Retirement Options Booklet

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QUICK GUIDE: The following pages contain a substantial amount of technical information so this summary will hopefully be of assistance.

ANNUITIES	SCHEME PENSION	PHASED RETIREMENT	EXISTING DRAWDOWN PENSION - CAPPED	FLEXI-ACCESS DRAWDOWN	UFPLS
Regular and secure income for life	Regular and secure income for life	Part of your fund and part of your tax-free cash are used in segments to provide annuity income.	Tax-free cash lump sum paid at outset and fund remains invested. Income can also be selected if required.	Tax-free cash lump sum paid at outset and residual fund (subject to income tax) can be accessed immediately.	A lump sum is paid up to the full value of the plan. No regular income.
Tax-free cash provided at outset and fund used to purchase an annuity paid for life.	Tax-free cash paid at outset and fund used to provide income for life.	The balance of the fund not used for income / tax-free cash remains invested with a view to providing higher future benefits.	The balance of the fund not used for income remains invested with a view to providing higher future benefits.	Immediate access to the entire fund to provide income with no limits. 25% tax-free Cash the rest subject to income tax.	Immediate access to as much of the fund as required. Of the amount paid out, 25% is paid free of tax with the rest subject to income tax.
Your annuity income is paid at least annually and can increase, decrease or remain level in payment.	Your annuity income is paid at least annually and can increase or remain level in payment.	Your starting annuity is smaller, but is supplemented by a portion of your tax-free cash sum.	You can choose the income you want, and when you want it, between nil and 150% of an equivalent single life annuity.	You can choose the income you want, and when you want it.	There is no regular income but you can choose when and how much of a lump sum you require.
Additional options can be selected at outset such as annual increases, spouse's benefits or guarantees which reduce your own income.	Additional options may be offered at outset such as annual increases, spouse's benefits or guarantees which reduce your own income.	Each year you decide how much fund to use for annuity purchase and how much tax-free cash is used to supplement your income.	If investments do well, you may benefit from higher future income payments, and vice versa.	On death, if there is any fund remaining then it is available to pay benefits to your beneficiaries.	As long some funds are left in the plan, if investments do well you may benefit from higher future lump sum payments.
Once you have bought your annuity, you usually cannot change your mind or change benefits. On death there may also be the option of a capital payment less tax.	Pension income paid directly by scheme. Once in payment you cannot change your mind or change the benefits.	Because you don't commit all your funds to buy an annuity immediately, you keep your options open.	On death, the remaining fund is available to pay benefits to your beneficiaries.	Policyholder must advise all other 'active' pension plan providers that they have flexibly accessed their benefits within 91 days, or face possible HMRC fines.	Policyholder must advise all other 'active' pension plan providers that they have flexibly accessed their benefits within 91 days, or face possible HMRC fines.

QUESTIONS YOU NEED TO CONSIDER BEFORE SELECTING WHICH OPTION TO USE FOR YOUR RETIREMENT BENEFITS

The government has not prescribed a particular product which you will need to purchase or invest in to access your pension savings. To assist with this, the government has set up Pension Wise, a free and impartial service to help you understand the new options.

It will be up to you to decide how you want to access the funds, either as a lump sum or through some sort of financial product. Therefore, in order to ensure you are provided with a suitable recommendation we have discussed and assessed the following:

What does retirement mean to you?

- Do you want to stop working altogether, keep working as long as possible, or gradually reduce your working hours?
- Do you have a specific age in mind?
- Will you want to sell any assets, such as a business or a property?
- Are you aware of the Pension Wise Service?

How do you want to live in retirement?

- Are there any once in a lifetime dreams you want to fulfil?
- Have you any plans to move abroad, purchase a second property or invest your pension savings?
- Do you anticipate living in your current house or downsizing?
- When will you need to generate retirement income and how much?
- Are you aware of the potential impact on future means tested benefits?
- Will you need your income monthly, quarterly or annually? Does it have to be paid immediately?
- Are you comfortable with the Tax Implications of taking retirement benefits?

How much risk can you afford to take with your income?

- Do you need to pay specific bills, debt or regular payments out of this income?
- Does it matter if some or all of your income fluctuates, and goes up or down? How much?
- Are you concerned with the loss of any guarantees on your existing pensions?
- If this income was not paid out how long could you last from other sources? What other income sources or assets do you have available?
- How important is certainty of income, is there a minimum you need to meet?

How much risk do you feel comfortable with?

- Would you rather take some risk with this income to see if you can get more even if this means it may go down and you could lose it altogether?
- Is it important for you to retain flexibility accepting this comes with some additional risk, or would you prefer to make an irreversible decision in return for greater certainty of income?

- Are you more concerned about the risk of inflation eroding the relative value of your money, or investment fluctuations eroding the absolute value of it?
- Are you comfortable in retaining an ongoing involvement in managing your retirement income, albeit with professional help, or would you rather make a decision and then forget about it?

Preparing for the worst

- How healthy are you? Do you have any illnesses or any concerns about how long you might live, or require an income for?
- Do you have any future financial obligations to meet, such as debts?
- Do you have dependents, such as family, who would be reliant on your income when you die? When if at all, would this dependency end?
- Do you wish to leave an inheritance?
- Should you need specialist care in later life, do you have any views on what type of care you would prefer?

Overview

An annuity is simply a series of payments made at selected intervals in return for a pension fund. The level of payment is dependent upon age, annuity rate, size of fund and options selected. Annuity rates tend to mirror interest rates since they are related to the returns earned on Fixed Interest Gilt Edge Securities. There are many different types of Annuities and these are covered later on in this section.

Tax-free Cash

Most types of pension plan have the option of taking a tax-free cash lump sum before exchanging the residual fund for a series of payments. Once an annuity has been purchased there is no further entitlement to tax-free cash, therefore the decision of whether to access the cash or not needs to be made at outset.

Income

Annuity payments are taxed at source under the PAYE system. Provided a P45 is presented the annuity will be paid net of your marginal rate of tax and there will be no further tax liability. Payments can be made monthly, quarterly, half yearly or yearly and can be in advance or arrears. Payments can remain level, can decrease or can increase e.g. at a set rate or in line with an index such as the Retail Prices Index.

Death Benefits

The option of what type of death benefits to include must be made at outset. The options available are as follows:-

- A spouse's or dependents pension up to 100% of the pension you had received
- A lump sum

Protecting your annuity

Your spouse/dependants/beneficiaries can enjoy a guaranteed level of gross income, in the event of your death (if this option is selected at outset). For survivors' annuities, the income will be tax-free if you were to die before age 75 and taxed on the recipient at their marginal tax rate(s) if you die after age 75.

Your pension can be payable for a guaranteed minimum period of time (e.g. 5 or 10 years). You have the option to include annuity protection in which your beneficiaries will receive a lump sum on your death equal to the difference between the amount you paid to purchase the annuity and the gross annuity payments you had received up to your death (the payment will be tax-free on death before 75 and taxed at the recipient's marginal income tax rate(s) if you die after age 75.).

