Legal & General

Workplace pensions

Freedom and choice

The options for taking money from your pension plan.

Taking your pension savings

Pension plans are designed to provide an income in later life but you don't have to stop work before you can start taking your money

In fact the only restriction is that you must be aged 55 or over but you should think very carefully before proceeding or your money may run out sooner than you wish. Reaching the age of 55 is not a deadline to act. Leaving your money invested will give it more time to grow but it could go down in value too.

You have considerable freedom in how you take your money – and everyone's circumstances are different – but there are usually six main things to consider when making your decision:

- How much income you need and how long your money needs to last.
- Your investment strategy for any money remaining in your pot.
- The tax implications depending on how and when you take your money and any other income you're receiving.
- Any other savings or investments including the state pension that you intend to rely on in retirement.
- Any partner or dependants you wish to provide for.
- What will happen to any remaining pension pot when you die.

Helping you decide

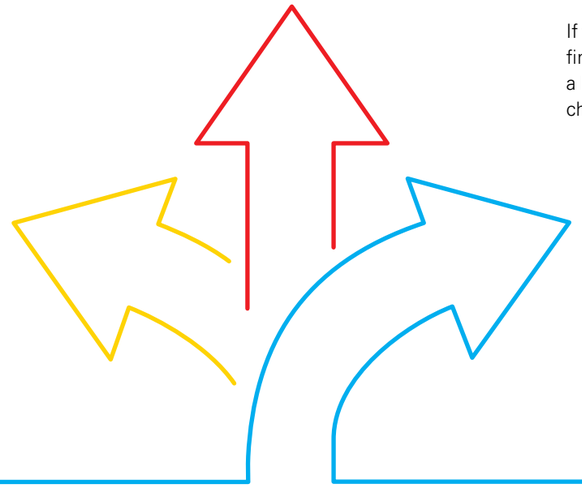
Taking money out of your pension pot is a big decision and you should think very carefully before doing anything. Some decisions – for instance the purchase of an annuity – may be irreversible.

So we do what we can to help you make the right choices. You'll find a lot of helpful information on your scheme's website including our retirement planning tool which enables you to estimate what you might get when you take your benefits, depending on your personal circumstances.

In addition, the government has introduced a service to ensure everyone has access to free and impartial guidance close to retirement.

This service is provided by Pension wise and may be provided face to face or over the phone. It will cover the range of options open to you, including the tax implications, in order to help you make informed decisions to suit your personal circumstances. To make an appointment, visit **www.pensionwise.gov.uk**

If you're still unsure, you may wish to consult a regulated financial adviser. If you don't already have one, you'll find a list at **www.unbiased.com**. Financial advisers normally charge for their services.



The options in summary

Whenever you do decide to take your money, there are four main options:

1. Take your entire pot as cash

You may take your entire pot as cash. The first 25% will be tax-free and the remainder will be subject to income tax.

2. Take up to 25% of your pot tax-free and leave the rest invested to provide an income – either as monthly payments or occasional lump sums or a combination of the two

This is known as Flexi-Access Drawdown and gives you considerable flexibility in how you take your money.

Please note however, that if you withdraw too much too quickly or your investments don't perform as well as you'd expected, you could run out of money.

3. Take up to 25% of your pot tax-free and use the remainder to provide a guaranteed income for life or a fixed period via an annuity

You may wish to consider this option if you like the idea of a guaranteed income either for life or a fixed period of your choosing.

Annuities can be arranged in a number of ways including the facility to continue payments to a nominated beneficiary in the event of your earlier death.

Certain lifestyle factors such as smoking or medical conditions such as diabetes may entitle you to enhanced annuity rates to reflect a shorter life expectancy.

4. Leave your pension pot invested and take lump sums as and when you wish with the first 25% of each withdrawal tax-free

You could choose this option if you wish to spread your tax-free cash over the longer term and don't wish to use it all at once.

Please note however, that if you withdraw too much too quickly or your investments don't perform as well as you'd expected, you could run out of money.

Alternatively you may choose a combination of two or more of the above options, depending on the size of your pension pot. Or you could use just part of your pension pot as described and leave the rest to be decided upon at a later date.

