Your pension: it's time to choose

- Thinking about accessing your pension pot
- Deciding how to take your retirement income
- Shopping around for the best income

Money & Pensions Service

the Money Advice Service

Pension wise
Get to know your options
Backed by HM Government

The **Money and Pensions Service** is an arm's-length body of Government, bringing together the Money Advice Service, Pension Wise and The Pensions Advisory Service, and providing money guidance, pensions guidance and debt advice (in England).

As well as guidance about pensions and retirement, we offer information on a wide range of other money topics.

Visit our websites today for guidance, tips and tools to help you make the most of your money and pensions.

moneyadviceservice.org.uk

pensionwise.gov.uk

pensionsadvisoryservice.org.uk

Free impartial advice

- on the web
- on the phone

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

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) to provide a 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 the time you want to access your pension pot (whether you are retiring or not) 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.

Contents

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 pot built up from contributions paid into a workplace pension (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.

Checklist

What to do before accessing your pension pot

This checklist applies if you're fully retiring, partially retiring or just thinking of taking some of your pension pot 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**. See *Useful contacts* on page 44.

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.
- 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 **moneyadviceservice.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 44.

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 30 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 33.

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 large or small your pension pot, we encourage you to take advantage of Pension Wise to help you understand what your choices are.

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

After you have taken guidance if you are clear on which option you are choosing and this involves buying a retirement income product, shop around to make sure you get the best value product for you. If you are not sure how to do this, or you are still unclear about which option is best for you, we recommend you take regulated financial advice.

See *Shopping around and getting advice* on page 30.

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 and when. To get a State Pension statement go to **gov.uk/check-state-pension**. See Useful contacts on page 44.
- 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 – to give Pension Wise a fuller picture from which to discuss your options.

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

After your appointment

If you are buying a retirement income product it's 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 can help prevent costly mistakes. Also, with regulated financial advice, you have protection if a product you are recommended to buy turns out to be unsuitable for you.

To find out about tax breaks you can use to help pay for regulated financial advice see page 32.

To find out more about shopping around and getting advice, see page 30.

If you are completely 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 or for a fixed term – also known as a lifetime or fixed term 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 – also known as pension drawdown. 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 18.

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 21.

Take your pension pot in one go – Usually the first 25% will be tax-free and the rest is taxable. See page 24.

Mix your options – choose any combination of the above, using different parts of your pot or separate pots. See page 26.

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 30.

Get free guidance and take financial advice

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 regulated financial adviser before making a final decision. See pages 6 and 31 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**.

You must have reached normal minimum pension age to access your pension pot – currently 55. Only in very rare circumstances (such as ill health) will you be able to access your pot before age 55. Check with your pension provider.

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 resist 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 each year on pension contributions, including any employer contributions, on the lower of 100% of your taxable earnings or up to £40,000 (2019-20 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 35, Tapered *Annual Allowance* on page 39.

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

Things to think about

If you don't need the money in your pension pot and you haven't made firm plans for retirement, then the option to 'do nothing' should be carefully considered. The longer you delay, the higher your potential retirement income, as the money you have saved into your pension pot could continue to grow.

However money that is invested can also go down in value, so make sure you review your savings regularly and, if necessary, get advice from a regulated financial adviser. You will have to pay for the advice, but it could save you a lot of money (and worry) in the long run.

There will be ongoing costs for leaving your pot where it is – but there are costs involved in all options, so don't let this put you off. Your provider should confirm all the costs you will pay if you leave your pension pot invested with them.

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. Also check that you won't lose any valuable income guarantees if you delay your retirement date.

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) is £1,055,000 for 2019-20. If this is likely to affect you, we recommend you get financial advice. See page 37 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 30 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 inherited pension pots 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 the provider becoming aware of your death. If it is paid after the two year limit, 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, (£1,055,000 for the 2019-20 tax year), further tax charges will be payable by the beneficiary. To find out more about the *Lifetime Allowance* see page 37.

