

# Pension options at retirement

Having accumulated wealth inside a pension arrangement, a time will come when benefits can be drawn. Pension benefits can be drawn from age 50. However, from 6 April 2010, the minimum age will rise to 55.

At the point of drawing benefits, most arrangements will provide the option to draw a tax-free capital sum. Legislation allows for 25% of the fund value to be withdrawn as a tax-free cash sum, although some older schemes may provide more or less than this. It is important to make sure that your scheme is reviewed ahead of drawing benefits to ensure you understand the tax-free cash entitlement and any ways in which it might be improved. Most people take the tax-free cash option because this provides them with control of the capital, and the option to re-invest for a more tax-efficient income.

After tax-free cash, the remainder of the fund must be used to generate an income, which will be taxable as "earned income". The amount of tax payable will depend upon your other taxable income sources. There are essentially two ways in which income can be provided.

- Annuity purchase
- Income withdrawals (Unsecured Pension)

Annuity purchase involves giving the capital to an insurance company in exchange for a lifetime income,

which in the majority of cases is guaranteed. Options exist to provide for inflation protection and a pension for a surviving spouse on the death of the member, although including these options will reduce the starting income significantly. One of the main disadvantages of purchasing an annuity is its inflexibility. Once in place, the options cannot be changed.

With income provided under Unsecured Pension, you retain control of the pension fund. Income payments are simply withdrawn from the fund. The fund remains invested which means that the capital should grow over time, which should mean more income in the future. In addition to having the flexibility to change the income level as necessary, the death benefits are also more flexible. On death, the fund can be passed on to a spouse or other family member.

This allows for a continuing income to a spouse, or the return of the value of the fund, less a 35% tax charge. The potential downside with Unsecured Pension is that the fund value could be eroded, or even depleted completely, if investment strategies go wrong, and/or income is withdrawn at a very high level. Unlike annuity purchase, there is a need to monitor continually and review the Unsecured Pension arrangement.

An annuity presents the risk that you might die too soon and not enjoy the full benefit of the fund. Unsecured Pension presents the risk that you might live too long and run out of money. New types of annuity are being introduced called "third way" annuities which seek to find some middle ground between the existing options.

With increasing life expectancy, worries about inflation, even more options, including enhanced annuities for smokers and people with shortened life expectancy, and volatile investment markets, there has never been a greater need for high quality advice on dealing with pension arrangements.

**If you have any questions on anything relating to your pension options at retirement or any other aspect of financial planning, you can call Brian Foster on 01865 261100 or email [bfoster@critchleys-fp.co.uk](mailto:bfoster@critchleys-fp.co.uk)**

