

A Whitechurch
Understanding Investment
Publication



Retirement Options Guide

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**Whitechurch Securities Limited is authorised and regulated by
the Financial Services Authority**

This document has been prepared by the Investment Team of Whitechurch Securities Ltd which is the sister Company of The Whitechurch Network Ltd. Nexus Financial Planning is an appointed representative of The Whitechurch Network Ltd which is authorised and regulated by the Financial Services Authority.

Any views and opinions expressed are those of Whitechurch Securities Ltd and the intention of this document is to provide a guide to Retirement Options.

Introduction

This guide aims to give you an awareness of the options available on taking the benefits from a pension scheme for retirement income. Whilst this information cannot be taken as a recommendation of any of the options it should help you to understand the options on offer, the advantages, disadvantages and what you should consider.

If you are uncertain after reading this guide we recommend that you contact us for full financial advice.

The retirement options within this guide concern benefits taken from the following:

Stakeholder Pension Plans	Money Purchase AVC		
Personal Pension Plans	Free Standing AVC		
Group Personal Pension Plans Schemes	Money Purchase	Company	
Retirement Annuity Contracts	Section 32 Buy-out Bond		

Please note that this guide does not cover the options available from a Defined Benefit (Final Salary) Occupational Scheme.

The timing of taking your benefits

Anyone who has a pension plan will eventually have to make a decision. The time of the decision could be:

- at retirement to replace earnings
- at early retirement / late retirement
- before or after retirement
- part of your benefits now and part later
- at age 75

The timing of the decision to use your pension fund for income can determine how much you get. At present the usual earliest retirement age is 50, although this is due to be increased to age 55 in the year 2010.

Taking your benefits early or earlier than you need them will mean that your income from an annuity will be lower. This is because:

- your pension fund must provide income for the rest of your life. At younger retirement ages the fund is likely to have to pay you for many years so the income will be lower but if you start your income at an older age, meaning it will be needed for fewer years, then the income will be higher. This is based on average life expectancy at your age. For this reason, as men and women have a different life expectancy, the amounts payable to each group at the same age will differ.
- The pension fund that is used to buy an income through an annuity will cease to be invested. If the start is delayed by, say, five years, the pension could benefit from:
 - an extra five years extra growth making a larger fund available. (Although investments can go down as well as up).
 - a higher annuity rate due to your older age. (Although it is impossible to predict future annuity rates).

Please note

It is for these reasons that serious consideration should be given to the advantages and disadvantages of taking benefits early. Many people have taken benefits at a younger age only to find that their income later in retirement is insufficient for their needs.

Taking benefits later

Whilst it is often possible to retire or take benefits later than normal retirement age under the new rules, your pension plan must be used to provide you with benefits by the age 75.

Options available

Pension commencement lump sum (tax-free lump sum)

As of the 6 April 2006, all pension funds allow you to take a pension commencement lump sum (tax-free lump sum).

It is often worth taking the maximum tax free lump sum – although we would urge to seek advice before making this decision. If additional income is needed, the lump sum can be used to buy an income, similar to a pension. This type of income, known as a Purchased Life Annuity, is treated more favourably under the taxation rules than income from a pension fund.

Regular income

There are three ways of converting your pension fund into retirement income:

- **buy an annuity**
- **take 'income withdrawal' before buying an annuity**
- **Moving income drawdown into the alternatively secured pension at 75**

Pension annuities

An annuity is a method of converting your pension fund into an income payable for your lifetime. Unless you have made provision for a partner the income usually finishes on your death.

Types of annuities

Single Life Annuity	income ceases on your death
Joint Life Annuity	the income continues to your surviving partner at the full rate or, more commonly, at 2/3 rd s or half the rate
Level Annuity	The income is fixed at the outset and never changes
Escalating Annuity	The income increases each year in line with inflation or at, say, 3% per year
Investment Linked Annuity	the level of income is determined by the investment performance of the remaining fund
Impaired/Enhanced Annuity	the amount of income is increased if you have a lower than average life expectancy
Protected Rights Annuities	income due for periods when you were contracted out of the additional State pension
Phased Retirement	Only a part of your pension fund is used to provide income; the other parts are used at intervals over the years
Guaranteed Period	this not an annuity but may be added to an annuity to guarantee that the income will be paid for the first five or 10 years in retirement even if you die earlier
Capital Protected	this is another option that can be added to an annuity that can ensure if you die before the age of 75 that part of your pension fund is returned to your estate.