Whichever option you choose, after you've taken the first 25% of your pension pot tax-free, all other income is subject to tax.

You may also choose to move your pension pot to another provider, if you so wish. You should shop around to find what's best for you.

It's worth noting that some options are only available to pension pots of a certain size and may not currently be available to all pension products.

Your options in detail

1. Take your entire pot as cash

You may take your entire pot as cash. The first 25% will be tax-free and the remainder will be subject to income tax.

EXAMPLE: Liz is still working but wants to take her whole pot of £20,000 as cash to pay off some debts. She gets the first 25% (£5,000) tax-free but the remainder is subject to income tax at 20%, so she has to pay £3,000 tax on it.

So her income and tax for the year looks as follows:

Pension pot	£20,000
25% tax-free cash	£5,000
Value of pot after tax-free cash	£15,000
Other income	£18,000
Total taxable income	£33,000
Total income less personal allowance (£11,500)	£21,500
Income tax @ 20%	£4,300


Figures stated are for tax year 2017/2018.

2. Flexi-Access Drawdown

Take up to 25% tax-free and use the rest of your pot to provide a monthly income and/or occasional lump sums as you require. After the tax-free 25%, all subsequent withdrawals are subject to income tax. There may be a charge for setting up your plan and for occasional withdrawals.

If you withdraw too much or your investment funds don't perform as well as expected, you could run out of money. If you decide to take Flexi-Access Drawdown, you should shop around for the best option.

EXAMPLE: David is retiring and has a pension pot of £300,000. He plans to take his 25% tax-free lump sum for holidays and other major purchases and leave the remaining £225,000 invested whilst drawing a regular income of £1,000 a month.

When added to his state pension of £8,297, his annual income will be £20,297. After taking his personal allowance of £11,500 into account, he is taxed at 20% on the remaining £8,797, which amounts to £1,759.40 a year.

So his income and tax for the year looks as follows:

Pension pot	£300,000
25% tax-free cash	£75,000
Value of pot after tax-free cash	£225,000
Regular income from pension pot	£12,000
State pension	£8,297
Total taxable income	£20,297
Total income less personal allowance (£11,500)	£8,797
Income tax @ 20%	£1,759.40


Figures stated are for tax year 2017/2018.

3. Guaranteed income

If you'd prefer the security of a guaranteed income for life or a fixed period, you can use some or all of your pot to buy an annuity.

Annuities can be arranged in a number of ways including the facility to continue payments to a nominated beneficiary in the event of your earlier death. Certain lifestyle factors such as smoking or medical conditions such as diabetes may entitle you to enhanced annuity rates to reflect a shorter life expectancy, although this varies from provider to provider. You should shop around to find the best deal for your particular circumstances.

EXAMPLE: Helen wants to fully retire and use her pot to buy a guaranteed income for the rest of her life. She has £150,000 in total and takes the first 25% (i.e. £37,500) tax-free to pay off some debts and enjoy a luxury holiday. She uses the rest to buy an annuity of £5,625 a year and she also gets a state pension of £8,297 a year. Thus her total annual income is £13,922. The personal allowance is £11,500 so she is taxed 20% on the remaining £2,422 at £484.40 a year.

So her income and tax for the year looks as follows:

Pension pot	£150,000
25% tax-free cash	£37,500
Value of pot after tax-free cash	£112,500
Regular income from annuity	£5,625
State pension	£8,297
Total taxable income	£13,922
Total income less personal allowance (£11,500)	£2,422
Income tax @ 20%	£484.40


Figures stated are for tax year 2017/2018.

4. Occasional cash withdrawals

If you don't need your pot to provide a regular income, you can leave it invested and simply take lump sums as and when you wish. The first 25% of each withdrawal will be tax-free but the remainder will be subject to income tax.

With Legal & General, you are entitled to one free withdrawal in any calendar year. Further withdrawals are subject to a small charge. Other providers may offer different terms, so you may wish to shop around. If you take this option, you should think about spreading your withdrawals over a number of years to minimise your tax liability. Again, if you take too much out or your investment funds don't perform as well as expected, you could run out of money.

