

Your guide to recent pension changes

“ What does it mean for me? ”

**FriendsLife**

It's good to talk to Friends



## “ How will things change from April 2015? ”

**To give people more flexibility with their pension funds at retirement, the government announced some changes in the 2014 Budget.**

Some were brought in immediately, easing certain restrictions for people aged 60 and over. In April 2015, more widespread changes will come in. These will affect thousands of people – who are age 55 and over, with defined contribution pensions. *With this type of pension what you get at retirement is based on what you've paid in and on the returns from your investment – not your final salary.*

Many people welcome these announcements because they provide more options. This guide is here to help you decide what they will mean for you and your family in the years ahead.



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How can I use Friends' online resources?

As always, if you have any questions, just give us a call or go online. Our retirement specialists are available to answer any pension queries you may have.



**Any questions? Call us now**  
**0800 023 4298**

Opening times are Mon-Fri 8am-8pm  
Sat 9am-5pm  
(calls may be recorded).



**Visit**  
**[www.friendslife.co.uk](http://www.friendslife.co.uk)**

# “ What options do I have for my future? ”

This guide covers the changes announced in the 2014 Budget, which come in on 6 April 2015. Here you can see the options as to what you can do with your pension funds after this date.

Whichever option you choose – which could be a combination of all three – you have the option of taking 25% of your retirement fund as a tax-free lump sum.

While you have much more choice, you should take care to balance what you need when you retire, with your need for an income in later life. That is why we recommend you seek guidance and advice (see page 7).



## Guaranteed income

If you like the idea of a secure, guaranteed income – you can buy a policy that gives you an agreed income for life (also known as an annuity). So it's just like having a wage or salary paid, until you die.

### What you need to know:

- Your income is fixed and guaranteed for life.
- Your income will never run out, however long you live.
- Your income is not affected by stockmarket falls.

### Things to consider:

- Once set up it can't be changed and is fixed until you die.
- It's really important to shop around. If you are unsure, you should seek financial advice.
- You could take 25% of your retirement fund as a tax-free cash sum, but you will pay tax on the remaining income as you would on any other income you receive.
- When you die there may be nothing to leave for your family.
- Many providers offer different types of annuities such as enhanced annuities which may provide an increased income. So it's important to obtain quotes to compare income and charges which are taken to pay for setting up the policy and administration.



## Flexible access

Would you like to take an income, while leaving your pensions savings invested? Then you may want to consider flexible access, which is also known as income drawdown.

You can withdraw as much or as little income as suits you each year, but it makes sense to plan carefully. You'll need to weigh up how much to take out and how much to leave invested for later – so your money doesn't run out. The first 25% is tax-free, but you pay tax on whatever else you withdraw (just as you would on other income you receive).

The rest of your money will remain invested and its value could go down as well as up.

### What you need to know:

- You can change the income you receive to match your needs.
- You can set the income you want to receive.
- You can change it at any time.

### Things to consider:

- You could take 25% of your retirement fund as a tax-free cash sum, but you will pay tax on the remaining income as you would on any other income you receive.
- Future income isn't guaranteed – it depends on how much money you take out and the performance of the money left invested which could go down as well as up.
- Some providers may require your fund to be worth a minimum value, and there may be limits on how often and how much you can take out and charges will also be made.



## Cash withdrawal from pension savings

If you'd like to take some or all of your pension savings as cash, you can. But you should know that – while the first 25% is tax-free – the rest is taxed at the highest rate you pay, for example this would be 40% if you're a higher rate taxpayer.

### What you need to know:

- You stay in control of your money.
- Freedom and flexibility.

### Things to consider:

- Once the money has gone – it's gone. So you may not have anything to live on and nothing to leave to your family.
- Taking your pension fund as cash may affect any state benefits you receive.
- You could take 25% of your retirement fund as a tax-free cash sum, but you will pay tax on the remaining income as you would on any other income you receive.
- Careful planning is needed especially if you've no other sources of retirement provision.
- Some providers may set a limit of how much money you can withdraw.



## “ Can you tell me what else has changed? ”

As well as the changes on pages 4 and 5, there are some things to consider which we cover here.



### You may be able to leave more to loved ones

From 6 April 2015, the way unused pension funds are taxed is changing.