An alternative to an annuity

Income Withdrawal	income is taken directly from the pension fund instead of buying an annuity, leaving the remaining fund invested to be used to buy an annuity later
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Once the annuity is set up it cannot be encashed, your money has been spent and it is extremely unlikely that the annuity can be altered. It is for this reason that full consideration should be given to the decision; taking financial advice, if you are unsure.

Let us look at each annuity option in turn in more detail.

Single-life annuities

This type of annuity pays income throughout your lifetime and ceases on your death. This is suitable if you do not have a partner or your partner has adequate income or pension to maintain the standard of living even after your death and your income has ceased.

Because of the shorter time this type of annuity is likely to pay out, the starting income is higher than a joint-life annuity. If your partner will need some or all of your income after you die then you should consider a joint-life annuity.

Joint-life annuities

If your partner is dependent on your income or part of it, on your death your partner could find it difficult if your income ends. A joint-life annuity continues to be paid, on your death, to your partner at the full rate or it may be reduced by a third or a half.

The level of income at the outset is lower than a single-life annuity but the joint-life annuity could continue to be paid for many years after your death. You need, however, to understand that if your partner dies first then no spouse's pension is payable and the income ceases on your death. If your partner is a significant number of years younger your longer payment period could mean quite a low starting income.

Level annuities

The income level is fixed at the outset. This means the same amount is paid year after year.

Level annuities pay a higher starting income compared to increasing annuities. However, the effect of inflation could mean that the level of income in real terms is much lower later on in retirement. If your pension fund is going to provide your main income in retirement then an increasing annuity should be considered instead.

Escalating annuities

To protect your income from rising prices you can choose an annuity that increases each year. The income level at the outset would be lower than a level annuity. It would be some years before your income reaches and goes beyond the rate of a level annuity. It does mean, though, that your income is protected, to a large extent, from the effect of inflation and helps to keep realistic value in real terms. There are two main choices:

- **fixed rate increases** – your income is increased each year by the rate agreed at the outset, for example 3% or 5%.
- **RPI linked increases** – your income increases yearly by the amount of increase in the Retail Prices Index (RPI). If the RPI did not rise then neither would your income.

If you rely heavily on the amount of income you get from your pension fund, you should consider an increasing annuity. Fixed and escalating annuities are also known as **Conventional Annuities**.

Impaired and enhanced annuities

It is possible to get a higher annuity rate if you have a health problem that could reduce your life expectancy to below the average for your age. The more life threatening your condition is considered to be, the higher will be the annuity rate paid.

Some companies may enhance rates by taking account of certain lifestyle aspects such as smoking, being overweight, where you live or the work that you did.

Protected-rights annuities

Your pension fund or part of it may have accumulated because you were contracted out of the additional State Pension, formerly known as SERPs but now known as the State Second Pension. The pension fund is known as Protected Rights (or Guaranteed Minimum Pension under an occupational pension scheme).

If you hold this type of pension fund there are restrictions to the type of annuity you can take. For example, the annuity must provide a 50% spouse's pension if you are married. However, as of 6 April 2006 you are now able to withdraw 25% of the fund as a tax free lump sum.

Guaranteed period

Many people are concerned that after many years of contributing to a pension their early death, only one or two years into retirement, would mean that a small amount had been paid out and would represent poor value – particularly in the case of a single life annuity.

By taking a small reduction in the level of income it is possible to guarantee that the income would be paid for at least an initial period into retirement. The more common options are a five or a 10 year period.

This means, with a 10 year guaranteed period, that should you die within the first 10 years of retirement the income would be payable in full for the remainder of the 10 year period. So if you died after two years the full amount would be payable, probably into your estate, for a further eight years. More commonly it is commuted into a one off lump sum.

At 10 years, in this example, the payments on a single-life annuity would cease; on a joint-life annuity the payments would continue as a spouse's pension at the agreed rate, unless, of course, your partner had died earlier.

If you live beyond the guaranteed period the income will continue to be payable for the rest of your life.

Capital protected annuities

With effect from 6th April 2006 a new type of annuity is now available, a Capital Protected Annuity, this is where if you die before the age of 75 you can arrange for your estate to receive a return of part of the pension fund after a tax charge of 35%. E.g. if you retire with a pension pot of £100,000 and have received income of £50,000, the remaining £50,000 will be returned less 35%, meaning a total of £32,500. This option is currently only available on impaired / enhanced annuities.

