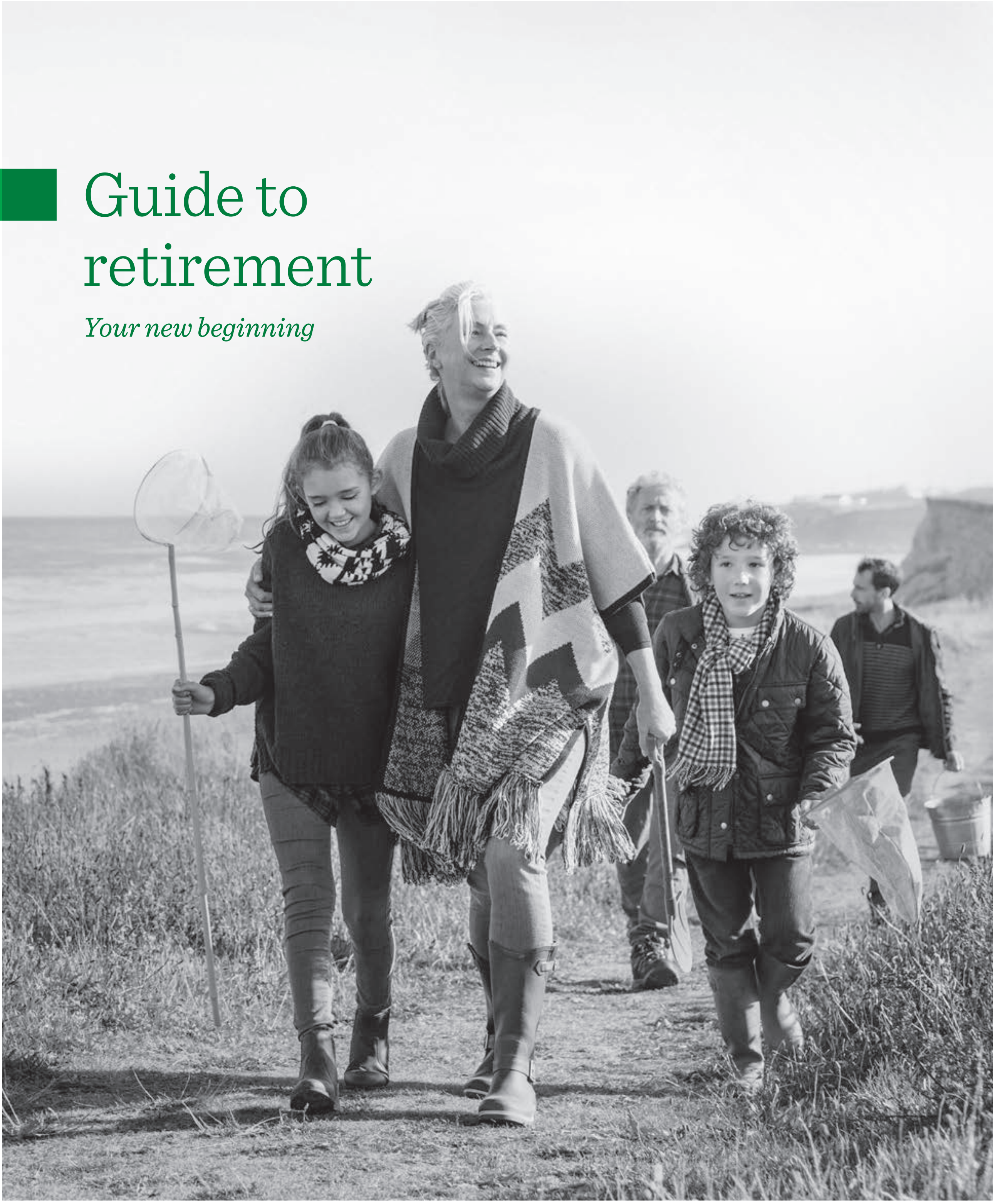
Quilter Financial Planning

Guide to retirement

Your new beginning



Contents

Welcome to your guide to retirement

This guide contains information to help you make informed decisions about the retirement options available to you, so you can make the right choices with the guidance of your adviser.

Retirement is often an exciting and significant milestone in someone's life. We're here to make that step as easy and as enjoyable as possible for you, by understanding your financial situation and your goals, and then planning how best to invest your money to deliver the lifestyle you want.

The expert professional guidance your financial adviser will give you helps you through this process. This means we can make sure that our solutions are right for you and that you have all the information you need to make a clear decision.

Getting ready for retirement

With the right preparation and advice, you can have a well constructed plan for your retirement income.

Ensuring your income lasts your entire retirement

With life expectancy at age 65 increasing, being retired for 20 years or more means you need to plan for an income that funds retirement for this long.

2020 life expectancy projections[1] show:

- Male life expectancy is projected to have increased to 84.9 years in 2022 – up 5.9 years from 1981. By 2047 this is projected to increase a further 2.2 years to 87.1.

