the Money Advice Service

Your pension: it's time to choose

- Thinking about retiring
- Deciding how to take your retirement income
- Shopping around for the best income

The **Money Advice Service** is independent and set up by government to help people make the most of their money by giving free, impartial advice. As well as advice about pensions and retirement, we offer information on a wide range of other money topics.

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Here to help you

This guide is for you if you are thinking about retiring and have a pension pot to convert into retirement income.

It explains the process you'll go through and the decisions you need to make now to get the best retirement income.

It also explains some new rules that came into force from 27 March 2014 and further important changes proposed to take effect from April 2015.

As you approach retirement, it's essential to look at your options. The decisions you make now will affect your income for the rest of your life.

Contents

This guide doesn't cover 'defined benefit pension schemes' also known as 'final salary' and 'career average' schemes, where the pension you'll be getting is normally worked out as a proportion of your pay. Speak to your pension scheme administrator or employer to find out more.

Getting started

First things to do

1 **Thinking about retiring**

- **Around two to five years before you expect to retire.** Start thinking about when you want to retire and whether you want to retire completely or keep working part-time. Think about what income you'll need and check what income you'll have. Track down any lost pensions.
- **Around four to six months before you expect to retire.** Read the information you're sent by each pension scheme or pension provider. Ask questions if there's anything you don't understand. Decide whether to retire now or later.

For more information, see pages 4 to 7.

2 **Deciding how to use your pension pot**

- Find out about different types of retirement income products. Decide what to do if you have several pension pots or only a small one.
- Gather information on the income you can expect to get from different types of retirement income products.

For more information, see pages 8 to 22.

3 **Shopping around for the best income**

- **Around six to 10 weeks before retirement.** Shop around for the retirement income product you want. You don't have to stay with your current provider because you'll often get a better deal elsewhere. Take advice if you need to.

For more information, see pages 23 to 25.

For help with any of these steps, get advice from a financial adviser – see page 27. They will make recommendations tailored to your own personal circumstances and needs.

Key points

If proposals made in the 2014 Budget go ahead, from April 2015 you will be able to use your pension pot from age 55 in any way you wish to provide a retirement income. If you don't need to access your pension pot before then, it may be better to wait until after April 2015 to see what any new rules might mean to you.

The Pension Tracing Service – a free, government service can help you find lost pensions.
See *Useful contacts* on page 32.

Delaying retirement may increase your pension, but not necessarily – see page 6.

If you have two or more pension pots, combining them may make sense, but there are some things to consider first.

See page 12.

You don't have to retire all in one go. You might be able to cut down on work, while drawing down just part of your pension.

You can normally take up to a quarter of each of your pension pot(s) as a tax-free cash lump sum.

You can convert your pension pot into income by buying a retirement income product if you have any of the following:

- personal pension, or stakeholder pension including a self-invested personal pension (SIPP) (either taken out personally or through your workplace)
- Additional Voluntary Contribution (AVC) schemes (in most cases)
- Free-Standing Additional Voluntary Contribution (FSAVC) scheme
- Retirement Annuity Contract (RAC)
- Section 32 policy (buy-out bond)
- workplace defined contribution scheme(s).

Step 1: Thinking about retiring

Between two and five years before you expect to retire, most pension schemes or pension providers will write to you, suggesting that you start thinking about your plans. The key things you need to do at this stage are:

- think about when you want to retire or start taking your pension
- think about how much income you'll need in retirement
- check what income you can expect, and from when, including from your State Pension
- trace any lost pensions
- check how your pension pot is invested.

What to do now

Check your retirement date options

Important points to consider when thinking about when to retire are:

- **What choices are available.** Retirement is the time when you start to draw an income from your pension scheme(s). Provided that your pension scheme rules allow it, you can start to draw your pension from age 55 and you don't have to stop working to do this. Some workplace pension schemes have a 'normal pension age' (for example, age 65) at which most workers start to take their pension. You need to check the scheme rules to see if you can start to draw your pension either earlier or later than the scheme age.
- **Whether some choices involve extra charges.** If your scheme didn't have a 'normal pension age' when you first joined it, it is likely you will have had stated the age at which you expected to retire. Some schemes have charges that will apply if you retire earlier or later than this, or charges may apply on certain dates but not others. If your pension fund is invested on a with-profits basis (where bonuses are added each year), some insurance companies may reduce your pension pot by making a

deduction, called a market value reduction if you take your pension early or late. Check what date you have said you want to retire at and whether you will be penalised if you change it.