Advantages

- You will receive a guaranteed income for life, and you can elect for your spouse/beneficiaries to receive a guaranteed income or a lump sum less tax upon your death.
- Tax-free cash is available at outset.
- There are no additional charges applied to the contract once in force. All charges are taken at outset and are reflected in the annuity rate offered.
- The contract is simple to understand, there is no need to review the contract and there is minimal paperwork needed to start the payment of benefits.

Disadvantages

- There is no opportunity of participating in future investment returns.
- The various options in relation to death benefits and increasing / decreasing income levels etc must be selected at outset and will result in a lower initial pension payment. These selected benefits cannot be altered in the future.

Suitability

Annuities are most likely to suit individuals who want an absolute guarantee on their pension payments and/or for their spouse/partner. They therefore suit individuals with low attitudes to risk and a requirement for security and also individuals who have relatively small pension funds who will be heavily reliant on their pension income.

WITH-PROFIT ANNUITY

Overview

A with-profit annuity is similar to an annuity in that it is simply a series of payments made at selected intervals in return for a pension fund. The level of payment is also dependent upon age, annuity rate, size of fund and options selected. The main difference is that **the initial pension level and future income levels are also dependent on the performance of the underlying with-profits fund.**

An assumed future bonus rate (ABR) is selected at outset by the investor. The higher the ABR the greater the initial income, however if the actual bonus rate of the with-profit fund does not equal the ABR then the amount of pension payable in future will decrease. Most with-profit annuities offer a minimum guaranteed level of pension.

Tax-free Cash

Tax-free cash must be withdrawn at outset then the residual fund is exchanged for a series of payments. Once an annuity has been purchased there is no further entitlement to tax-free cash.

Income

Annuity payments are taxed in the same way as described under 'Annuities'. **Income will increase or decrease in payment depending on fund performance relative to the ABR.**

Death Benefits

The option of what type of death benefits to include must be made at outset. The options available are the same as under the Annuities section.

Advantages

- ❖ You will receive an income for life, and you can elect for your spouse/partner to receive an income or lump sum on death - less tax on death after age 75.
- ❖ Tax-free cash is available at outset.
- ❖ Charges are taken at outset and are reflected in the annuity rate offered. The with-profits fund deducts charges before bonuses are declared.
- ❖ The contract is relatively simple to understand and there is minimal paperwork needed to start the payment of benefits.

Disadvantages

- The selected income level is not guaranteed and is subject to increases and decreases based on future investment returns.
- The various options in relation to death benefits etc must be selected at outset and will result in a lower initial pension payment. These selected benefits cannot be altered in the future.

Suitability

With-profit annuities are most likely to suit individuals who want some guarantee on their pension payments but also want the potential to benefit from future investment return. They therefore suit individuals with low to medium attitudes to risk and security. They also suit individuals who have relatively small pension funds and who will be heavily reliant on their pension income.

UNIT-LINKED ANNUITY

Overview

A unit-linked annuity is very similar to a with-profit annuity in that it has all the same options and features but is invested in unit-linked funds rather than a with-profits fund. **The initial pension and future income levels are also dependent on the performance of the underlying unit-linked funds.**

Often the investor is allowed to assume a future rate of growth. The higher this assumed rate the greater the initial income, however if the actual growth does not match this rate then the amount of pension payable will decrease.

Tax-free Cash

Tax-free cash must be withdrawn at outset then the residual fund is exchanged for a series of payments. Once an annuity has been purchased there is no further entitlement to tax-free cash.

Income

Annuity payments are taxed in the same way as described under ‘Annuities’. **Income will increase or decrease in payment depending on fund performance relative to the assumed growth rate.**

Death Benefits

The option of what type of death benefits to include must be made at outset. The options available are the same as under the Annuities section.

Advantages

- You will receive an income for life, and you can elect for your spouse/partner to receive an income or lump sum - less tax upon your death after age 75.
- Tax-free cash is available at outset.
- The contract is relatively simple to understand and there is minimal paperwork needed to start the payment of benefits.

Disadvantages

- The selected income level is not guaranteed and is subject to future investment returns.
- Charges will be higher than under a ‘traditional annuity’.
- Any options to provide benefits on death must be selected at outset and will result in a lower initial pension payment. These selected benefits cannot be altered in the future.

Suitability

Unit-linked annuities are most likely to suit individuals who want some guarantee on their pension payments but also want the potential to benefit from future investment return. They therefore suit individuals with low to medium attitudes to risk and security, who have relatively small pension funds and who will be heavily reliant on their pension income.

ENHANCED LIFE or SPECIAL SITUATION ANNUITIES

Overview

Individuals in poor health (or those with a known medical condition e.g. diabetes) may apply for higher annuity rates due to their shorter life expectancy – this is often subject to a medical examination. Some individuals may be offered enhanced rates due to their lifestyle or physical condition, i.e. smokers or the clinically obese.

More recent developments have seen the introduction of Special Situation Annuities, which can be based on occupation and postcode. For example a bricklayer in Yorkshire will be given a higher rate than a stockbroker in Surrey.

In all other respects, these annuities are the same as an Annuity.

Suitability

These annuities are most likely to suit individuals who want absolute guarantee on their pension payments and are eligible for the higher rates. They therefore suit individuals with low attitudes to risk and security, although they may also be suitable for individuals with a high attitude to risk but who are in ill health.

SCHEME PENSION

Overview

This will be the only option – without transferring - for members of their employer's Defined Benefit (also known as Final Salary) Pension Scheme. Those with other types of pension arrangement can also choose this option if they do not wish to purchase a Lifetime Annuity. These pensions are paid either directly from the original pension scheme or on its behalf by an insurance company.

Payment of scheme pensions from Defined Benefit schemes are guaranteed for life.

Tax-free Cash

The scheme pension would allow the option of taking a tax-free cash lump sum at outset. Once income has started, there is no further entitlement to tax-free cash and moving out of the plan cannot be undertaken.

Income

Pension payments are taxed as earned income under the PAYE system as described under 'Annuities'.

Death Benefits

Pension protection may be included on death and a lump sum is paid which is equal to 20 times the starting scheme pension, less the gross pension payments received up to the date of death. This is paid tax-free if you die before age 75 and taxed at the recipient's marginal income tax rate(s) if you die after age 75.

It is possible to provide a dependant's Scheme Pension although it cannot be higher than the Scheme Pension the deceased received. This will be taxable on the recipient at their marginal income tax rate(s) whatever your age at date of death.

Advantages

- You will receive an income for life and you can elect for your spouse/partner to receive an income (subject to income tax) upon your death.
- Money purchase plan scheme pensions are regularly reviewed therefore income could be altered according to changes in health / fund performance.
- Tax-free cash is available at outset.
- The contract is simple to understand and there is minimal paperwork needed to start the payment of benefits.