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 or for a fixed term

Guaranteed income products are more familiarly known as annuities. You can choose to buy one that will last as long as you live (a lifetime annuity) or for a fixed term (a fixed term annuity).

How it works

You can normally choose to take up to 25% (a quarter) of your pot as one-off tax-free lump sum and use all or some of the rest to buy a guaranteed income. The income can be guaranteed for life or for a fixed term. You can buy from your own provider (if it sells them) or another provider. You must buy within six months of taking your tax-free lump sum.

As a rule of thumb, the older you are when you take out a guaranteed income product (annuity), 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 16.

Lifetime income options

Lifetime guaranteed income products are more familiarly known as lifetime annuities. There are several options to choose from:

Single or Joint: you can choose an income for you only which stops when you die (single), or one that also provides an income for your spouse, civil partner or other nominated beneficiary after you die (joint). A joint income will normally be lower as it's designed to pay out for longer.

Level or Increasing: you can choose an income which is fixed at the same amount throughout life (level) or one that starts lower but rises over time by a set amount or by inflation (increasing).

Guarantee Period: a form of protection which guarantees that your income will continue for a set period of time even if you die during that period. For example, if you opt for a guarantee period of 10 years and die after two years, payments would continue to a nominated beneficiary for eight years.

Value Protection: another form of protection but value protection ensures a lump sum is returned to your beneficiary(ies) if you die before you have received back, as income, the full amount used to buy your annuity. So if you paid £50,000 and only received back £30,000 in income by the time you died, £20,000 would be paid to your beneficiary(ies). You would normally choose either a guarantee period or value protection.

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.

Be honest – and get a higher income

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' or 'lifestyle' 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. Otherwise you could be turning down a considerably higher income, in some cases up to 50% more.

Fixed term guaranteed income options

Instead of opting for a guaranteed income paid out for life, you can choose to have it paid for a set term between 3 and 30 years (also known as a **fixed term annuity**).

You can either stipulate how much income you want and for how long and get a quote for the cost – or you can stipulate how much you want to pay and how long you want the income for and get a quote for the amount of income that will buy you. There are only a few providers of fixed term guaranteed income products, so it's worth checking with all of them as they do have different rates. You can get quotes for both lifetime guaranteed income products and fixed term guaranteed income products by using our comparison table **comparison.moneyadviceservice.org.uk/en/tools/annuities**

With fixed term guaranteed income products you can also choose to have a cash sum returned at the end of the term. This is known as the 'maturity value'. You can either stipulate how much you want back, or the provider(s) will calculate this for you depending on how much of your pension pot you are using and/or how much income you want.

Some providers allow you to choose a joint fixed term income so that if you die during the term the income carries on being paid to your nominated beneficiary until the end of the term.

Normally providers include some form of protection so that you will have something returned to your beneficiaries if you die during the fixed term - however this varies between providers. Some will continue to pay the income until the end of the fixed term and guarantee to pay any maturity value requested. Others just pay back the balance of income unpaid. Before you choose which provider to use for your fixed term income product, check the level of protection they offer.

More features or a higher level of protection may come with a higher cost or reduce the income you can get. We recommend you run several quotes through our comparison tables to see what you might be able to get with different providers.

Investment linked income products

These products are also known as investment linked annuities and can be considered if you're willing to take more risk. With these products your income rises and falls in line with the value of investments you choose when you purchase the product. You can still choose an income product that pays out for a fixed term or for life but either way the income you get isn't guaranteed.

With this type of income product, you could receive more or less over the longer term than with a guaranteed income product – it depends on how the underlying investment funds perform.

Some investment linked products guarantee a minimum income if the fund's performance is weak.

Most of the options that are available with guaranteed income products are available with investment linked income products, such as a joint income paid to your partner if you die, or a guarantee period or value protection. A higher income paid because of health or lifestyle is also available with investment linked income products.