- **Whether you could stagger or delay your retirement.** If proposals contained in the 2014 Budget are adopted, then by April 2015 many people will have more choices about how they draw income from their pension pots than they did before. If you think a more flexible approach might suit you, you may want to think about delaying taking your pension until then. If you can't afford to delay you may be able to access some of your pension pot now, by using one of the alternative retirement income products described on page 20-22. Consult The Pensions Advisory Service or a regulated financial adviser for your best options (see *Useful contacts* page 32).

Whatever retirement date you choose, you don't have to get your retirement income from your current scheme. You can transfer to another provider for a better deal.

Check the impact of retiring early

Retiring early usually means you'll get a lower retirement income. This is because your contributions stop so less goes into your pension pot and your pension has to be paid out for longer. On top of this, there may be charges.

To check your possible income if you retire early, ask your scheme for a statement based on that age, or get a rough idea using our **Pension calculator** (see page 17). Estimates in our Pension calculator are based on annuity rates. The amount of income you might get through other retirement income products such as drawdown (see page 20) or if you invest your pot in other ways after April 2015, could be different.

WARNING

Only in very rare circumstances can you access your personal or workplace pensions before age 55. Companies that claim to be able to do this may be offering a bogus pensions scam, which are on the increase in the UK. Check all the facts before any irreversible decision is made as you could lose most, if not all, of your savings. Accessing a pension before age 55 could result in an 'unauthorised payment', which can attract significant tax charges. If you are concerned that you may have been targeted by a pension scam, contact **Action Fraud on 0300 123 2040.** More information on pension scams and what to watch out for is available at **pensionsadvisoryservice.org.uk.**

Check the impact of retiring later

Retiring later may mean you get a higher income. This is because you can continue paying into your pension pot for longer and your pension will not have to be paid out for so long. On the other hand, the value of the investments in your pot and the amount of retirement income you can buy could fall.

You can continue working and paying into a workplace scheme only if the scheme rules allow – so check with your scheme administrator, employer or pension provider. With many schemes you can usually delay converting your pension pot into retirement income until you are ready to take it.

You can also delay taking your State Pension. If you reach State Pension age before 6 April 2016 you can either get extra State Pension when it starts or a one-off taxable cash lump sum. The rules for delaying your State Pension are changing for people reaching State Pension age on or after 6 April 2016. The option to take a lump sum will no longer be available, but you can still get extra State Pension, provided you delay for a minimum amount of time. How long you will need to delay for will be announced in 2015.

If you do defer taking your State Pension, you don't pay any extra National Insurance Contributions (NICs), because these stop when you reach State Pension age – currently 65 for men and between 61 and 65 for women depending on when you were born. If you are due to reach State Pension age before 6 April 2016 and you haven't built up full entitlement to the basic State Pension, you may be able to pay extra National Insurance Contributions to top this up. You can find out how much this would cost by going to **gov.uk/state-pension-topup.**

For information on the State Pension, including how State Pension age is increasing, go to **gov.uk/browse/working/state-pension.**

Track down lost pensions

The Pension Tracing Service can help you track down a workplace or personal pension that you have lost touch with. It is a free service run by the government – don't confuse it with commercial services that have a similar name but charge. For information, go to **gov.uk/find-lost-pension.**

Review the investments in your pot

With most pension schemes, you choose how to invest your pension pot when you first start paying into it. As retirement approaches, some schemes automatically start switching your money to less risky investments - this is known as 'Lifestyling'. Lifestyling is important if you are going to buy an annuity (see page 12) with your pension pot, as it helps guard against a fall in the value of your pot, just as you need to use it.

However, Lifestyling may be less important if you are going to leave your pension pot invested after you retire.

The main point is to make sure you review the investments in your pension pot regularly to make sure you are happy with them. If you want help choosing or changing your investments, contact a financial adviser (see page 27).