Disadvantages

- For money purchase schemes, the benefits paid on death could be reduced if investment performance has been poor.
- Any options (if offered by the scheme) to provide benefits on death must be selected at outset and will result in a lower initial pension payment. These selected benefits cannot usually be altered in the future.

Suitability

Final Salary scheme pensions are likely to suit individuals who want a guarantee on their pension payments. They therefore suit individuals with low attitudes to risk and a requirement for security. Money purchase scheme pensions can vary and are likely to suit someone who is prepared to accept these income fluctuations. This would therefore suit individuals who have a balanced attitude to risk.

Overview

It is not necessary for all of the benefits to be taken from a Personal Pension at the same time (subject to any restrictions the product provider may impose). Some personal pensions are arranged not as single plans, but as clusters of many smaller separate plans, sometimes called 'segments'. The segments can then be used to buy annuities or converted into a drawdown pension at different times. It is no longer necessary for a Personal Pension to be physically split into segments in order to take benefits at different times, the pension provider would just need to be informed how much of your pension fund you wish to take benefits from.

Annuity Option

Each time you convert a segment (or portion of your pension fund) to an annuity, normally 25% of that portion is paid as a tax-free lump sum. Converting portions of the fund regularly, e.g. once a year, means you can effectively use the tax-free lump sum, as well as the annuity, to provide your income.

Drawdown Option

It is also possible to combine Phased Retirement with a Drawdown Pension which would mean that you would move only part of your pension fund into drawdown and take the tax-free lump sum and income (if required) from just that part. The balance of your pension fund would remain uncrystallised.

Tax-free Cash

If you stagger the conversion of your pension fund into annuities or drawdown you will not be able to take all your tax-free lump sum from your total pension fund at once.

Income

Annuity Option

Because the income is made up of annuity payments and a portion of tax-free cash, your overall liability to Income Tax is reduced. Payments are taxed in the same way as a regular Annuity contract and can be made monthly, quarterly, half yearly or yearly, in advance or arrears. Additionally, the payments can remain level, increase, or decrease in payment.

Drawdown Option

There is no requirement to immediately take an income from the crystallised funds. You can either commence income at a later date or move a further part of your pension fund into drawdown and start to draw an income, including the tax-free lump sum, from this further slice of your pension fund.

Death Benefits

Annuity Option
The option of what type of death benefits to include must be made at outset. The options available are the same as under the Annuities section.

Drawdown Option
Whether uncrystallised or in drawdown pension, any remaining pension fund on death can be paid to your beneficiaries as a lump sum or as income payments, tax-free if you died before age 75 and on death after age 75, taxed on the recipient at their marginal tax rate(s).

Advantages

- You retain investment control of the segments of your pension fund not yet used to purchase an annuity.
- As you get older there is the prospect of annuity rates rising and providing you with higher income. It is cheaper for insurance companies to purchase an annuity to provide a given level of income for someone age 70 than for someone age 60 (assuming the returns provided by medium to long-term gilt yields remain the same).
- You will be able to change the shape of your retirement income to reflect your personal circumstances in the future.
- The remaining pension fund (i.e. the policies not cashed in or 'vested') can be returned to your beneficiaries free of Inheritance Tax but see tax charges info above.

Disadvantages

- There is no guarantee that your income will be as high as that offered under the regular annuity route referred to earlier.
- Depending on the option selected, you might still purchase an annuity to provide income whenever you draw part of your tax-free cash. Of course, annuity rates at that time may not be favourable.
- Deferring the purchase of the annuity does not guarantee a higher level of future income, as annuity rates can go down as well as up and the value of the continued investment of your pension fund may go down as well as up.
- The value of your remaining pension fund, when aggregated with any annuity you have purchased, may not achieve an equivalent level of income to that which could have been purchased with the whole fund at outset via a regular Annuity. This is because withdrawals of tax-free cash and annuities purchased will erode the value of your pension fund if investment returns are not sufficient to make up the balance (including charges for the ongoing administration of the plan).
- You may feel that the prospect of future higher income does not compensate you for not being able to enjoy a guaranteed and secure level of income today and for the rest of your life.

- You will not receive all of your tax-free cash as a lump sum at outset, because you are using this cash to supplement your income.

Suitability

Phased Retirement is most likely to suit individuals who want to gradually retire, i.e. self-employed, or those individuals who are likely to be higher rate taxpayers. They also suit individuals with a medium or higher attitude to risk and security because there is an element of risk involved due to the balance of the pension fund remaining invested or those who have no immediate need for the tax-free cash to be taken up front.

Overview

There have been many different versions of Drawdown over the years. For plans set up prior to 6th April 2015, the most common type was:

Capped Drawdown

An annual income can be taken from the invested pension fund, if required. This income may vary between limits, set at outset by the Government Actuary's Department (GAD). The maximum limit is reviewed every 3 years up until age 75 and then annually thereafter. The figure is derived from tables published by the Government Actuaries Dept. (GAD) and is based on your fund size, age and the current gilt yield. This maximum current limit is broadly equal to 150% of a single life annuity that you could have purchased at that point. There is no minimum limit.

For individuals who took out these plans prior to April 2015, they will continue to run as they are providing income is kept below the 150% of GAD rates. Where this is the case the £40,000 annual allowance for new money purchase pension contributions will remain.

However, if more income than the 150% limit is taken, the plan automatically 'tips into' Flexi-access Drawdown and the annual allowance falls to £10,000. The policyholder can also request for the plan to be converted into a Flexi-access Drawdown if they wish.

Flexi-Access Drawdown

Flexi-access drawdown is the new term for drawdown pensions which allow you to place your pension funds in a drawdown plan and withdraw as much or as little as you want over any period, from age 55 onwards. Up to 25% of the fund can be taken as a tax-free lump sum when the fund is placed in drawdown, and any income taken will be taxed as pension income.

Please note that if you draw any income from this plan, your future money purchase pension contributions will be limited to a £10,000 maximum Annual Allowance.

Tax-free Cash

Most types of pension plan have the option of taking a tax-free cash lump sum before exchanging the residual fund for a series of payments. Ordinarily up to 25% of the fund – subject to the Lifetime Allowance - may be taken as tax-free cash, however if the pension funds are or were part of an Occupational Pension Scheme or the individual had applied for transitional protection, then the available tax-free cash may be greater than 25%. Tax-free Cash must be taken at outset and once drawn; there will be no further entitlement.

Income

A pension income does not have to be taken from the Flexi Access or Capped Drawdown options but if this is required, income is taxed as earned income under the PAYE system.

Death Benefits

Your beneficiaries can continue to take withdrawals from any remaining drawdown fund on your death (annuity purchase is also an option) or take the remaining fund as a lump sum. If you die before age 75 any income or lump sums taken by your beneficiaries will be tax-free.

If you die after age 75, any lump sum or income taken by your beneficiaries will be taxed at the recipient's marginal income tax rate(s).

