TARVOS WEALTH

# RETIREMENT OPTIONS

If you are nearing retirement, you may benefit from speaking to a financial planner to check your current pension position and discuss the options available when you reach retirement age. There are **four main areas** to consider at **retirement**:

## 1. Tax Free Lump Sum

Pension savers are usually able to take a tax free lump sum of up to 25% of the pension value when commencing benefits. Whether or not to take this option will depend on the type of pension you have and your personal situation.

The remaining pension funds should be used to provide for income in retirement.

## 2. Annuities (Secured Pensions)

Annuities are an income for life, purchased with a lump sum usually saved via a pension plan. There are many options to choose from when selecting your annuity and there is usually no option to amend the plan once in place. Advice is therefore extremely important when making the decision to purchase an annuity.

## 3. Drawdown Pension (capped drawdown and flexible drawdown)

This option gives less security, however provides greater flexibility and the potential for continued growth of investment funds. Death benefits may also be higher than the annuity option and it allows retirees the option to defer taking an annuity and having to make long term decisions about their spouse's pension and whether to inflation proof.

At retirement, the pension plan, after the 25% tax free lump sum is paid, is transferred into a drawdown scheme. It remains invested in accordance with your requirements and attitude to risk. An income may be withdrawn from the plan with the maximum drawdown dependent on your age and prevailing 15 year gilt yields.

There is greater investment risk with these schemes and in view of the complexity, regular reviews and ongoing costs can make it inefficient for pension plans valued at below £100,000. However, the benefits include, the ability to maintain control of the pension investments, flexibility of the level of income, ability to defer the purchase of an annuity when rates may be comparatively low, potentially greater death benefits.

**Capped drawdown** refers to those drawing income in this way, while **flexible drawdown** allows those with already higher levels of guaranteed pension income to draw larger lump sums from their pension funds, although these are taxed.

## 4. Phased Retirement

Phased Retirement provides a degree of control and flexibility to those wishing to retire gradually. The main feature of this option is that no tax free cash lump sum is paid at the start of the plan. Rather than use the entire pension fund to purchase an annuity or start income drawdown, Phased Retirement allows pension income to be drawn each year flexibly, according to the individual's requirement. Payments will consist of some tax free cash and taxable lifetime annuity income or income drawdown, depending on the type of plan suitable for your requirements.

The complexity and costs involved in this type of scheme makes it suitable only for large pension plans. Taking advice is important particularly as the funds remain invested and decisions need to be made on an annual basis.