HURST

FINANCIAL CONSULTANCY

INDEPENDENT FINANCIAL ADVISERS

Investments
&
Pensions

Mortgages
&
Insurance

Your Retirement Options

~ STRAIGHTFORWARD ADVICE..... IN BLACK AND WHITE ~

About Hurst Financial Consultancy

Hurst Financial Consultancy was founded in 1997 by the Managing Director, Michael Hurst. The company has operated successfully in Salisbury from inception serving clients locally, nationally and internationally.

The company focus has always been on excellence.

We have also developed a strong focus on state of the art information technology being aware of its significant value in not only collating data, but managing the performance of investments. We have our own in-house IT department and use its services constantly to develop the service that we give to our clients to ensure it is always "leading edge".

As Independent Financial Advisers we have access to the full range of products and services available in the UK as opposed to a Tied Agent or Company Representative who may only advise and offer products from the company they represent. This means that we are able to give you impartial advice and recommend the most appropriate products for you, so that you will enjoy choice, value for money and our high-quality service.

Your Retirement, Your Money.

The area of pensions has become increasingly complex not only in regard to options at retirement, but also in respect of tax planning especially where relevant, inheritance tax.

Our Retirement options are set out in this brochure. We want it be informative and impartial and so the content comes from the web site created by the Government. It serves to give an outline of areas that should be considered. However, there is no replacement for face to face advice when considering the big decision which is "what to do with your pension pot".

We would always recommend a detailed appraisal of your requirements and then would look to detail how these can be best met from your available resources being mindful of issues such as income requirements and tax affairs. Further reading on the Government's own web pages can be found at https://www.pensionwise.gov.uk/pension-pot-options

Please contact us if we can be of any help in answering your questions.

What you can do with your pension pot.

There are six ways you can take your defined contribution pension pot and you can usually take 25% of your pot tax free.

Your 6 Options

Leave your whole pot untouched

You don't have to start taking money from your pension pot when you reach your 'selected retirement age'. You can leave your money invested in your pot until you need it.

Guaranteed income (annuity)

You use your pot to buy an insurance policy that guarantees you an income for the rest of your life – no matter how long you live.

Adjustable income

Your pot is invested to give you a regular income. You decide how much to take out and when, and how long you want it to last.

Take cash in chunks

You can take smaller sums of money from your pot until you run out. Your 25% tax-free amount isn't paid in one lump sum – you get it over time.

Take your whole pot in one go

You can cash in your entire pot – 25% is tax free, the rest is taxable. The tax free element is limited to £268,275.

Mix your options

You can mix different options. Usually, you would need a bigger pot to do this.

Investment Pathways

The Financial Conduct Authority (FCA) is introducing the investment pathways initiative to ensure that anyone with a pension drawdown account has access to simple, good-value investments that broadly match their retirement income goals.

The reforms are designed to help savers make better decisions on how to invest their drawdown fund and ensure they don't end up holding large portions of their pension in cash over the long-term.

While drawdown has been available for many years, historically it was mainly used by those with larger pots who opted for drawdown after taking professional financial advice. But since the pension freedoms were introduced, the number of individuals going into drawdown with smaller funds and without the benefit of advice has rocketed.

As a result the FCA is worried people who hold too much cash in their pension risk missing out on valuable investment returns and having the real value of their pension eaten away over time by inflation.

There will be no obligation on people to invest in pathways, however, and many will prefer to choose their own investments to better meet their attitude to risk, retirement plans and long-term goals.

What is an investment pathway?

The new rules will impact people who don't take financial advice and choose to keep their money invested while taking an income in retirement (i.e. 'drawdown').

Customers who enter drawdown or transfer to a drawdown account will initially be given the three options:

- choosing investment pathways
- choosing their own investments
- sticking with the investments they already have

If they choose the investment pathway route, pension companies will be required to offer customers four investment pathway options. These will not be tailored based on their personal circumstances, but rather designed around four very broad retirement income objectives.

These objectives are:

1. I have no plans to touch my money in the next five years
2. I plan to use my money to set up a guaranteed income (annuity) within the next five years
3. I plan to start taking my money as a long-term income within the next five years
4. I plan to take out all my money within the next five years

Pension companies will then offer investors an investment pathway fund depending on which option they have chosen.