- Female life expectancy is projected to have increased to 87.2 years in 2022 – up 4.2 years from 1981. By 2047 this is projected to increase a further 2.1 years to 89.3.

Although actuaries calculate the average life expectancy of men and women based upon a variety of factors, you must bear in mind that these are only averages. In fact, in most cases the nature of averages is such that you are around 50% likely to live longer than the average. This is important to bear in mind when planning for retirement.

To make your money last, you need to plan carefully and as early as possible. Your adviser will help you plan accordingly so you are well prepared to enjoy your retirement in the way you want to.

How retirement has changed

With the demise of final salary schemes, most people are taking more of a portfolio approach to retirement income. As well as traditional pension savings and the basic state pension, people are using ISAs and other investments, such as bonds, to supplement their incomes.

Also, semi-retirement is becoming more common with people continuing to work part-time in retirement either through necessity or simply because they want to.

Don't pay any more tax than you have to

Having spent a long time carefully building your retirement fund, the last thing you will want to do is give a big chunk of it to the taxman. This is another reason why you need to plan carefully how you use your retirement fund.

By carefully planning with your adviser you will work out how best to use your tax-free cash entitlement so you maximise your personal allowance. Understanding tax and its implications is an important part of retirement planning. Your adviser will provide you with everything you need to know so you can avoid paying too much tax unnecessarily.

Planning makes a real difference

Having a target income and getting the right financial advice can make a marked difference to someone's retirement income. Research shows that people taking advice have benefited by more than 16% in pension income compared to those who have not[2].

How does this happen?

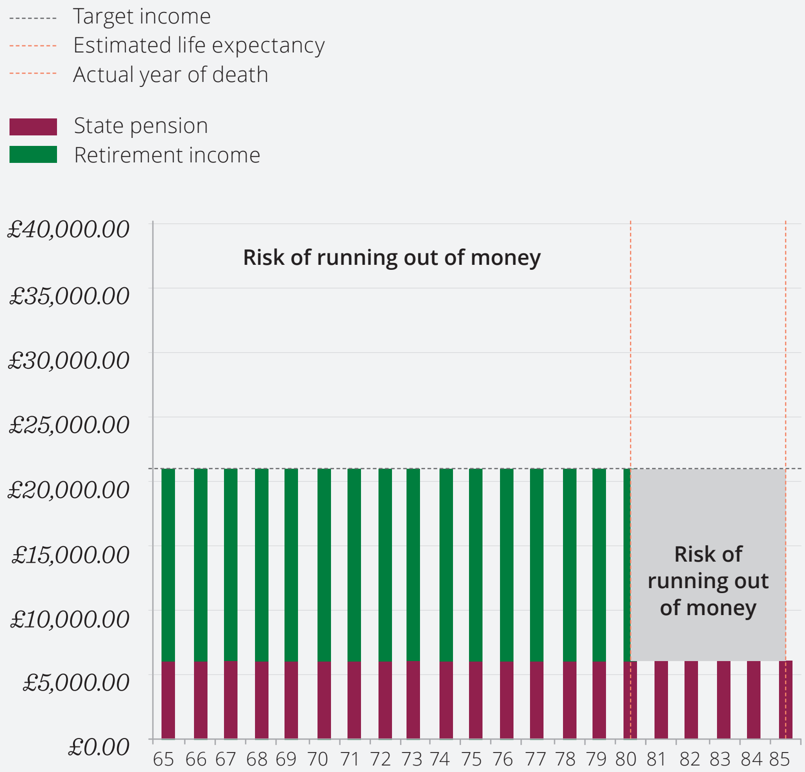
Your financial adviser will look at all the available products and how best to use them to construct a retirement income that aims to meet your target. This may mean using annuities, flexi-access drawdown, uncrystallised fund pension lump sum (UFPLS), other investments, or a combination of several products.

Even if you are at a stage where you have already started income drawdown, you can still invest in a pension plan and enjoy the tax benefits. Under current tax rules, you can invest up to £10,000 in a tax year and receive tax relief at your marginal rate of income tax.

1. Second State Pension age review: independent report call for evidence - GOV.UK (www.gov.uk)

2. https://ilcuk.org.uk/wp-content/uploads/2018/10/ILC-UK-The-Value-of-Financial-Advice.pdf

This graph gives an example of someone retiring at 65 with a target income of £20,000. This person has financial plans set to live until the age of 80. The graph shows the fall in income that occurs when living longer than expected. The gap between estimated life expectancy and death, and the reduced income that results, is shown as the risk of running out of money.



Navigating your choices

There's a lot to think about when it comes to retirement. Your adviser will be able to help you make the right choices by taking into consideration your unique circumstances.

When heading into retirement it's important to know what your income choices are so you can make the right decision on how you want to withdraw your hard earned retirement savings. Your adviser will take into consideration your financial circumstances which are unique to you and advise on what the most appropriate options are.

Taking a tax-free lump sum

You can take 25% of your pension fund as a lump sum, completely tax free.

Creating a retirement income

There are two ways you can use your pension to do this: buy an annuity or invest in flexi-access drawdown.