Advantages

- You are able to take all of your tax-free cash lump sum entitlement at outset.
- You do not receive a set income but are able to vary it to suit your personal circumstances, to supplement other sources of income, or you have the option of taking it all at outset.
- You are able to mitigate your liability to personal income tax in certain years.
- You have the potential to benefit from good investment performance in a tax-efficient environment and to exercise control over your own investment portfolio.

Disadvantages – Capped & Flexi-access Drawdown Pension

- You may run out of money and have no pension left.
- Benefits are means tested by the DWP.
- High income withdrawals may not be sustainable during the deferral period.
- Taking large withdrawals may erode the capital value of the fund, especially if investment returns are poor and a high level of income is being taken. This could result in a lower income when the annuity is eventually purchased and could also affect the long term financial security of your spouse/partner.
- The investment returns may be less than those shown in the illustrations.
- Annuity rates may be at a worse level when annuity purchase takes place. Although annuity rates generally increase with age, they have fallen dramatically during the past 15 years. This trend may continue.
- A careful investment portfolio needs to be constructed which will involve some investment risk. This means the fund value could fall which could affect your future income levels.
- Withdrawing too much income in early years may have an adverse effect on preserving your pension purchasing power or preserving the capital value of your fund.
- Increased flexibility brings increased costs and the need to review arrangements on an on-going basis.

- There is no guarantee that your future income will be as high as that offered by an annuity purchased today.
- You may feel the prospect of the future higher income does not compensate for the known income available from an annuity now and for the rest of your life.
- The Financial Conduct Authority (FCA) has particular concerns in relation to mortality risk. If you purchase an annuity, you may benefit from a cross subsidy from those annuitants that die relatively early. This cross subsidy is not present with Drawdown Pensions and so to provide a comparable income, a higher investment return will be required. The impact of mortality can be expressed as an annual percentage rate by which the net investment performance of the remaining personal pension fund would have to exceed the interest rate implicit in an annuity in order to break even. This effect has become known as the 'mortality drag'.
- The charges are explicit whereas under an annuity they are inherent in the annuity rate offered.

Inheritance Tax Issues

The Government has confirmed that IHT will not typically apply to death benefits from pension schemes. They will however, be monitoring this issue so that pension schemes do not become a vehicle for IHT avoidance.

Critical Yield – existing Capped Drawdown only

Critical yields are illustrated by product providers using a common prescribed basis. There are two types (A and B).

Type A – the growth rate needed on the "drawdown" investment sufficient to provide and maintain an income equal to that obtainable under an equivalent immediate annuity.

Type B – the growth rates necessary to provide and maintain the actual level of income chosen.

Suitability

Both Capped and Flexi-access Drawdown (including combination plans) would be generally suited to the relatively sophisticated investor, who is capable of fully understanding the risks involved.

The contract can be used as a useful tax planning tool and a means of accessing pension fund tax-free cash without having to take the full taxable income.

UNCRYSTALLISED FUNDS PENSION LUMP SUM (UFPLS)

Overview

This new type of withdrawal was introduced in April 2015 and allows for a lump sum to be paid from an existing money purchase pension plan. An investor can withdraw as little or as much as they wish from their plan and any payment will allow for 25% of the monies to be paid tax-free and the remainder will be subject to your marginal rate of income tax.

This piece of legislation is likely to be useful for so called 'Zombie' companies who are no longer open for new business e.g. Equitable Life and Phoenix. It ensures that all policy holders enjoy the same pension's freedom even if the particular provider does not want to offer a Flexi-access drawdown contract.

If you use this option, any future money purchase pension contributions will be limited to a £10,000 maximum Annual Allowance.

Tax-free Cash

Most types of pension plan have the option of taking a tax-free cash lump sum before exchanging the residual fund for a series of payments. Ordinarily up to 25% of the fund – subject to the Lifetime Allowance - may be taken as tax-free cash, however if the pension funds are or were part of an Occupational Pension Scheme or the individual had applied for transitional protection, then the available tax-free cash may be greater than 25%. You should note that these higher entitlements **cannot be paid** if you use the UFPLS option as only 25% of the payment will be paid tax-free.

Income

With this option, a lump sum is paid rather than a regular income with 75% of the lump sum paid being subject to income tax under the PAYE system.

It should be noted that with the UFPLS option, income tax may be under an emergency coding initially. This may mean that you will need to liaise with your local Income Tax office to correct the level of tax paid (if necessary).

Death Benefits

Any pension funds that are still uncrystallised on your death (i.e. remain in your pension plan untouched) can be paid to your beneficiaries as a lump sum, used to provide an annuity income, or moved into drawdown to be drawn on as and when required. Funds withdrawn as a lump sum or as annuity or drawdown income will be tax-free if you died before age 75 and on death after age 75, will be taxed on the recipients at their marginal tax rate(s).

If you take the UFPLS and do not spend it, it will be included in your estate and be assessable for inheritance tax.

Advantages

- ❖ You are able to take as much or as little of your existing pension plan as necessary.
- ❖ You are able to mitigate your liability to personal income tax in certain years.
- ❖ It offers one of the most straightforward and simple options for pension payments at retirement.

Disadvantages

- ❖ You may run out of money and have no pension left.
- ❖ Benefits are means tested by the DWP.
- ❖ Any funds remaining in the plan are subject to investment risk. This means the fund value could fall which could affect your future income levels.
- ❖ You may feel that the flexibility of having payments made in the form of a lump sum as and when required does not compensate for the known income available from an annuity now and for the rest of your life.
- ❖ The Financial Conduct Authority (FCA) has particular concerns in relation to mortality risk. If you purchase an annuity, you may benefit from a cross subsidy from those annuitants that die relatively early. This cross subsidy would not be present in a plan from which UFPLS payments are made so to provide a comparable income, a higher investment return would be required. The impact of mortality can be expressed as an annual percentage rate by which the net investment performance of the remaining personal pension fund would have to exceed the interest rate implicit in an annuity in order to break even. This effect has become known as the 'mortality drag'.

Inheritance Tax Issues

The Government has confirmed that IHT will not typically apply to death benefits from pension schemes. They will however, be monitoring this issue so that pension schemes do not become a vehicle for IHT avoidance.

Suitability

The UFPLS option would be suited to an investor who already has enough income from other sources to rely on in retirement. Alternatively, it may be appropriate for an investor who only has a very small amount of money in a pension plan and the alternative retirement income options would prove to be uneconomical.

THIRD WAY PENSIONS

(Sometimes referred to as Guaranteed Retirement Options)

Overview

Against a background of increased volatility in stock markets, perceived poor rates being offered for Annuities, concerns regarding future inflation and the fact that people are now living longer, the retirement market was in need of a new type of product. These new plans are commonly known as 'Third Way' products and they are already very popular in the US and Japan. Essentially they fit in between a regular Annuity and a Drawdown plan as they offer the chance to still participate in stock market growth but with guarantees attached to either income, capital or both.