Our view on Pathways - we will discuss Pathways (a new government scheme for people who are seeking to crystalise their pension and take benefits without advice).

Pathways does not provide you with personalised advice that takes account of your defined and exact circumstances. The Pathways arrangements deprive you of advice and only have four outcomes available with no clear flexibility to accommodate a change in your personal circumstances.

Our advice process takes account of all your needs including, capacity for loss, risk profiling, taxation and continues to monitor this by way of regular review.

Leave your whole pension pot untouched

Overview

You don't have to start taking money from your pension pot when you reach your 'selected retirement age' (the age you agreed with your provider to retire). You could leave the money invested, eg while you're working.

- The money in your pot could grow.
- You could have more money to last a shorter length of time.

Tax

You don't pay tax while the money stays in your pot.
Money you leave in your pot can be passed on tax free if you die before the age of 75.

Fees and investment risk

You may be charged extra fees if you don't start taking your money when you reach your selected retirement age. Check with your provider.

As with every investment the value of your pot could go up or down.

Continuing to pay in

You (and your employer) can continue to pay into your pot but there may be restrictions.

You usually pay tax if savings in your pension pots go above the annual allowance. This is currently £60,000 a year.

Scams

If someone contacts you unexpectedly about getting money out of your pot before you're 55, it's nearly always a pension scam.

Next steps

Ask your pension provider the following questions:

- Do I have to take the money by a certain date?
- What fees will you charge if I leave my money longer?
- How much is the pot likely to grow each year?
- How is the money invested and can I change this if I want?
- How much can I still pay in?
- Does my pot have any special features that could mean I get a better deal, eg a guaranteed annuity rate?
- Do you have up-to-date details of the person I want to leave my pot to (my 'beneficiary')?

Get a guaranteed income (annuity)

Overview

You can use your pension pot to buy an insurance policy that gives you a guaranteed income for the rest of your life. This is called an annuity.

- You get a fixed income for life or for a set number of years.
- You can take 25% of your pot as tax-free cash (subject to the maximum of £268,275) and buy an annuity with the other 75%.
- You pay tax on your annuity income.

If you're currently receiving a pension income it's likely that you've already bought an annuity or are taking an income from a final salary or career average (defined benefit) pension.

How an annuity is calculated

How much income you get each year from an annuity depends on things like:

- how much you had in your pension pot when you bought the annuity
- your age
- whether you want the income to increase each year
- whether you want the annuity to pay out to someone after you die
- your health and lifestyle

You may have to pay administration fees.

If the insurance company you bought your annuity with goes bust the Financial Services Compensation Scheme will cover you in full.

Types of annuity

There are lots of different types of annuity and you can shop around – you don't have to buy one from your

Type	How it works
Single life	Paid just to you, either for life or for a fixed number of years.
Joint life	Payments continue to your spouse or partner after you die.
Fixed term	Pays an income for a set number of years, then a guaranteed sum which you can invest or use to buy another annuity.
Short term	Stops paying at the end of a set number of years (up to 5 years) or when you die (whichever comes first).
Guaranteed period	Pays out for a set term even if you die within that term, eg you get a 10-year annuity and die after 7 years, your spouse or partner still gets payments for another 3 years or a lump sum.
Enhanced or Impaired	May pay more than a standard annuity if you smoke or have a medical condition, e.g. diabetes or high blood pressure.
Escalating	The amount increases each year to reduce the effect of inflation.
Level	Pays a flat amount of income each year.
Investment linked	Tied to the stock market, the amount it pays can vary and depends on the success of the investments.
Capital protected	Your pot is paid to whoever you leave it to (your 'beneficiary') if you die within a set period, subject to tax.

Once you've bought your annuity you only have a short period when you can still change your mind (in most cases 30 days). After that you can't change the decision.

Tax

If you decide to buy an annuity you can still take up to 25% of your pension pot tax free as cash (to a maximum of £268,275). This doesn't use up any of your Personal Allowance – the amount of income you don't pay tax on.

You could then buy an annuity with the other 75%.

You pay tax on income from an annuity, just like you do on your salary. This is because when you're paying into your pension you get tax relief on your contributions.

If you take the 25% tax-free lump sum you must buy an annuity with the rest or use one of the other pension options.