Some products allow you to change your investment options or take lower payments later.

Things to think about

Guaranteed income products (annuities) provide a regular income for life or for a fixed term, so are a good option if you want peace of mind or are worried about your money running out.

However, once you've bought a guaranteed income product you have very little time to change your mind so think carefully before you commit.

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

Key points

- You don't have to buy your existing provider's guaranteed income product – many 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.

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

Some older pension policies offered a guaranteed rate of income when you retire (known as a guaranteed income rate or GAR). If your pension policy has this option this is a valuable benefit and may be hard to match in the market – however shop around to check. See page 30.

If you have a guaranteed annuity rate your provider should tell you about it and its value relative to the open market, in the information it sends you.

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

Also think carefully about whether you need to provide an income for your partner or another dependent on your death.

Investment linked income products (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 30.

If you buy a 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 18), 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 or fixed term income products. Some may only offer one type, or offer to buy one on your behalf.

If your provider offers you a quote for a lifetime guaranteed income they must also give you a further quote from the open market for comparison.

Currently most providers won't give you a quote that takes account of any health or lifestyle issues you have – so be sure to shop around before deciding who to go with – you're likely to get a better income than sticking with your current provider. However, new rules coming in from November 2019 will mean all providers will have to ask questions to find out if you might be eligible for a higher income because of your health or lifestyle, and if so, provide a quote.

Even so, we strongly recommend that you get regulated financial advice before making a final decision – that way you are protected if things go wrong. See page 30 for more on shopping around and getting advice.

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 pages 40 and 42 for examples of how pension income is taxed. Note that there are different tax rates and bands in Scotland to the rest of the UK. We have provided separate tables for Scotland and England, Wales and Northern Ireland.

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 £1,055,000 (2019-20 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 37.

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 (2019-20). See *Annual Allowance* on page 35.

However, if you buy a lifetime annuity where 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 *Money Purchase Annual Allowance* on page 38.

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**.

Don't just look at the quotes that your own provider offers. Shop around to see if you can get a better deal with another provider. Many people do. We strongly recommend getting financial advice before making a final decision.

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 moneyadviceservice.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** (see page 12) 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** (see page 12) 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 pages 41 and 42 for examples 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 **moneyadviceservice.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 Financial Conduct Authority (FCA) so you can have peace of mind 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 to a flexible retirement income product known as 'pension drawdown'. The income normally isn't guaranteed but you have flexibility over the amount you can draw and how often.

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 must then move the rest into a flexible retirement income product product within six months, or risk a tax charge. It's really important that you shop around for the best product for you – even if you just want to take your tax-free cash for now. See why below.

Flexible retirement income products (pension drawdown) offer investment funds that are designed to provide an income. You choose to invest in funds 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 choose to take your income at times to suit you – e.g. monthly, quarterly, yearly or you could take irregular withdrawals. Many people use it to take a regular income. You can start taking the income straight away or wait until a later date.

The income is taxable. See Tax you will pay on page 20.

To help provide more certainty, you can at any time use all or part of the money in your flexible retirement income product to buy a guaranteed income either for life (a lifetime annuity), or for a set term (a fixed term annuity) or to buy another 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.

IMPORTANT:

Even if you just want to access your tax-free cash for now, you still have to make a decision about what to do with the other 75% of your pension pot. If you don't then it's likely it will end up by default in your current provider's drawdown product. Your current provider's product may be the best one for you, but you won't know unless you have compared it to other products on the market. For example there may be other products that have lower charges, a wider investment choice, or more flexible features. To help you shop around we strongly suggest you see a regulated financial adviser. An adviser can search the market for the best product for you and help you decide on your choice of investment funds. If you don't take advice and you end up in an unsuitable product, it unlikely you will be able to make a complaint. For more help on how to find a regulated financial adviser see page 30.

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 regulated 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. Fees and charges differ, so that's another reason why it's important to compare products. Always 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. If you are in any doubt about what to do, take regulated financial advice. You will have to pay for the advice but it could save you money in the long run.