Investment linked annuities

The level and escalating annuities that we have looked at so far are linked to fixed interest assets such as gilts (loans to the Government) and bonds (loans to companies). By using fixed interest assets the level of income can be guaranteed for life.

Investment linked annuities differ in that they are linked to the stock market and in return for the increased risk there is the chance of a higher income. This means your income is not guaranteed. This risk may not be acceptable to some as your income is likely to change each year, based on the performance of the investment, and could go down as well as up. It is impossible to predict the size of any increase. The types of investment linked annuities are:

- **With profits annuities**
- **Unit linked annuities**

We would expect a customer to take advice before setting up either type.

With profits annuities

Your income is linked to the performance of the Insurance Company's With Profits fund.

Initially your income is set at a low level. This amount can include an assumption of no bonus additions or an assumption of bonuses, usually up to 5%. If the bonus rate announced each year matches your level of assumed bonus then your income remains the same. If it is higher your income increases but if it is lower then your income falls.

If you set your income with an assumption of no bonuses (the lowest amount) and each year the company declares a bonus then your income will increase each year. In practical terms your income cannot fall. However, you need to be aware that in exceptionally adverse investment periods the minimum starting income could be cut, unless the annuity, as in some cases, carries a guaranteed minimum.

If you set your income at a higher level, for example assuming a 3% bonus and the bonus declared each year is 3% then the income stays the same. If it is different the income will rise or fall accordingly.

Unit linked annuities

Your income is linked to an investment fund which is selected to suit your attitude to risk. In the same way as With Profit annuities if the investment rises or falls then your income will rise or fall. The riskier the fund chosen the more your income may vary – both up and down.

Unit linked annuities are higher risk than conventional or With Profit annuities. You should **avoid** this type of annuity if:

- **you have little or no other income to rely on**
- **you could not cope with wide variations in your level of income**

There are a few, more complex, hybrid annuities available.

Phased retirement

So far, we have considered using your total pension fund to buy income. It is possible that you may not need the full income initially, perhaps, because you continue to work part-time or you have other investments. It is possible to use several pension funds to buy income over a period, say, yearly to give an increasing income. It would also be possible, if the pension fund allows, to take a tax free lump sum each time a pension fund is used to buy income.

If you have only one pension fund it is still possible to use “phased” retirement. Most personal pension plans are set up as a “cluster” of policies, known as segments. Each segment is a stand alone policy so one or more segments can be used to buy an annuity this year leaving the other segments for use over future years. One advantage of this route is that on your death any remaining, unused, segments are available for your dependants as an income or a lump sum, depending on the type of plan.

You must remember that by using Phased Retirement you will also “phase” your tax free cash. You will not be able to take the entire cash sum from your pension at retirement, only the amount attached to the segments when they are used. Nevertheless, many would find a series of lump sums over a period of years extremely useful, albeit the amounts would be smaller.

The unused segments continue to be invested until they are needed with the potential for growth on the fund, meaning that the lump sum on each segment may increase. As a series of annuities are purchased over the years it is possible, as you get older, that the annuity rates on offer at each purchase may be an increase on the previous. It is important to re-state that these benefits are subject to investment growth or changes and cannot be guaranteed.

Phased retirement is only suitable if you have a large pension fund or several pension funds with a larger total – a minimum of £50,000.

Income withdrawal

If you would prefer not to buy an annuity but do, nevertheless, require income from your pension fund, Income Withdrawal may be suitable for you.

Income Withdrawal allows you to take income directly from your pension fund. You then decide when to buy an annuity which can normally be anytime from retirement up to age 75.

You take an income at a level obtainable from an equivalent annuity. There are maximum and minimum levels. If you take the maximum level of income it is possible that the remaining fund may not be able to achieve sufficient investment growth to maintain the higher payments.

The full tax free lump sum can be taken when the plan is set up.

Income Withdrawal gives flexibility in the amount of income you can take, within limits. It also allows you to leave your remaining pension fund to your dependants (which may be taxable). You can avoid taking a lower annuity in the hope of getting a better rate when you are older – this, however, is not guaranteed.

Your remaining fund continues to be invested for growth. This, though, presents a risk as a fall in investment performance will reduce your fund whereas, say, a conventional annuity would be unaffected.