Scams

Beware of pension scams contacting you unexpectedly about an investment or business opportunity that you've not spoken to them about before. You could lose all your money and face tax of up to 55% and extra fees.

Next steps

- Ask your provider if your pension pot has any special features that could mean you get a better deal, e.g. a guaranteed annuity rate.
- Ask your provider about the types of annuity they offer, eg if you're in poor health you could get a better rate.
- You can shop around and compare providers to get the best deal.
- Understand how much tax you'll pay on your annuity income.

Get an adjustable income

Overview

You can get an income from your pension pot that's adjustable. This means you get a regular income but can change it or take cash sums if you need to.

- You get 25% of your pot as a single, tax-free cash sum, subject to £ 268,275 TFC limit
- The other 75% is invested to give you a regular, taxable income.
- You can adjust the income you take and when you take it.

This option is also known as 'flexi-access drawdown'.

You'll probably need to be involved in choosing and managing your investments. The value of your pot can go up or down.

Not all pension providers offer this option. If your current provider doesn't offer it, you can transfer your pot to another provider but you might have to pay a fee.

Tax

The income you get from the investment is taxable. Your provider will pay you the income with any tax due already taken off.

You pay tax when you take money from your pot. This is because when you're paying into your pension you get tax relief on your contributions.

> **Example**
>
> You have a pot of £80,000 and take a tax-free lump sum of £20,000. This leaves you with £60,000 to invest. You get an income of £3,000 a year from your investment. If you pay 20% tax you'll get £2,400.

If you take the 25% tax-free lump sum, you must get an adjustable income with the rest or use one of the other options.

You can move your pot gradually – you don't have to move it all at once. Each time you move a sum, 25% is tax free.

If you choose this option, you can leave your money to someone when you die but they may have to pay tax on it.

How adjustable income works

Your provider will offer you different investments with different risks. You pick the investments that are right for you and get a retirement income from them. You should think about how much you take out every year and how long your money needs to last.

A financial adviser can help you to create an investment plan for your money. They can advise you on how much you can take out to make the money last as long as possible. They'll charge you a fee for this.

Your provider is likely to charge you fees for managing your investments and whenever you get a payment.

If your provider goes bust you'll be covered by the Financial Services Compensation Scheme.

Continue to pay in

If you have more than one pension pot, you can take an adjustable income from one and continue to pay into others. The maximum you can pay in is £ 10,000 a year.

This includes your tax relief of 20%. For example, to get a contribution of £10,000 you would only have to pay in £8,000.

You may still be able to pay into the pot you take your adjustable income from but you won't get tax relief on these payments.

Financial advice

If you're interested in this option you might want to get financial advice first. A financial adviser can help you to compare adjustable income products and work out which is best for you.

Scams

Beware of pension scams contacting you unexpectedly about an investment or business opportunity that you've not spoken to them about before. You could lose all your money and face tax of up to 55% and extra fees.

Next steps

- Ask your current provider if they offer flexi-access drawdown and what they charge in fees – if they don't offer it, you can transfer your pot but you might be charged a fee.
- Check if your pot has any special features that could mean you get a better deal, e.g. a guaranteed annuity rate.
- Get financial advice if you're interested in getting an adjustable income.
- Shop around – ask providers what products they offer to suit your circumstances.
- Get some estimates from other providers on how much your pot could grow and what the fees are – usually you just have to fill in a short form on their website.
- Make sure you know how much tax you'll pay on any money you're planning to take out.

Take cash in chunks

Overview

You can take smaller sums of cash from your pension pot until it runs out. How much you take and when you take it is up to you.

- You decide how much to take and when to take it.
- Your 25% tax-free amount isn't paid in one lump sum – you get it over time.
- Each time you take a chunk of money 25% is tax free and the rest is taxable.

Some pension providers charge a fee to take cash out.

Not all providers offer this option. If your current provider doesn't offer it, you can transfer your pot to another provider but you might have to pay a fee.

Tax

You pay tax when you take money from your pot because you get tax relief when you pay into your pension.

The money you take from your pot will be added to any other income you have for that year, eg State Pension payments, benefits, interest from savings, salary. This could mean that taking a large amount of cash in one go will bump you into a higher tax rate.