You can use our online tool at **moneyadviceservice.org.uk/drawdown-tool** to find out which other providers offer flexible retirement income products, but currently you can't compare products using this tool. That's why we recommend getting regulated financial advice. Comparing these products is complicated. See page 30 for information on shopping around.

Tax you will pay

You pay tax on any withdrawals you take outside of the tax-free cash allowance. How much tax you pay depends on your total income and the Income Tax rate(s) that applies to you. See pages 40 and 42 for examples of how pension income is taxed depending on whether you live in England, Wales, Northern Ireland or Scotland.

Your provider will deduct tax from your income payments in advance under 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 the value of all of your pension savings is above £1,055,000 (2019-20 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 37.

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 (See *Money Purchase Annual Allowance*, page 38) 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.

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 the provider becoming aware of your death. If it is paid after the two year limit 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 pages 41 and 43 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 to, 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% (a quarter) will be tax-free and the rest is taxable. See Tax you will pay on page 22.

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 18 - your pot isn't automatically re-invested into new funds specifically chosen to pay you a regular income, but you can change your investment choice if you want to. It's always a good idea to regularly review your investment choice to make sure your remaining funds match how much risk you want to take and are not underperforming.

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 22 and the examples of how pension income is taxed on pages 41 and 43.

If you plan to use cash withdrawals from your pension to pay down debts, check out alternatives first. There may be better ways to pay off debt than using your pension savings.

To find out where to get free debt advice use our Debt advice locator tool at **moneyadviceservice.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 strongly recommend getting financial advice. Find out how to shop around on page 30.

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 **moneyadviceservice.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 pages 41 and 43 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 have to claim the money back – or you may owe more tax if you have other sources of income.

If the value of your pension savings is above the Lifetime Allowance of £1,055,000 (2019-20) and these savings haven't already been assessed against it, further tax charges may apply when you access your pension pot. See Lifetime Allowance on page 37.

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 *Lifetime Allowance* on page 37 for more information.

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.

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 in 2019-20) or 100% of your taxable earnings. If you want to carry on saving into a pension, this option may not be suitable.

To find out more see Money Purchase Annual Allowance on page 38.

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 the provider becoming aware of your death. If it is paid after the two year limit 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 pages 41 and 43 for examples of how pension income is taxed.

Lifetime Allowance charges:

- if the value of all of your pension savings is above £1,055,000 (2019-20) when you die, further tax charges may apply. See *Lifetime Allowance* on page 37.

To find out where to get free debt advice use our Debt advice locator tool at moneyadviceservice.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% (a quarter) will be tax-free and the rest will be taxable. See Tax you will pay on page 25.

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, 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 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 **moneyadviceservice.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 offer this option, and to access your money you may first need to transfer to another scheme or provider who does. 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% (a 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 the Lifetime Allowance of £1,055,000 (2019-20) 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 37.

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 37 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) or 100% of your taxable earnings.

See *Money Purchase Annual Allowance* on page 38.

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.

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 30 for information on getting financial advice.

Not all pension schemes and providers will offer every option – but you still have the choice. See page 30 for how to shop around.

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 flexible retirement income product (also known as pension drawdown) 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 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 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 of £40,000 (2019-20) 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 – the Money Purchase Annual Allowance.
6. The amount of tax relief you can get is reduced from £40,000 (the Annual Allowance in 2019-20) to £4,000 - the Money Purchase Annual Allowance.

See page 35 *Jargon Buster* for more information on the above allowances.

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 – once you start to draw an income[6]	Yes[6]	Yes[6]

**If you choose a guaranteed income for a fixed term, income will be guaranteed for the term only not for life.*

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 Step 3, page 31. 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. (Note that if you request a quote for a guaranteed income for life (a lifetime annuity) your provider must also offer you an equivalent quote from the open market for initial comparison.)

