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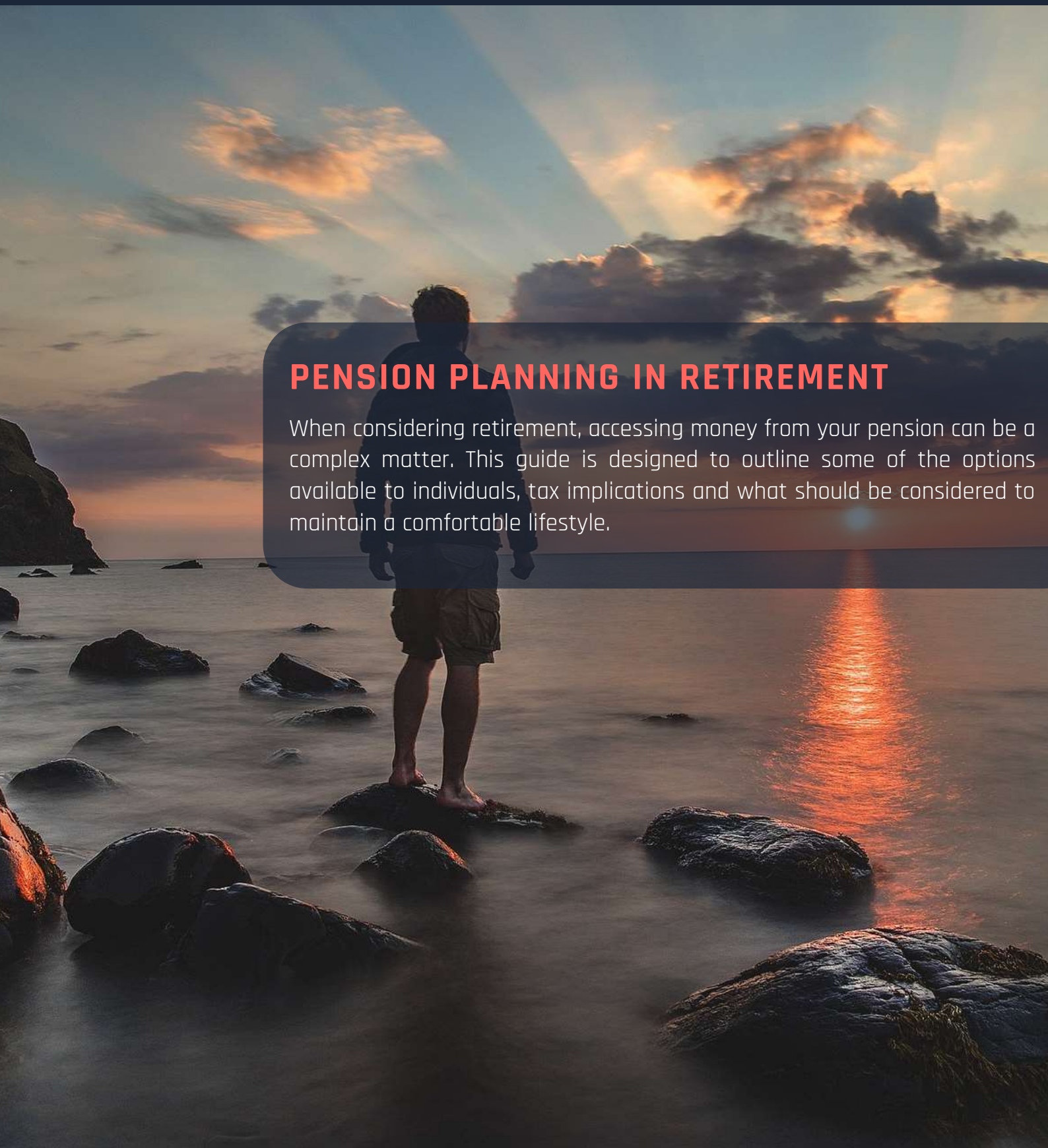

PENSION PLANNING IN RETIREMENT

When considering retirement, accessing money from your pension can be a complex matter. This guide is designed to outline some of the options available to individuals, tax implications and what should be considered to maintain a comfortable lifestyle.

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WITHDRAWAL METHODS

Uncrystallised Funds Pension Lump Sum (UFPLS)

- Allows you to take lump sums directly from your pension.
- Usually, 25% of each withdrawal is tax-free, with the remaining 75% taxable as income.

Flexi-Access Drawdown

- Flexibly access your pension as and when required, with the ability to make changes to the level of income you receive.
- The first 25% of each withdrawal can be taken tax-free from "uncrystallised" funds.
- Remaining funds stay invested and can be withdrawn flexibly, subject to income tax.
- Remaining funds can be passed on to your next of kin.

Annuity

- Allows you to use your pension to purchase a guaranteed income for life, or a defined time period (i.e. 10 years).
- These can provide peace of mind with a regular, guaranteed income stream.
- Different types of annuities (e.g. "level", "escalating" and "joint") affect the overall annual income amount.
- Generally, annuities do not provide payment after death, although there are options to provide payments to spouses and/or dependents.

Combining Methods

- You may choose to guarantee part of your retirement income, whilst retaining a pot from which to draw upon.