If you spread the cash amounts over more than one tax year, you might pay less tax on them.

> **Example**
> Your pot is £60,000. You take out £4,000 each year – £1,000 is tax free and £3,000 is taxable. You work part-time and earn £12,000 a year. The total of your earnings and the taxable cash you've taken from your pot is £15,000. This is above the standard Personal Allowance of £12,570. You pay £486 in tax.

Your pension provider will take off the tax you owe before they pay you the cash.

You may pay emergency tax when you take money from your pot which you can claim back.

If your provider doesn't pay your emergency tax back automatically, you can claim it back from HM Revenue and Customs.

Continuing to pay in

If you have more than one pension pot, you can take chunks of cash from one and continue to pay into others. The maximum you can pay in is £10,000 a year.

This includes your tax relief of 20%. For example, to get a contribution of £10,000 you would only have to pay in £8,000.

Your provider may also let you continue to pay into the pot you take cash from.

Benefits

Taking cash chunks from your pot could also affect your entitlement to any benefits.

Scams

Beware of pension scams contacting you unexpectedly about an investment or business opportunity that you've not spoken to them about before. You could lose all your money and face tax of up to 55% and extra fees.

Next steps

- Ask your current provider if they offer the option – also known as 'Uncrystallised Funds Pension Lump Sum' (UFPLS) – and what they charge in fees.
- If they don't offer it, you can transfer your pot but you might be charged a fee.
- Check if your pot has any special features that could mean you get a better deal, eg a guaranteed annuity rate.
- Understand how much tax you'll pay on any money you're planning to take out.

Take your whole pension pot in one go

Overview

You can take your whole pension pot as cash.

- You take your whole pot in one go.
- 25% is tax free (subject to a maximum of £268,275), the other 75% is taxed.

You pay tax when you take money from your pot. This is because when you're paying into your pension you get tax relief on your contributions.

Paying tax

Your pension provider will take off the tax you owe before they pay you the cash.

The cash you take will be added to any other income you have over the tax year, eg money from work, savings and benefits.

You may pay emergency tax when you take money from your pot which you can claim back.

If your provider doesn't pay your emergency tax back automatically, you can claim it back from HM Revenue and Customs.

Benefits

Taking a large sum of cash from your pension pot could affect your entitlement to any benefits.

Scams

Beware of pension scams contacting you unexpectedly about an investment or business opportunity that you've not spoken to them about before. You could lose all your money and face tax of up to 55% and extra fees.

Next steps

- Ask your provider if you can take 25% tax free.
- If you want to reinvest the money, talk to a registered financial adviser first.

Mix your pension options

Overview

You can mix the ways you take your pension pot.

- You can mix the pension options, eg use some of your pot to get an adjustable income and some to buy an annuity.
- Not all pension providers offer all the options.
- If you have multiple pots, you can use different options for each pot, e.g. leave one pot untouched and take cash in chunks from another.

Example
Your pension pot is £60,000.

You decide to take 25% as tax-free cash leaving £45,000. You use £20,000 to buy an annuity. This gives you a taxable income for the rest of your life of about £900 a year.

You use the other £25,000 to get an adjustable income. This allows you to take out about £5,000 a year for 5 years.

Financial advice

Mixing your options can be complicated. If you're interested in this you might want to talk to a financial adviser first.

Next steps

If you're interested in mixing your options:

- Look at all the options to see which ones are right for you
- Shop around – you don't have to get an adjustable income or buy an annuity from your current provider

Ill health and pensions

If you're ill

You may be able to take your pension pot early if you can't work because you're too ill.
This could be before you're 55 or your 'selected retirement age' – the age you agreed with your provider to retire.

Speak to your provider about the rules of your pension – it will depend on their definition of 'ill health'.
An 'enhanced' or 'impaired' annuity may pay more than a standard annuity if you smoke or have a medical condition, e.g. diabetes or high blood pressure.

If you're seriously ill

Special tax rules apply if you have a serious illness which means you're expected to live for less than a year.

You may be able to take your whole pension pot tax free if **all** of the following apply to you:

- You're expected to live for less than a year because of serious illness.
- You're under 75 (if you're over 75 you pay Income Tax on the lump sum).

