, Wales or Northern Ireland. In Scotland the higher rate tax threshold is £43,000 not £45,000 which means more income is taxed at the higher rate.

Total taxable income £47,000 (£32,000 + £15,000 pension income)			
Amount	Source	Tax rate applied	Tax payable
First £11,500	From the first part of the £32,000 of non-pension income	n/a – Personal Allowance	No tax
Next £33,500	£20,500 comes from the remaining non-pension income (£32,000 less £11,500 = £20,500). The balance of £13,000 (£33,500 less £20,500) comes out of the £15,000 taxable pension income	20%	£6,700
Final £2,000	This is the remaining taxable pension income (£15,000 less £13,000 = £2,000)	40%	£800
Total tax payable			£7,500*

**If you live in Scotland tax paid on pension income would be £2,200 (at 20%) + £1,600 (at 40%). Total tax payable would be £7,900.*

Tax paid on pension income

£13,000 taxed at 20% £2,600
£2,000 taxed at 40% £800

Tax on inherited pension income or lump sums

The same principle as above applies where a beneficiary inherits pension income (or takes a lump sum that is treated as income under the rules) after you die.

Useful contacts

Money Advice Service

The Money Advice Service is independent and set up by government to help people make the most of their money by giving free, impartial money advice to everyone across the UK – online and over the phone.

We give advice, tips and tools on a wide range of topics including day-to-day money management, savings, planning your retirement and for your future, as well as advice and help for life changing events such as starting a family or losing your job.

For advice and to access our tools and planners visit

 moneyadviceservice.org.uk

Or call our Money Advice Line on 0800 138 7777

**Typetalk
1800 1 0300 500 5000**

Complaints and compensation

Financial Ombudsman Service

0800 023 4567 or 0300 123 9123
financial-ombudsman.org.uk

Financial Services Compensation Scheme (FSCS)

0800 678 1100 or 020 7741 4100
fscs.org.uk



The Pensions Ombudsman

020 7630 2200
pensions-ombudsman.org.uk

Finding a financial adviser

Retirement adviser directory

All of the advisers listed are verified as being approved to offer regulated retirement income advice by the FCA.

 Use our online Retirement adviser directory at  moneyadviceservice.org.uk/directory to find an adviser.

Financial Conduct Authority (FCA)

To check the FCA Register, or to report misleading financial adverts or other promotions.

Consumer helpline: 0800 111 6768
Typetalk: 1800 1 0800 111 6768
fca.org.uk/register

Pension information and advice

For details of your workplace pension scheme talk to your pensions administrator, pensions manager or pension trustees at work.

Pension Wise

A free and impartial government service about your defined contribution pension options.

0800 138 3944

pensionwise.gov.uk

The Pensions Advisory Service

For free independent information and guidance on all pension matters and help with resolving a pension complaint or dispute.

0300 123 1047

pensionsadvisoryservice.org.uk

GOV.UK

For information about State Pensions and how to find a lost pension.

State Pension statements
0345 300 0168

gov.uk/check-state-pension

Claiming State Pension
0800 731 7898

gov.uk/state-pension

Deferring State Pension
0345 606 0265

gov.uk/deferring-state-pension

The Pension Tracing Service
0345 600 2537

gov.uk/find-pension-contact-details

Need more help?

Find a financial adviser with our **Retirement adviser directory**

Our directory only contains details of regulated advisers – so you have peace of mind that you are fully protected. Choose to deal with your adviser in person, on the telephone or online.

It's up to you.

Find your financial adviser at
 moneyadvice.service.org.uk/directory
or call 0800 138 7777





Your pension: it's time to choose

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[👉 moneyadviceservice.org.uk](https://moneyadviceservice.org.uk)

Money Advice Line **0800 138 7777***

Typetalk **1800 1 0300 500 5000**

If you would like this guide in Braille, large print or audio format please contact us on the above numbers.

*Calls are free. To help us maintain and improve our service, we may record or monitor calls.

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