Whilst each specific product does differ in its features, the 'Third Way' pension is usually structured in one of two ways:-

Annuity – this option is commonly structured as a fixed term, value protected annuity plan, typically running for 5 years at a time, with the option to include guarantees to protect maturity values or the level of income. These products tend to offer the ability to alter income levels between certain limits and importantly, also allow the facility to provide a lump sum on death.

Flexi-access Drawdown – the second type of Third Way plan is structured as a Drawdown Pension plan but with the option to apply a guarantee to the initial investment so that your fund value will never fall below what you originally paid into the plan. Some plans also allow all or a portion of any growth in the plan's value to be locked in and a new minimum guaranteed level is then set. Finally, the option to select a guaranteed level of income is also commonly available.

Under both of the above options, you can choose to immediately take a tax-free cash lump sum and then, instead of buying an annuity, leave the remainder of the fund invested in a tax-efficient environment.

If you use either of these options, any future money purchase pension contributions will be limited to a £10,000 maximum Annual Allowance.

Tax-free Cash

Most types of pension plan have the option of taking a tax-free cash lump sum before exchanging the residual fund for a series of payments. Ordinarily up to 25% of the fund may be taken as tax-free cash, however if the pension funds are or were part of an Occupational Pension Scheme or the individual had applied for transitional protection, then the available tax-free cash may be greater than 25%. Tax-free Cash must be taken at outset and once drawn; there will be no further entitlement.

Income

No maximum. This income is taxed as earned income under the PAYE system.

Death Benefits

If you die whilst in a Third Way product the death benefits can differ depending on how the particular plan you are using has been set up e.g. annuity based or flexi-access drawdown based. You therefore need to check the specific product terms and Key Features.

Advantages

- You are able to take all of your tax-free cash lump sum entitlement at outset.
- Unless a guaranteed income is selected, you do not have to receive a set income but are able to vary it to suit your personal circumstances to supplement other sources of income.
- You are able to mitigate your liability to personal income tax in certain years.
- You have the potential to benefit from good investment performance in a tax-efficient environment and to exercise control over your own investment portfolio.
- You are able to add a safeguard in the form of a guarantee to limit any drop in your fund value and some products allow gains to be locked in.

Disadvantages

- You may run out of money and have no pension left.
- Benefits are means tested by the DWP.
- High income withdrawals may not be sustainable during the deferral period
- Taking withdrawals may erode the capital value of the fund, especially if investment returns are poor and a high level of income is being taken. This could result in a lower income when the annuity is eventually purchased and could also affect the long term financial security of your spouse/partner.
- The investment returns may be less than those shown in the illustrations.
- Annuity rates may be at a worse level when annuity purchase takes place. Although annuity rates generally increase with age, they have fallen dramatically during the past 15 years. This trend may continue.
- A careful investment portfolio needs to be constructed which will involve some investment risk. If capital guarantees are not included then this means the fund value could fall which could affect your future income levels.
- Withdrawing too much income in early years may have an adverse effect on preserving your pension purchasing power or preserving the capital value of your fund.
- Increased flexibility and the addition of guarantees bring increased costs and the need to review arrangements on an on-going basis.
- There is no guarantee that your future income will be as high as that offered by an annuity purchased today.
- You may feel the prospect of the future higher income does not compensate for the known income available from an annuity now and for the rest of your life.
- You may be prevented from withdrawing your chosen level of income due to the action of the GAD limits.

- The Financial Conduct Authority (FCA) has particular concerns in relation to mortality risk. If you purchase an annuity, you may benefit from a cross subsidy from those annuitants that die relatively early. This cross subsidy is not present with Unsecured Income plans and so to provide a comparable income, a higher investment return will be required. The impact of mortality can be expressed as an annual percentage rate by which the net investment performance of the remaining personal pension fund would have to exceed the interest rate implicit in an annuity in order to break even. This effect has become known as the 'mortality drag'.
- If you opt for an annuity version of the Third Way plan the charges are typically built in to the annuity rates offered. If you decide to choose a Drawdown Pension version of a Third Way plan, the charges are added on top.

Both of these are generally more expensive than a traditional annuity or Drawdown pension plan.

Inheritance Tax Issues

The Government has confirmed that IHT will not typically apply to death benefits from pension schemes. They will however, be monitoring this issue so that pension schemes do not become a vehicle for IHT avoidance.

Suitability

Both versions of this Third Way plan would generally suit a relatively sophisticated investor, who is capable of fully understanding the mechanics of the plan and the risks involved. The contract can be used as a useful tax planning tool and a means of accessing pension fund tax-free cash without having to take the full taxable income and it importantly allows the individual to defer annuity purchase until their future plans are clearer. The availability of guarantees allows this type of contract to be suited to more cautious individuals who would not normally suit a Drawdown Pension plan however, the guarantees do come at a cost. How the new system will affect you will depend on your individual circumstances and whether you have an income from other sources.

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3. Annuities (Secured Pension)
4. With-profits Annuity (Secured Pension)
5. Annuity (Secured Pension)
6. Enhanced or Special Situation Annuities (Secured Pension)
7. Scheme Pension (Secured Pension)
8. Phased Retirement – Annuities and Drawdown
9. Drawdown Pension
10. Uncrystallised Funds Pension Lump Sum (UFPLS)
11. Third Way Pensions

Client Signature

I confirm that I have been fully made aware of the associated advantages and potential disadvantages of these products.

Client Name:	Client Signature:	Date:

Spouses / Civil Partners Signature

I confirm that I have been fully made aware of the associated advantages and potential disadvantages of these products.

Name:	Signature:	Date:

For more information concerning the details contained in this guide, please speak to your independent financial adviser.

Appendix 1 - STATE PENSION

The State Pension is intended to ensure that everyone has a basic amount of money to support them in their old age. The amount you will receive is based on your National Insurance (NI) record and to receive the full basic State Pension you will need to have 35 years' worth of contributions. State Pension is paid every four weeks and can be paid straight into your bank account.

The new State Pension was introduced for everyone reaching state pension age on or after 6th April 2016. It has the following features:

- It is a single weekly amount. The full amount has been set at £159.55 for 2017/18.
- However, you may get more or less than this full amount, depending on your individual circumstances.
- The full amount will be given to people with at least 35 years of National Insurance (NI) contributions or credits (although deductions are made where someone has been contracted out of the Additional State Pension scheme in the past and this can result in less than the full amount being available even if 35 years' NI contributions have been made).
- To qualify for any new State Pension, people will need at least 10 years of contributions. Those with between 10 and 34 years of contributions will receive a proportion of the pension.
- It will be an individual entitlement, so in general there will be no special rules for people who are married or in civil partnerships, bereaved or divorced.
- Pension Credit and other means-tested benefits will continue to provide a safety net for people with low incomes, but the savings credit element of Pension Credit has been abolished from 6th April 2016 (except for existing claimants).
- You may get more or less than the full amount of the new State Pension depending on your NI contributions.
- As most people claiming the new State Pension will have already built up NI contributions under the old system, they will be given a 'starting amount'. This will be the higher of:
    - the amount they would have received under the old system including basic and additional pension
    - The amount they would get if the new State Pension had been in place at the start of their working life.