Check the terms of your pension with your provider. Some pensions will keep at least 50% of your pot for your spouse or partner.

Care Costs

The money you take from or leave in your pension pot could affect how much you may have to pay towards care costs later in life.

Care can include help at home with things like washing, dressing, getting out and about, staying in touch with friends and family or moving into a care home. This is known as social care and local councils are responsible for it.

How care is paid for

Social care isn't free. You might have to pay some or all of the cost of your care.

Your local council will work out how much you can afford to contribute towards your care costs. They will look at:

- any money in or taken from your pension pot – either as cash or income
- any other income you have
- your assets (e.g. savings and investments)

How your pension pot is assessed

Leaving your pot untouched

If you leave money in a pension pot your local council won't count this when they work out how much you can afford to pay for care. Once you reach your pension qualifying age your local council will assume you're receiving an income from your pension.
If you don't take an income, they'll check how much you'd receive if you bought an annuity and use this amount when they work out your income.

Adjustable income

If you take an adjustable income they'll look at how much you'd get if you bought an annuity, and depending on how much you withdraw from your pot, they may class it as capital or income in the assessment of your benefits.

Taking cash from your pension

If you take cash in chunks or your whole pot in one go and put it into savings or invest it, your local council will treat it as an asset and include it when they work out what you can afford to pay.

If you deliberately spend or give away money (including tax-free cash) from your pension pot to get or increase help with care costs, your local council may assess your finances again and treat you as still having that money.

What happens to your pension when you die?

The way you take your pension will affect how you can leave it to your beneficiary (the person who inherits it) when you die.

Most pension options allow anyone to inherit your pension – they don't have to be your spouse or civil partner.

Make sure your pension provider has up-to-date details of your beneficiary. If you have more than one pension, let all your providers know.

Leaving behind cash

If you take your tax-free lump sum but don't use it before you die (e.g. it's left in your bank account), it becomes part of your estate. It then forms part of everything you own and all your money when you die.

The same is true if you take your whole pot in one go or in chunks but don't use it all before you die.

Your beneficiary can take money still in your pot as a single lump sum or use it to buy an annuity or adjustable income.

Leaving behind a pension

There are some types of pension that you can leave to someone after you die. The payments your beneficiary gets depends on factors like their age and their health.

Joint annuity

Payments continue to your beneficiary after you die. When they die they won't be able to leave these payments to anyone else.

Guaranteed period

Payments from an annuity with a guaranteed period continue even if you die before that period ends. The guaranteed period starts when you take the money from your pot.

Example:

You take a guaranteed 10-year annuity and die after 8 years. Your spouse gets payments for another 2 years. If you die after the 10 year guarantee period, your spouse won't get any payments.

Capital protected annuity

This is also known as a 'value protected' annuity. Your beneficiary inherits a lump sum – this is your pot minus any annuity payments you took before you died.

Adjustable income

You can choose who you want to receive any money left in your pot after you die.

Tax your beneficiary pays

Inheritance	Age at Death	Tax they pay
Unused cash you took from your pot	Any age	Inheritance Tax based on the size of your estate
Money still in your pot	Under 75	Zero, if they take it within 2 years
Money still in your pot	75 or older	Income Tax
Adjustable income	Under 75	Zero
Adjustable income	75 or older	Income Tax
Joint, guaranteed period or capital protected annuity	Under 75	Zero
Joint, guaranteed period or capital protected annuity	75 or older	Income Tax

How your pension is protected

How your pension is protected depends on your pension type.

Defined contribution pensions

If your employer goes out of business you won't lose your pension pot. This is because defined contribution pensions are usually run by pension providers, not employers.

Some defined contribution pensions are run by a trust chosen by the employer. Contact your employer for exact compensation details.

If your provider can't pay

You can be compensated for up to 100% of the value of your pot if your pension provider can't pay you and is authorised by the Financial Conduct Authority (FCA).

Defined benefit pensions

These pensions are usually protect by the Pension protection fund you'll usually receive:

- 100% compensation if you've reached your 'selected retirement age' (the age you agreed with your pension provider to retire)
- 90% compensation if you're below your selected retirement age

Annuities

You can claim for up to 100% of the current value of your pot if your annuity provider can't pay you and is authorised by the FCA.

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