Annuity

An annuity will pay you an income until you die. The fact that this income is guaranteed is an advantage of annuities over other income options and makes it a sensible starting point for your retirement planning.

We believe it's essential for you to receive a regular income to cover your day-to-day expenses. However, guarantees come at a cost.

The amount of income an annuity pays you depends on: the size of your pension fund, and how long you might live based on how old you are now. So the older you are, the more income you will receive. Your annuity payments form part of your total taxable income and incur income tax.

Where appropriate, your adviser will be able to help you choose the right type of annuity for your circumstances:

- *One that pays you a guaranteed income until you die and then stops*

or

- *One that pays you a guaranteed income until you die and then continues to your surviving spouse or dependant*

- *One that stops paying as soon as you die*

or

- *One that guarantees to pay out for a minimum time, for example five years, even if you die earlier*

- *One where the income stays the same*

or

- *One where the income increases each year.*

You can choose to pay for different options to suit your own personal circumstances.

Shopping around – the open market option

You do not have to accept the annuity your pension provider offers you. Despite this many retired people don't shop around.

If an annuity is appropriate for you, your adviser will search the whole of the market to identify the right annuity for your needs. This can make an enormous difference to your retirement income.

Flexi-access drawdown

Flexi-access drawdown is a term used to describe withdrawing money directly from your pension savings, rather than purchasing an annuity, which is a type of insurance contract.

You can think of flexi-access drawdown as a bit like a bank account. You keep control of your pension fund, investing it and drawing down income as you need it, when you need it. You have complete flexibility over how much you take out and how often you take it. Once you have drawn your 25% tax-free cash entitlement, any further withdrawals are subject to income tax.

> *Tax planning is not regulated by the Financial Conduct Authority.*

The complete flexibility that flexi-access drawdown gives you is its big advantage.

On the downside it brings two big risks:

- Your investment returns need to be sufficient to support your withdrawals.
- You could withdraw too much too quickly and run out of money.

Withdraw your whole pension fund in one go

As long as you are aged 55 or over and you haven't withdrawn any money from your pension already, you can cash in your pension in one go. If you cash in your entire pension fund, 25% will be tax free and the other 75% will be subject to income tax, but it's important to realise that receiving a large amount of money could push you into a higher rate tax bracket.

The advantage of this is you can access a large amount of cash, perhaps to generate retirement income in other forms, such as by purchasing a property for rental income.

The disadvantages are twofold:

- Once your pension fund is gone, it will no longer be available should your other sources of income fail or if you need to pay for care in later life.
- You may lose as much as 45% of the taxable portion in tax even if you are usually a basic rate taxpayer. This is because the lump sum from your pension fund could easily elevate you into the highest tax bracket.

Passing on your retirement savings

What happens to the money in your pension pot or drawdown when you die will depend on the rules of your pension.

The rules will either say:

- The pension administrator will choose who your beneficiary is. In this instance they will have asked you to nominate who you would like your money to go to when you die. This nomination is not binding, but they will take this into consideration when they choose your beneficiary. This money will normally not form part of your estate for inheritance tax purposes.
- That you can choose to make a nomination that the pension administrator must follow (called a binding nomination). This money will form part of your estate for inheritance tax purposes.
- That the money can be paid to your estate.

The main options available to the beneficiaries will be a lump sum payment of the funds, an annuity and flexi-access drawdown (FAD). While a lump sum and annuity can be offered to any beneficiary, the option for FAD must be at least initially offered as part of your pension scheme. If this is not offered, it is not possible to transfer funds to another scheme and then enter FAD.

Another point to look out for would be your expression of wish. FAD will always be available to your dependants (assuming the scheme offers it). However, if there is a non-dependant adult child or a friend etc., they may only be offered FAD if they are specifically named on your nomination.

It's important that if you change your mind, you update your expression of wishes.

Your beneficiary might have to pay income tax on what they get. This depends on how old you are when you die and how much you have in pension savings.

*If you die **before** you reach age 75*	*If you die **after** you reach age 75*
Income tax	**Income tax**
Your beneficiary will not need to pay any income tax.	Your beneficiaries might have to pay income tax. If you have left money to a company, trust or charity, they will have to pay 45% tax.

It's important that if you change your mind, you update your expression of wishes.

We’re here to help you

At Quilter Financial Planning, we take pride in offering a personal service that considers your individual circumstances. Your financial situation is unique, so we work hard to understand your goals and aspirations, and make financial recommendations based on a comprehensive and detailed analysis of your needs.

The service we offer you provides a winning combination of professional advice, choice and value.

Whatever your needs in retirement, we can give you a complete financial advice package that ensures you enjoy your new beginning.

The value of pensions and investments can fall as well as rise, you may get back less than you invested.

The Quilter Foundation is Quilter's charity. The Quilter Foundation provides vital funding to carefully selected charitable organisations, focusing on education, employment and health & wellbeing.

To find out more visit:
www.quilter.com/the-quilter-foundation

www.quilter.com

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