After shopping around – and even if you're thinking of delaying taking your pension – we recommend that you get financial advice. See page 31.

- 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 guaranteed income for life (or for a fixed term) answer any medical and lifestyle questions fully and accurately, as this could significantly increase the income you could get. (You can can use our *annuity comparison tool* and go through the health questionnaire on to get an idea of what you might get).

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

Comparing guaranteed income quotes (annuities)

(Your provider's quote and the open market quote they must also provide won't give you the full picture of what you could get. Be sure to use one or more of the following steps.)

- You can compare guaranteed

income products (annuities) using the Money Advice Service Annuity comparison tables **moneyadviceservice.org.uk/annuities**.

- Use an annuity broker who will do the quote gathering for you. However, be careful because most don't offer advice or 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
- 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 **moneyadviceservice.org.uk/drawdown**
- 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

The new Pensions Advice Allowance offers tax breaks to help you pay for financial advice. See page 32.

you turns out to be unsuitable you can make a complaint and if necessary, go to the Financial Ombudsman Service.

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 help 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 **moneyadviceservice.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 but is harder to spot. Be sure and ask what the intermediary or provider is being paid for the service.

Top tip

Choose a financial adviser who can recommend products from the whole market.

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, Pensions 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 44.

How to spot a scam

As well as the points above, watch out for one or more of these common features of 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 **pensionwise.gov.uk** 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 £36,000 but may be a lesser amount if the Tapered Annual Allowance applies for the tax year concerned.

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 2019-20, 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 is made which claws back any tax relief that was given at source. See also *Money Purchase Annual Allowance*, page 38.

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 '*Flexible retirement income product*'.

Fixed-term annuity
A retirement income product that guarantees a regular income for a set period – typically 5 or 10 years but can be longer – and pays out a 'maturity amount' at the end.

Financial adviser
See '*Regulated financial adviser*'.

Final salary pension
See *Defined Benefit* pension.

Flexible Retirement Income Product
More commonly known as 'income drawdown' or 'pension drawdown' This 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 product' or 'pension drawdown'.

Income Tax rates

Income Tax is split into bands and you pay different rates based on these bands. In 2019-20 the bands are 20%, 40% and 45% in England, Wales and Northern Ireland and 19%,20%, 21%, 41% and 46% in Scotland. Your pension income is added to your other earnings and then taxed according to which tax band (or bands) it falls inside. See page 40 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 may be 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 2019-20 the Lifetime Allowance is £1,055,000.

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 spouse, civil partner or dependent for life after you die in return for a lower income.

Market value reduction
A reduction to your pension pot that could apply if your pension pot is invested into a with-profits fund and you cash it in before or after its maturity date, or other date(s) specified in the policy terms and conditions.

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 (2019-20) 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 one or more small pension pots valued at less than £10,000. (Applies in most cases.)

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

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% (a 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

England, Wales and Northern Ireland (see page 42 for Scotland)

Income Tax is split into 'tax bands' and you pay different rates: 20%, 40% and 45% based on these bands. The practical effect for the 2019-20 tax year is seen in the table below.

Income Tax Bands 2019-20 – England, Wales and Northern Ireland		
Taxable income	**Tax rate for most people***	**'Tax band' value****
Up to £12,500	0% ('Personal Allowance')	N/A
Between £12,501 & £50,000	20% (Basic rate)	£37,500
Between £50,001 & £150,000	40% (Higher rate)	£100,000
Above £150,000	45% (Additional rate)	Unlimited

**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 £125,000 or above.*
*** 'Tax band' value is the amount of income between one tax band and the next. Income that falls into each band is taxed at the relevant tax rate for that band*

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.

The same principles apply if tax is payable by your beneficiary(ies) on inherited pension income or lump sums after you die. Tax might be payable if you die aged 75 or over, or if benefits are not paid within two years of provider becoming aware of your death.

