

What you need to know about...

RETIREMENT DECISIONS

This leaflet examines the options that you have when you come to retire from your pension schemes. This is an important time and care should be taken over what can be a once-only decision.

What does retirement mean?

For most people this will be when they stop working; for men this is usually at age 65, and for women from 60-65. Technically you can retire from your personal pension schemes at age 50, although this will rise to age 55 by 2010. This means that you stop paying into the plan, and take the benefits in the form of an income. Depending on your age, you will also be entitled to take your state pension.

The state pensions

You will be paying National Insurance contributions throughout your working lifetime. These help to build up your basic state pension, as well as a top-up second state pension, which is based on your income. To find out how much you will be entitled to you should obtain your free pension forecast using the BR19 form. Contact us to find out how.

You may have chosen to opt out of the second state pension at some point. If this is the case then you will have a personal pension fund invested in what is known as protected rights. This fund will be growing like all your other personal pensions, although special rules apply to it.

What happens to your other pension schemes when you retire?

This depends on the type of schemes in which you have invested. For company schemes this will depend on the rules of the scheme. For personal pensions, the rules will be the same.

Loosely speaking, you will get to take a proportion of your fund as a tax-free lump sum. This is now limited to 25% of the total fund, whichever type of scheme that you have.

After that, the vast majority of people will then set up a contract which pays an income for life, known as an annuity. If you are in a company scheme, your scheme will set this up for you. If you have a personal pension then you will need to choose the provider.

What is an annuity?

This is a contract with an insurance company which takes your retirement fund and converts it into an income. The income will be for life, and usually cannot be changed once the contract starts. This makes the choice of annuity a very important one, which means that you should

seek financial advice. Annuities usually finish on the death of the policyholder, and the fund is lost.

How is the income calculated?

The amount of income will vary depending on a number of factors. These include the size of the fund, your age, sex, health, lifestyle, and the options that you choose.

Types of annuity

You may choose different options for your income such as:

- Level or increasing
You may choose to select a higher income at first, but which never rises; or you may choose to accept a lower annuity which increases each year.
- Single life or joint life
You could make the annuity payable after your death, so a proportion goes to your spouse.
- A guarantee period
You can build in an initial period so that the plan continues to pay an income if you die early.

Open market options

You are free to shop around when you retire for the best annuity rates. You do not have to stay with your pension provider for this contract. As independent financial advisers, we can search the whole of the market to make sure you get the best possible income.

Leaving your fund invested

Those more adventurous investors, with larger funds, can choose to leave their fund invested and to draw an income from it. This has the advantage that your income level is not set at the outset of the plan, and can be changed. Also, the fund remains invested meaning it could continue to grow. Finally, the fund could be repaid to the investors family on death (minus tax), which to some is better than losing this fund.

However, there are much higher risks with this approach and it is not for everyone. Charges are higher, and there is the risk that the income taken may eat up the fund more quickly. Also, the funds may drop in value. This approach should not be taken without specialist advice.



Why use us?

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| <ol style="list-style-type: none">1. Free initial consultation2. Guaranteed satisfaction with our advice3. Fee based - no commission hungry salesmen4. Fully independent from insurance companies5. State of the art research tools6. Regular contact and services to suit your needs | <p>The Colchester Centre
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