When working out the starting amount a deduction will be made if you have been in a 'contracted out' personal or workplace pension scheme – for example if you have been a member of a public sector pension. If you were contracted out at some point you will either have paid NI contributions at a lower rate because you were paying into a contracted out pension instead or you will have paid the normal rate of NI with the government then paying a rebate into your private pension plan.

If your starting amount is more than the full amount of the new State Pension, any amount over that level will be protected and paid in addition to the new State Pension when you start to claim it. Any qualifying years you have after 5th April 2016 won't add more to your State Pension.

If your starting amount is less than the full amount of the new State Pension you may be able to increase your state pension by adding more qualifying years to your NI record after 5th April 2016. You can do this until you reach the full new State Pension amount or reach State Pension age - whichever is first. Each qualifying year on your NI record after 5th April 2016 will add about £4.56 a week (which is £159.55 divided by 35) to your new State Pension. Remember, to receive any new State Pension you will need a minimum of 10 qualifying years on your NI record.

How it will affect individual entitlement

The State Pension is based on your own contributions and in general you will not be able to claim on your spouse or civil partner's contributions at retirement or if you are widowed or divorced. However, if you're widowed you may be able to inherit part of your partner's additional pension that they built up. There is also provision under the new system for women who paid the reduced rate 'married woman's contributions' to use these contributions towards the new State Pension.

Is there any way I can increase my entitlement?

If you are not on course to receive a full State Pension on your own contributions you may be able to increase your entitlement in a number of ways:

- If you have not yet reached State Pension age, you may be able to increase your State Pension if you continue to work and pay NI contributions.
- Paying voluntary NI contributions to increase your entitlement.
- Seeing if you are eligible (or were previously eligible) for NI credits through various benefits, such as Carer's Credits.

Deferring your State Pension

You can put off claiming your state pension when you reach state pension age if you wish to. This will allow you to build up additional benefits which you can take in the form of extra state pension. If you reached state pension age before 6th April 2016 and have already chosen to defer your state pension you may be able to take the deferred payments as additional pension or as a lump sum (this also applies if you were already in receipt of your state pension before 6th April 2016 - you can choose to stop the payments and defer to a later date - although you can only do this once).

Voluntary National Insurance (NI) contributions

If you have gaps in your NI record it is also possible for some people to pay voluntary class 2 or 3 NI contributions in order to increase their State Pension entitlement.

Appendix 2 - MONEY PURCHASE ANNUAL ALLOWANCE

Overview

It is important to note that a new Money Purchase Annual Allowance (MPAA) was also introduced in April 2015 reducing the annual allowance from £40,000 to £10,000. The MPAA has subsequently been reduced from £10,000 to £4,000 in April 2017, this limit still applies where the following conditions arise:

- Any access to a defined contribution pension fund via UFPLS
- Taking lump sums in excess of the 25% tax-free cash limit via a Flexi-Access Drawdown plan or
- By exceeding the maximum income limit for Capped Drawdown plans established pre 6th April 2015

HMRC Fines

If the above situation arises the reduction in the annual allowance will apply to all defined contribution plans held. It is your responsibility to inform all other providers within 13 weeks of this event to avoid a fine being levied by the HMRC. Failure to notify the HMRC will lead to an initial £300 fine followed by a further £60 a day fine until notification is received.

Further Restrictions

If the allowance is exceeded, the excess contributions will effectively have the tax relief clawed back thereby removing one of the main advantages of pension funding. It will also have an effect on any Defined Benefits plans you may hold. Therefore, this requires careful consideration if you are intending to continue with pension funding after taking benefits from your pension plan. The purchase of an Annuity does not cause the reduced annual allowance to apply.

Further restrictions to the amount you can contribute into a pension plan were implemented in April 2016 for certain individuals. A tapered reduction in the amount of available annual allowance will be introduced for individuals who have:

- An 'Adjusted' income of over £150,000 (including the value of any pension contributions)
- A 'Threshold' income in excess of £110,000 (excluding pension contributions)

Pension Input Periods have already been adjusted from 9 July 2015 to take account of this new tapering, which is proposed to be a reduction of £1 for every £2 an individual is over the income limits, subject to a maximum reduction of £30,000. All subsequent Pension Input Periods will be concurrent with the tax year from 2016 to 2017 onwards. As you will appreciate these are quite in-depth areas that could affect your future allowable pension contributions. Therefore, please contact me if you would like to discuss these points further.

Appendix 3 – TRIVIALITY

Overview

The triviality and small pots rules will be available from age 55 (as opposed to age 60 as it was historically) from April 2015.

The 'general triviality' combined limit of £30,000 is only available for Defined Benefit (Final Salary) schemes.

All such commutations must take place within a single 12 month period from the 'nominated date' and must extinguish all the member's rights under the scheme or annuity.

The nominated date can be at any point within the last 3 months so this may allow some flexibility if the fund value is just over £30,000 currently.

Once this period expires, it is no longer possible to commute any further small pension funds (with the exception of the small pot/stranded pot rules – see below). Previously, triviality had to occur before the individuals 75th birthday but this rule no longer applies since 6th April 2011.

The 'small/stranded £10,000 pot' rules will continue to be available to both Defined Benefit and Defined contribution schemes.

There is no need to quantify the member's interests in other, unrelated pension arrangements. An individual can only have 3 small / stranded pots payments from Personal Pensions during their lifetime.

Tax-free Cash

Tax-free cash can still be drawn and this will be a maximum of 25% of the fund value. If the pension funds are or were part of an Occupational Pension Scheme or the individual had applied for transitional protection, then the available tax-free cash may be greater than 25%. You should note that these higher entitlements **cannot be paid** if you use any of the above triviality options as only 25% of the payment can be paid tax-free.

Taxation

From the amount of money paid, 75% will be subject to income tax.

Appendix 4 - CRYSTALLISATION EVENTS

The Lifetime Allowance figure for the current year is £1 million (2016/2017) subject to transitional protection.

The pension benefits that you have accrued will be tested against this Lifetime Allowance upon a Benefit Crystallisation Event (BCE). If the total of your pension fund values exceed the Lifetime Allowance at that point, an extra tax charge will be levied of 55% if excess benefits are taken as a lump sum and 25% if you choose to take the excess benefits as pension income (which, depending on your circumstances, is also subject to income tax).