Tax on your pension income: England, Wales, Northern Ireland – 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 £42,000 (e.g. any salary plus taxable savings/investment/rental income)
- taxable pension income of £15,000 (after any tax-free amount has been taken).

Total taxable income example: England, Wales or Northern Ireland (2019/20)			
Income breakdown (£57,000)	**Tax rate applied**	**Applied to**	**Tax payable**
First £12,500	N/A ('Personal Allowance')	The first £12,500 of the non-pension income	No tax
Next £37,500*	20% (Basic rate)	The remaining £29,500 of the non-pension income (£42,000 less £12,500 = £29,500). The first £8,000 of the £15,000 pension income (£37,500 less £29,500 = £8,000)	£5,900 £1,600
Final £7,000	40% (Higher rate)	The remaining taxable pension income (£15,000 less £8,000 = £7,000)	£2,800
		Total tax payable	**£10,300***

** See 'Tax Band' value on page 40*

Scotland

Income Tax is split into 'tax bands' and you pay different rates: 19%, 20%, 21%, 41% and 46% based on these bands. The practical effect for the 2019-20 tax year is seen in the table below.

Income Tax Bands 2019-20 – Scotland		
Taxable income	**Tax rate for most people***	**'Tax band' value****
Up to £12,500	0% ('Personal Allowance')	N/A
Between £12,501 & £14,550	19% (Starter rate)	£2,050
Between £14,551 & £24,945	20% (Basic rate)	£10,395
Between £24,946 & £43,430	21% (Intermediate rate)	£18,485
Between £43,431 & £150,000	41% (Higher rate)	£106,570
Over £150,000	46% (Additional rate)	Unlimited over £150,000

**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 £125,000 or above*

*** 'Tax band' value is the amount of income between one tax band and the next. Income that falls into each band is taxed at the relevant tax rate for that band*

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.

The same principles apply if tax is payable by your beneficiary(ies) on inherited pension income or lump sums after you die. Tax might be payable if you die aged 75 or over, or if benefits are not paid within two years of provider becoming aware of your death.

Tax on your pension income Scotland – 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 £42,000 (e.g. any salary plus taxable savings/investment/rental income)
- taxable pension income of £15,000 (after any tax-free amount has been taken)

Total taxable income example: Scotland (2019-20) £57,000 (£42,000 + £15,000 pension income)			
Income breakdown (£57,000)	**Tax rate applied**	**Applied to**	**Tax payable**
First £12,500	N/A ('Personal Allowance')	The first part of the £42,000 non-pension income	No tax
Next £2,050*	19% (Starter rate)	The next part of the non-pension income	£389.50
Next £10,395*	20% (Basic rate)	The next part of the non-pension income	£2,079
Next £18,485*	21% (Intermediate rate)	The final £17,055 of the £42,000 non-pension income – now used up. The first £1,430 of the £15,000 pension income	£3,581.55 £300.30
Final £13,570	41% (Higher rate)	This is the remaining taxable pension income (£15,000 less £1,430)	£5,563.70
		Total tax payable	**£11,914.05**

** See 'Tax Band' value on page 42*

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 guidance 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 0800 915 4622
Mon - Fri: 8am to 6pm

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 authorised and regulated to provide advice by the Financial Conduct Authority (FCA).

Use our online Retirement adviser directory at **moneyadviceservice.org.uk/directory**

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
0800 731 0175
gov.uk/check-state-pension

Claiming State Pension
0800 731 7898
gov.uk/state-pension

Deferring State Pension
0800 731 7898
gov.uk/deferring-state-pension

The Pension Tracing Service
0800 731 0193
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
moneyadviceservice.org.uk/directory
or call **0800 138 7777**

Your pension: it's time to choose
is one of the guides available from the Money Advice Service. To see our full range of guides and request copies visit **moneyadviceservice.org.uk/freeguides**

Money Advice Line **0800 138 7777***
Typetalk **1800 1 0800 915 4622**

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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