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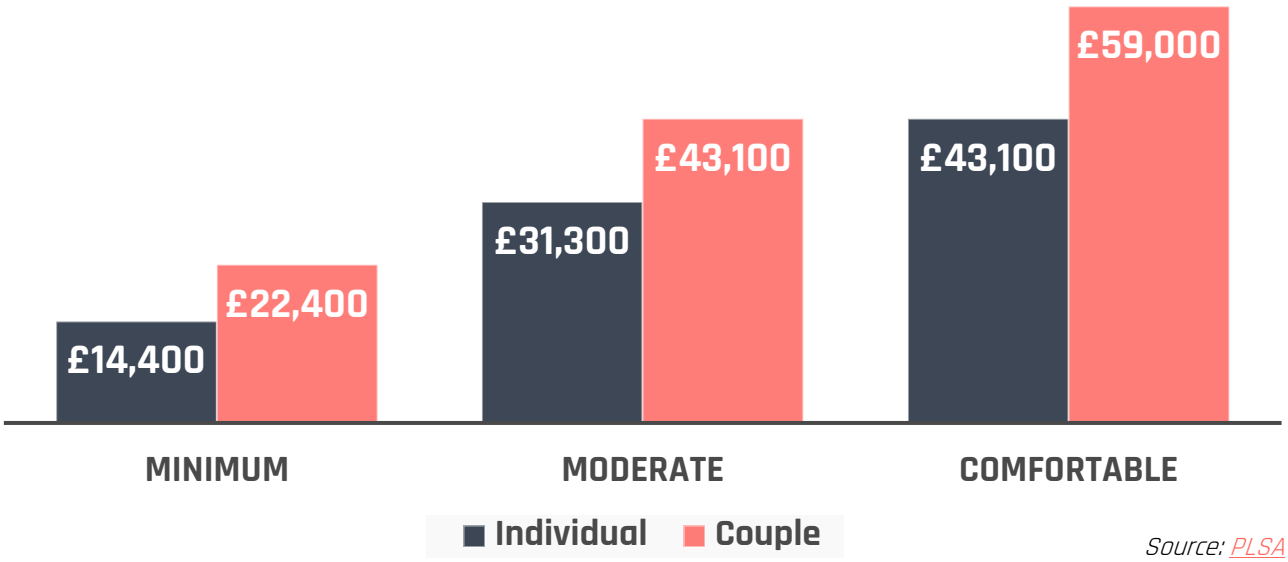
MAINTAINING A COMFORTABLE LIFESTYLE

According to the Pensions and Lifetime Savings Association (PLSA), a retired couple requires £43,100 per annum to achieve a "Moderate" retirement income, whilst £59,000 to maintain a "Comfortable" standard. Their research showed that 77% of savers don't know how much they'll need in retirement. The below table explores their Minimum, Moderate and Comfortable standards for individuals and couples:



Source: PLSA

Key Influences of Income Needs

- **Housing**: The cost of your mortgage or rent and maintaining your property.
- **Lifestyle choices**: Holidays, leisure, hobbies and dining out.
- **Healthcare**: Insurance and medical expenses.
- **Inflation**: The increase in the cost of living over time.

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TAX CONSIDERATIONS

Your pension may not be your sole source of income in retirement. It is important to consider the tax implications of withdrawing money from your pension pot.

Tax Free Cash (aka. Pension Commencement Lump Sum)

- In the majority of cases, the first 25% of your pension can be taken tax-free.
- Tax free cash can be taken as a single lump sum or, with careful planning, can be taken on a regular basis to supplement taxable income.

Income Tax

- Withdrawals above your Personal Allowance (£12,570 for the tax year 2023/24) are taxed at your marginal rate:
  - Basic Rate: 20% (income up to £50,270).
  - Higher Rate: 40% (income from £50,271 to £150,000).
  - Additional Rate: 45% (income over £150,000).

PLANNING

At Thrive, we can help formulate a strategy and work with you throughout your retirement to ensure you stay on track.

Budgeting

Create a realistic budget based upon your expected levels of income and expenditure.

Cashflow Forecasting

Creating a financial forecast can help you plan your pensions & investments over time, whilst also seeing what might happen if things don't go to plan.

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FINANCIAL PLANNING

To discuss more about your pensions, or any aspect of retirement, please contact us using the details below.

Risk Warnings

- *HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen*
- *The value of pensions and any income from them can fall as well as rise. You may not get back the full amount invested*
- *Levels and bases of, and reliefs from, taxation are subject to change and their value will depend upon personal circumstances. Taxation and pension legislation may change in the future.*
- *Drawdown pension plans (unsecured income) are complex and are not suitable for everyone. Pension decisions can affect your income for the rest of your life (and that of any partner and other dependants). Where benefits are accessed on a flexible basis, these are not fixed or safeguarded for life. If security of income is important to you then you should consider purchasing an annuity or taking a scheme pension to provide a secured level of income.*
- *A pension is a long-term investment and the value is not guaranteed. Any advice or considerations are personal to each individual's circumstances.*
- *The value of your investment and the income from it may go down as well as up. Your eventual income may depend upon the size of the fund at retirement, future interest rates and tax legislation.This guide is for information purposes and does not constitute financial advice, which should be based on your individual circumstances. The Financial Conduct Authority does not regulate some aspects of Trust, Tax and Estate Planning.*

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