There are 12 types of BCE and the following list provides a summary:-

- On using a money purchase pension plan to set up a Drawdown Pension
- Becoming entitled to a Scheme Pension
- Becoming entitled to an UFPLS
- The payment of a Scheme Pension above the maximum level permitted by law at the date the pension started
- On purchasing an Annuity from Money Purchase scheme benefits
- Reaching age 75 with an uncrystallised Defined Benefit scheme pension and lump sum
- Reaching age 75 with crystallised Money Purchase scheme benefits within a Drawdown Pension plan
- Becoming entitled to a lump sum payment
- A lump sum death benefit being paid
- A transfer to a qualifying recognised overseas pension scheme

Please note:

**** Unit prices can fall as well as rise***
**** Past performance is not necessarily a guide to future performance and past performance may not necessarily be repeated***
**** This guidance is based on present legislation which may be subject to change***

Appendix 5 - DRAWDOWN PENSION INVESTMENT STRATEGY

When investing for Drawdown Pension a spread of investment over the short, medium and longer term is required. Short-term monies are used to provide the withdrawals of capital needed in the first two years. The aim of the medium term investments are to provide a secure base to provide for future income, whilst keeping pace with inflation. Longer-term investments are required to build on the value of the fund in order to provide for the future and to ensure the critical yield (if applicable) is achievable. The types of funds suitable for the periods can be generally summarised as follows:

Short term (1-2 yrs.)	Medium term (3-5 yrs.)	Long term (5yrs+)
CAUTIOUS • Cash • Building society • Short term gilts • UK fixed interest • Index linked • Derivatives • Distribution • Mixed/managed	**BALANCED** • Mixed/managed • Global • UK Equity • With-profits • International • Tracker funds • Medium / long term gilts	**ADVENTUROUS** • Individual sector funds (i.e. Japan, North America, Europe, Far East etc) • Ethical • Emerging markets • European small companies • Technology

The above list is not exhaustive and is loosely based on the type and range of funds offered by most insurance companies. A brief description of each fund type follows but you should refer to the product providers Key Features Document for further details.

Cash

Invests in short-term deposits managed actively in the UK money market, achieving higher potential returns than those available via normal deposits. This is a secure investment fund, which aims to achieve a higher rate of return from the money markets than that achievable by an individual investor.

Building society

Invests in selected building society accounts. This is a secure investment fund the return of which is dependent upon underlying base rates. The size of building society funds can enable them to achieve a higher level of return than that likely for an individual investor.

Short, Medium and Long term gilts

Invests solely in gilt-edged securities issued by the Government, forming part of the short / medium / long Gilt index.

This is a specialist fund which aims to help protect against changes in annuity purchasing power, annuity rates being calculated with reference to the Long Gilt index. The underlying stocks are tradable and are therefore influenced by market fluctuations.

UK fixed interest
Invests mainly in gilt-edged securities issued by the Government, as well as other quality sterling-denominated fixed interest and convertible debt instruments issued by UK Corporations. The underlying stocks are tradable and are therefore influenced by market fluctuations.

Index-linked
Invests predominantly in gilt-edged securities issued by the Government. Interest payments and capital repayment values are linked to movements in the Retail Price Index (RPI) and this provides a 'hedge' against inflation. The interest distributions and redemption values of the underlying securities are guaranteed by the Government to be calculated with reference to the RPI. However, it should be borne in mind that these stocks are traded in the market and prices may be liable to fluctuation.

Controlled risk funds (Derivatives)
There are a variety of controlled risk funds available. They invest in a combination of cash deposits and financial instruments linked to movements in the UK stock market, as measured for example by the FTSE-100 Index. Typically, they are quarterly rolling funds which have been structured with the aim of combining security with potential for growth. The bulk of funds are deposited with one or more major financial institutions for investment in the cash markets with the aim of protecting the capital value of the unit price from one quarterly date to the next. The balance is invested in FTSE-100 Index options with the quarterly unit price benefiting from the addition of a predetermined percentage rise in the index over the period. Various levels of 'guarantees' may be offered.

Distribution
Invests in UK equities, gilt-edged securities issued by the Government (both conventional and index-linked), as well as other quality sterling-denominated fixed interest and convertible debt instruments normally issued by UK corporations. No more than 60% of the fund may be invested in equities. This fund aims to provide a balanced return by investing in a combination of income and medium-term capital growth assets.

Mixed/managed funds
Invests in a variety of the provider's regional and specialist funds with little variation from market average asset allocations, usually the larger portion of the portfolio will always be invested in the UK. Managed funds operate on a similar basis except that the assets are direct held by the fund rather than 'holding' a selection of the provider's sector funds.

Property Funds
These funds are generally divided between those that invest directly in commercial property such as offices and retail units, or those that invest in the shares of property companies. The former tends to be less volatile (less risky) than the latter. Returns from property funds can be made up of a combination of rental income and increasing values in the underlying properties held within the fund. As it is sometimes difficult for fund managers to sell a property holding when investors wish to switch or encash their investment, individuals may experience a delay, although this is not common.

Global fund
This fund is similar to the mixed fund but with wider investment ranges. It may therefore have a substantially higher proportion of assets invested overseas or in bonds and cash. Risk rating is average.

UK equity
Invests in a broad spectrum of stocks mainly on the London Stock Exchange. The portfolio will provide exposure across all major industrial sectors and may include exposure to smaller companies. The mainstream UK equity funds aim to provide capital growth from a well-diversified portfolio of holdings.

With-profits
With-profits investments aim to provide a relatively steady rate of return over a period. Depending on the fund selected, a certain level of growth by way of an annual bonus may be added through unit price increases. On withdrawal from the funds a terminal bonus may be paid. This will reflect the extent to which the client's share of the performance of the fund's underlying assets over the period of investment (subject to an element of smoothing) exceeds the growth already added to the client's fund.

International
Invests internationally in equity markets specifically excluding the UK to provide exposure to both the assets and currency of the markets in which it invests.

Tracker funds
Tracker funds are a relatively recent development which have proved to be very popular for large group schemes that wish to follow a 'passive' approach to fund selection and management. In simple terms the aim of the tracker funds is to track a selected index such as the FTSE-100. This is achieved by the fund manager buying shares in the top 100 companies in direct proportion to that share's position in the FTSE table. For example, if BP represented 5% of the FTSE-100 then the fund manager would have 5% of his investments in BP.

Individual sector funds (e.g. Europe, Japan, and North America)
Invests in a broad spectrum of stocks quoted on their respective market(s). The portfolio will normally provide exposure across all major industry sectors. Such funds aim to provide capital growth from a well-diversified portfolio of holdings.

Ethical fund
Usually invests in a wide range of predominantly smaller companies whose activities comply with a strict set of ethical criteria. These specialist funds aim to generate growth from a broad-based portfolio and are for those who wish to impose ethical criteria in relation to their investments.

Emerging markets fund
Invests in companies generating in, or whose shares are listed in, the emerging markets of usually Asia, Europe, Latin America and Africa. The fund will typically be invested across all major emerging markets. This provides opportunities for capitalising on the above average returns which may be available from countries which are at an early stage of economic development. A diversified portfolio of holdings spreads the risks which, by their inherent nature, are associated with investment in these markets. These specialist funds aim to produce growth over the medium to longer term, subject to short-term volatility.