EXAMPLE: Ben is semi-retired on an annual income of £18,000 and wants to use some of his pot to top up his income. His pot is worth £250,000. He takes £10,000 of which the first 25% (i.e. £2,500) is tax-free but the remainder (i.e. £7,500) is subject to basic rate tax of 20% so he pays £1,500 to the taxman.

So his income and tax for the year looks as follows:

Annual Income	£18,000
Cash withdrawal	£10,000
25% tax-free	£2,500
Portion of cash withdrawal taxable	£7,500
Total taxable income	£25,500
Total income less personal allowance (£11,500)	£14,000
Income tax @ 20%	£2,800


Figures stated are for tax year 2017/2018.

Things to remember about tax

Transfer out

After the first 25% any money you take from your pension pot either as cash or as an annuity may be subject to income tax.

Depending on how and when you take your money and any other income you receive, you could be pushed into a higher tax bracket than currently applies. This may mean you'll need to complete a self-assessment return if you don't already do so.

When you do start taking your money, we are obliged under HMRC rules to deduct tax using the emergency tax code. This may mean we deduct too little or too much tax but HMRC will make the necessary adjustments through your tax code to ensure you only pay the appropriate amount. If you are making further withdrawals, they will be taxed at your normal rate.

Continuing your contributions

If you do decide to take money out of your pot but continue to make contributions, you need to be aware of the impact this may have on your annual allowance which is the most you and your employer can contribute towards your pension pot without you incurring a tax charge.

Currently this is capped at £40,000 for most people but reduces to £10,000 for high earners.

The Government has stated that it intends to reduce this figure to £4,000 and you should be aware that this could be backdated to the start of the 2017/18 tax year.

Your annual allowance may also reduce to £10,000 if you take money from your pension pot beyond the 25% tax-free cash, depending on the options you choose.

A note on state benefits

Taking money from your pension as a regular income or cash lump sums could affect your entitlement to any means-tested state benefits.

If you spend, transfer or give away money from your pension pot and the Department for Work & Pensions (DWP) decide you have deliberately deprived yourself of it, you will still be treated as having that money and it will be taken into account as income or capital when your benefits are being worked out.

What happens on death

If you die before 75, any money left in your pension pot will usually pass to your chosen beneficiary free of tax.

If you die after 75, it will be taxed at your beneficiary's marginal rate regardless of how the money is taken.

Your next steps

- If you've got other pension pots, you may like to consolidate them into one place so it's easier to manage.
- To find out more about your options request a maturity pack via our helpline 0345 070 8686. Call charges will vary. We may record and monitor calls.
- Use our online retirement planning tool to explore your options.
- Contact the government's free and impartial guidance service – Pension wise. If you're over 50, you're entitled to a free 45-minute consultation either over the phone or face-to-face. To make an appointment, visit **www.pensionwise.gov.uk**. Please note that Pension Wise can't offer personal financial advice but they can help you understand your options better.
- Different providers offer different features, rates of payment, qualifying criteria and charges so you should always shop around for the best option. The Money Advice Service's free guide ('Your pension: It's time to choose') provides helpful tips. Visit **www.moneyadviceservice.org.uk** for more information.
- If you're leaving some of your pension pot invested, you may wish to reconsider your investment strategy.
- If you're unsure, you may wish to consult a regulated financial adviser. You will find a list at **www.unbiased.co.uk**. They will normally charge for their services.

Important warning about pension scams

Be very careful who you talk to about your pension.

In recent years there has been a dramatic increase in pension scams with victims losing their retirement savings to unscrupulous fraudsters.

Typically such scams start with an unsolicited phone call or text message and promise unrealistic returns. Victims are put under considerable pressure to make quick decisions and once the money is gone there's little chance of getting any of it back.

Visit **www.scamsmart.fca.org.uk** for more information.

Make sure that any business you deal with is authorised by the Financial Conduct Authority by checking **www.fca.org.uk**

All information is based on our understanding of current pension regulations for the 2017/2018 tax year. Please note that the law and tax rates may change in the future.

www.legalandgeneral.com/workplacebenefits

Legal & General (Portfolio Management Services) Limited
Registered in England and Wales No. 02457525
Registered office: One Coleman Street, London EC2R 5AA

We are authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

Q0052689 06/17 H0162033

Legal & General