Income Withdrawal plans are reviewed every five years by the company to ensure that the fund will allow the current income level of payment to continue. If it will not then your income is reduced.

There is no doubt that Income Withdrawal offers several benefits but does involve extra costs and extra investment risk. This would only be suitable if you can accept the risk and if you have a sizeable fund, say, over £200,000.

We strongly recommend you seek professional financial advice before deciding to set up an Income Withdrawal.

Alternatively secured pension

This is an option open to everyone over 75 who have decided not to buy an annuity.

It allows you to continue to make your own investment decisions about where the fund should be invested, without the requirement to purchase an annuity, with the hope that annuity rates will improve, or until your circumstances change when an annuity becomes more attractive.

This, though, presents a risk as a fall in investment performance will reduce your fund whereas, say, a conventional annuity would not be unaffected.

The full tax free lump sum can be withdrawn.

The income limits are between 90% and 65% of the equivalent annuity rates for a 75 year old. This is re-calculated every five years.

If you die whilst taking Alternatively Secured Pension, there is no automatic return of fund. If you have a surviving spouse then the fund will have to pay an income. If you die without a spouse then the balance of the fund less a tax charge – possibly as high as 82%! – can be paid to another policyholder of the same pension plan, or tax free to a registered charity.

There is no doubt that Alternatively Secured Pension offers several benefits but does involve extra costs and extra investment risk. This would only be suitable if you can accept the risk and if you have a sizeable fund, say, over £200,000.

Do you need advice?

We hope that you find this guide useful; however retirement options and retirement planning can be a very complex area. Therefore, if after reading our guide you feel that you need to seek expert, independent financial advice then we recommend that you contact us and ask to speak to one of our qualified financial advisers.

To speak to one of our qualified financial advisers please call Nexus Financial Planning on 01278 439 494 or e-mail us at office@nexusifa.co.uk

Retirement Checklist

Retirement is one of the most significant lifestyle changes that you will ever have to go through and prior to the event there are numerous questions that need to be considered in order to best prepare you and your family for those potentially long, future years in retirement.

The most important tasks are to review all of your financial circumstances in order to ensure that you and your family are best placed financially to enjoy a comfortable retirement. However, what are the key questions you should be asking and what are the things you should be considering?

This is why we have produced a Retirement Checklist – which should be read in conjunction with this guide. The checklist is designed to help you in evaluating and examining the key questions and areas that you should be considering and, if necessary altering, so that you can plan effectively for your retirement.

How you use your pension fund depends on your particular circumstances and needs; but don't just look at your circumstances on the day you retire, think about your future needs and those of your family.

Our Retirement Checklist is free to all readers. To order a copy please call Nexus Financial Planning on 01278 439 494 or e-mail us at office@nexusifa.co.uk

Important notes – please read

This guide was prepared by Whitechurch Securities Ltd using sources believed to be reliable and accurate. The opinions are our judgement at the time of writing.

Do you need advice?

This publication contains product specific details only and unless we have complete up to date written details of your financial circumstances and requirements we cannot and will not offer any opinion as to the suitability of any investment for any client. Any response to this publication will therefore be on the basis that client specific advice has not been given. These investments are not suitable for everyone. If you have any doubt whether they are suitable, you should obtain expert advice.

Ensure you obtain and read the literature

It is essential before you consider purchasing any of the products mentioned that you obtain, read, and fully understand the Terms of Business and Key Features relating to the specific products(s) in which you are interested, as each have different risk levels and some are more volatile than others dependent on where and how they are invested. They also set out the risks, charges, cancellation rights and terms of the investment. Do not invest unless you have read this information.

Important notes

It is important to always bear in mind that any stock market and equity linked investment carries risk and are subject to market and economic forces and can go down in value as well as up. Past performance is not a guide to future returns and may not be repeated. Investment into the stock market, whether directly or indirectly should not be considered as suitable for short term investment. Where a fund has holdings in fixed interest securities, these are likely to be impacted by changes in interest rates and/or inflationary expectations. Where the main objective of the fund is to provide an income, the level of income is not guaranteed and can fluctuate up or down.

Overseas investments

You should also bear in mind exchange rate fluctuations may cause the value of overseas investments to fall as well as rise.

Taxation

Levels and bases of, and relief's from, taxation are subject to change. Please read the product prospectus carefully to ensure you understand how the investment product is taxed and how this may affect your personal tax position.



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