European Smaller Companies
This fund invests in smaller companies listed on European stock exchanges. Typically, the fund will be invested across all major and most secondary markets within the region, although it may invest in developing markets when conditions appear to be appropriate. Risk rating is above average.

Technology
Invests in companies involved in technology-intensive industries on a worldwide basis. Its risk rating is 'higher'.

Other Investment Options
In addition to the above investment funds, those clients who take their Drawdown Pension from plans with a self-investment facility, such as a SIPP, would also have access to a much wider investment choice. This range could include OEICs, Unit Trusts and shares along with the facility to invest in commercial property.

Where commercial property or direct share purchase is considered, clients should bear in mind that larger fund sizes would generally be required so that the overall fund has a mixture of different assets (known as diversification). This helps to reduce the investment risk as you are not then relying on the performance of one asset in isolation.

Appendix 6 –TAXATION POST 2015 – FLEXI-ACCESS EXAMPLES

The pension provider might hold a current P45 form for the person making the withdrawal, and therefore know the tax code to be applied for the year. This could be because you have just stopped working or are no longer claiming Job Seekers Allowance. Where a current P45 is held, the pension provider can deduct the correct amount of tax from payments as they are made.

However, where a current P45 is not held, the pension provider will have to deduct tax from the payment at a temporary rate (called emergency rate). In most cases, this will mean that you may be due a tax refund.

The method for claiming the tax back will depend on your circumstances – for instance, on what other income you have in that tax year and whether you have emptied your pension fund.

Here are 4 scenarios:

Scenario 1.

If someone chooses to empty their pension fund in a single withdrawal, and their pension provider does not hold a current P45 for them, the provider will deduct tax from the payment at a temporary rate (called emergency rate). They will then send the person a P45 form, which sets out how much tax they have paid in the year.

In most of these cases, the person making the withdrawal will be due a tax refund. Either they can wait until after the end of the tax year, when HMRC will reconcile their account and make any repayment owed as part of its normal PAYE process, or they can claim the tax back in the same year. To do this, they will need to send HMRC their P45, along with 1 of 2 new forms: a P50Z if they have no other PAYE or pension income (other than the state pension) and a P53Z if they have other employments or pensions.

Scenario 2.

If someone chooses to make regular withdrawals across the tax year, and their pension provider does not hold a current P45 for them, the first payment will be taxed at the temporary rate. HMRC will then work with the pension provider to issue a new tax code so that the subsequent withdrawals made over the year will correct the person's tax position.

Scenario 3.

If someone chooses to make one withdrawal that does not empty their pension pot – or intends to make a series of unplanned/irregular withdrawals across the year – the pension provider will deduct tax at the temporary rate unless it holds a current P45. In most cases, this will mean that the person making the withdrawal will be due a tax refund.

Those making a single withdrawal in the tax year have 2 options: they can an either wait until after the end of the tax year, when HMRC will reconcile their account and make any repayment owed as part of its normal PAYE process, or they can claim tax back in the same year. They can do this by completing a new P55 form and sending it to HMRC so that their tax can be calculated and any repayment made.

Those intending to make a series of withdrawals at irregular times across the tax year should talk to their pension provider. Having applied the temporary rate of tax to the first payment, in some cases the provider might be able to report a zero payment for the months where no withdrawal is made, and work with HMRC to tax subsequent withdrawals and correct the person's tax position.

Scenario 4.
All of the same processes also apply for those who are in Self-Assessment (SA), with any overpaid tax repaid by HMRC through a credit on the person's SA account.

Release of new forms – reclaiming overpaid tax
Three new forms will be available from 6 April 2015 for individuals to claim back overpayments of tax on pension flexibility payments taxed at emergency code.

P50Z - individual members should only use the P50Z form if:
- they've taken a pension flexibility payment that uses up their pension pot and
- they have no other income

P53Z – individuals should only use the P53Z form if:
- they've taken a pension flexibility payment that uses up their pension pot and
- they have other taxable income in this tax year

P55 – individuals should only use the P55 form if:
- they've taken a pension flexibility payment that does not use up all of that fund
- they have only taken one payment and do not intend to take a further payment from the same pension scheme this tax year and
- the pension body is unable to make any tax refund

Appendix 7 - MEANS TESTING – DWP

There are rules around how pension benefits, will be treated in the calculation of an individual's entitlement to the following income-related benefits:

- Employment and Support Allowance (income-related)
- Housing Benefit
- Income Support
- Jobseeker's Allowance (income-based)
- Pension Credit
- Universal Credit

These rules apply from an individual's qualifying age for Pension Credit, i.e. a female's SPA for women, and for men the SPA of a woman with the same date of birth.

For individuals living on their own, the means-testing is done solely on the individual, for those living as a couple (whether or not they are married or in a civil partnership) the means-testing is undertaken on the couple and either parties pension funds could impact on either parties means-tested benefits. In both cases, wherever we use the term 'claimant' we mean the individual, or the individual and their partner as appropriate.

Whilst we set out the new rules below, it is worth mentioning that these are less stringent than the rules that applied prior to 6 April 2015. Under those rules, for many means-tested benefits, the notional income rules applied from age 55 for personal pension plans and the scheme's NPA in respect of occupational pension schemes.

The New Rules

The DWP state that in all cases, it is the responsibility of each individual claimant to inform the DWP and, where appropriate the Local Authority, if they or their partner, withdraw any benefits from a money purchase pension scheme.

Already the DWP are provided details by HMRC of bank interest received by individuals so that they can cross check this information with claimants. One would assume that in due course they will look to obtain similar data relating to pension schemes. It should of course not be forgotten that the DWP run the existing Pension Tracing Agency.

1. Claimants Where They Have Not Attained the Qualifying Age for Pension Credit.

Where a claimant below the qualifying age for Pension Credit does not access any benefits from a money purchase (or any pension for that matter) pension scheme then the existence of an uncrystallised pension will not impact on the eligibility for any means-tested benefits.

However, as soon as benefits are crystallised the claimant must inform the DWP and where appropriate the Local Authority.

The benefits crystallised will be treated as either income or capital, depending on, for example, how regularly withdrawals are made.

2. Claimants Who Have Attained the Qualifying Age for Pension Credit.

Claimants who have attained the qualifying age for Pension Credit are expected to use their pensions to help support themselves. Where benefits are taken in a form other than an annuity after reaching the qualifying age for Pension Credit, an amount of income taken into account when calculating any means-tested benefits is the greater of the 'notional' income or the actual income withdrawn.

'Notional' income is an amount equivalent to the income the claimant is expected to have received if an annuity had been secured.

Deprivation Rule

If a claimant spends, transfers or gifts away any money withdrawn from a pension the DWP will consider whether the claimant has deliberately deprived themselves of that money in order to secure (or increase) a benefit entitlement.

If the DWP decide that the claimant has deliberately deprived themselves, they will be treated as still having that money and it will be taken into account as income or capital when calculating benefit entitlement.