If you die before 75 your family can:

- take the whole pension fund as a tax-free lump sum
- or take a regular income through flexible access or a guaranteed income product, this will be tax-free.

If you die after 75 your family can:

- take the whole fund as cash in one go, this will be subject to 45% tax before April 2016 and income tax after that date
- or take a regular income (subject to income tax) through flexible access or a guaranteed income product.

Please note the options above will not apply if you purchase a guaranteed income product.



### You will be able to access free and impartial guidance

What's best for you will depend on your overall needs and circumstances. For instance, tax and benefits are subject to interpretation, change and individual circumstances. As you will need to make some important decisions, Friends recommend you seek guidance or advice to help:

**Talk to Friends** – we are here to help you throughout, with support and information. We can help answer your queries but we are not authorised to give advice or make recommendations on which options you should choose. Our contact details are right here in this guide.

**Pension Wise** – from April 2015 you'll be able to access free impartial guidance called 'Pension Wise' through the Pensions Advisory Service and Citizens Advice. They will be able to help you work through the different options available – but they won't be able to recommend what you should do.

**Financial Adviser** – a financial adviser will be able to take this further and make personal recommendations for you based on your own circumstances and financial objectives. You will probably have to pay for their services.

# “ What could my retirement look like? ”



You can access your pension from age 55



From 6 April 2015 – you have more options.

## Your options



Guaranteed income for life



Flexible access



Cash withdrawal from pension savings



You may be able to leave more to loved ones.



You will be able to access free impartial guidance.



# “ What are other people doing? ”

Let's take a look at three fictional friends, to see how the changes affect them.

These examples are for illustrative purposes only and must not be taken as giving financial advice. For advice specific to your own circumstances, speak to a financial adviser.



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## Guaranteed income for life

**James – wants a steady income**



James really appreciates having a steady income. That's why he's considering buying a guaranteed income product with his pension fund when he retires next July. The level of income he receives will depend on the rates available at the time he buys the product. And once he's decided to buy one he can't change his mind – there may be little or nothing to leave to his dependants too.



## Flexible access

**Paul – wants an income and cash**



Paul has decided that when he retires, he's going to keep his money invested in his plan, so it has potential to grow. This option also lets him take a regular taxed income. And he can take taxed lump sums, which could help pay for his planned trip to Japan too. He needs to make sure though, that he leaves enough invested to cover his whole retirement.



## Cash withdrawal from pension savings

**Maggie – wants to do her own thing**



Maggie's heard that the new rules mean that she can take some or all of her pension fund as cash and the first 25% is tax-free! It sounds appealing... but she has to pay income tax at her highest rate on the rest, which for Maggie is 40%. The cash has to last too. Maggie's only 60 and on average women are living until 82\*. So there's a lot for her to consider.

\* <http://www.ons.gov.uk/ons/rel/lifetables/national-life-tables/2010---2012/stb-uk-2010-2012.html>

# “What’s my next step?”

Like to find out more about your pension and the options open to you?

At Friends we have a wide range of solutions, which answer a wide range of needs. Our experienced team is ready to help you take your next steps. We’ll listen and find out what’s important to you – so we can provide the information you need to make informed decisions about your future. However, we can’t give you financial advice.

If you need advice, your financial adviser can recommend the most suitable options for you. If you don’t have an adviser you can find one locally at [www.unbiased.co.uk](http://www.unbiased.co.uk).

## Checklist – see how we can help you:

- ✓ Understand your retirement options.
- ✓ Understand the most effective ways to save for them.
- ✓ Get the facts on taxation, state benefits and more.
- ✓ Look ahead to your projected pension fund.



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## “ How can I use Friends’ online resources? ”

If you’d like to start looking at whether you’re on track for the retirement you want, take a look at the handy tools and calculators at:

[www.friendslife.co.uk/planmyfuture](http://www.friendslife.co.uk/planmyfuture)

You’ll find:

- **A retirement planner** – a Pensions Advisory Service tool to help you plan how much you’ll need in retirement.
- **A pension calculator** – to help you work out what your pension could provide.
- **Budget planner** – use The Money Advice Service’s budget planner to work out where your money goes.
- **State Pension calculator** – calculate when you’ll reach State Pension Age and what basic State Pension you may get.

**If you have any questions, don’t hesitate to call our retirement specialists on 0800 023 4298.**



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