Key points

- Check with your pension scheme or provider if you are thinking about changing your retirement date. Ask whether extra charges apply and for a statement of the income you can expect.
- Let your scheme or provider know if you've made a firm decision to change your retirement date.
- You can't draw your State Pension early, so if you retire before State Pension age you may have to manage on a lower income for a while, unless you can top up your income from your pension pots or other savings.
- Some older pension schemes may have valuable guarantees that you won't want to lose. Check with your pension provider before transferring your pot.

Step 2: Deciding how to use your pension pot

Around four to six months before you expect to retire, your scheme or provider should send you information about the options you have and the decisions you now need to make.

There is also likely to be some information about the changes proposed to take effect from April 2015.

Currently most schemes and pension providers also highlight the possibility of a higher level of retirement income, if you are buying an annuity and you have poor health or are overweight or a smoker (see page 25). The information should also tell you if your provider is offering a guaranteed annuity rate.

What to do now

Read the information

Your provider or pension scheme will give you all the information you need about the money in your pension pot, including details of any guarantees or restrictions. Keep this information safe, as you will need it when you shop around (see page 23).

Read everything carefully, and ask your pension scheme, pension provider or a financial adviser about anything that isn't clear. You can also talk to The Pensions Advisory Service. It offers a free telephone service where you can speak to specialist pension advisers who can talk you through your options (see *Getting Help and advice* page 26).

See the *Jargon buster* on page 30 for an explanation of some words you may come across.

Decide whether you want to retire now

Even if you have previously chosen to retire at the date coming up, or it is the 'normal pension age' for your scheme, you may still be able to retire later if you want to. This may make sense if you want to take advantage of the more flexible choices proposed from April 2015. See pages 4 to 6 for things to consider and what to do if you decide to put off retirement for now.

Decide whether to take a cash lump sum

Whichever retirement income option you choose, you can normally take up to a quarter of each pension pot as a tax-free cash lump sum, but this will reduce the amount you have left to convert into retirement income.

Choose a suitable retirement income product

Until now, most people have used their pension pots to buy a lifetime annuity to provide a regular retirement income for life. However, if proposals put forward in the 2014 Budget go ahead, from April 2015 you'll be able to access and use your pension pot in any way you wish from the age of 55 (see page 10).

Between now and April 2015

Your choices between now and April 2015 are set out below, and offer more generous lump sum rules and income withdrawal limits than previously:

- take some or all of your pension pot as a cash lump sum, depending on its size and your age, see page 11
- convert your pension pot into an annuity, see page 12
- use income drawdown, phased retirement or other retirement income products, see page 20.

Interim rules offer more choice

From 27 March 2014, the value of pension pots that you can take as a lump sum increased – see page 11. The rules about how much of your pension pot you can take as income drawdown have also been relaxed, see page 20. These interim rules are designed to give you more flexibility if you are retiring before April 2015 and are unsure about buying a lifetime annuity.

Proposed new rules from April 2015

In the 2014 Budget the government proposed radical new rules for how people can use their defined contribution (see *jargon buster*, page 30) pension pots from April 2015.

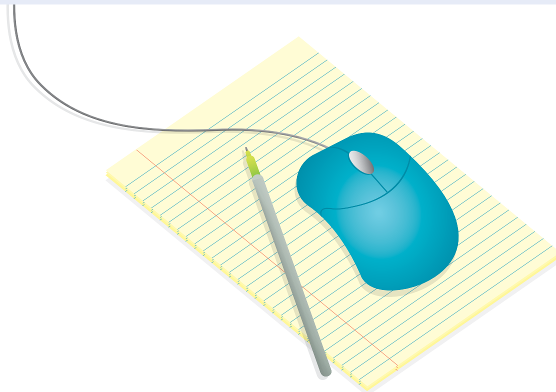
If the proposals go ahead, you will be able to:

- (as now) take up to a quarter (25%) of your pension pot tax-free (some people with older pension schemes may be entitled to a higher amount of tax-free cash)
- (as now) convert some or all of the rest into a regular retirement income (known as an annuity)
- withdraw the remaining cash in stages or take the whole pension pot as cash, subject to tax at your highest 'marginal' rate.

In essence, you will be able to withdraw what you want, when you want from your pension pot(s), but normally only a quarter of the whole pot will be tax-free.

You will be eligible to do this from age 55, subject to your scheme rules. Some people may have to transfer their pension pot to another scheme in order to access the full range of proposed choices.

In addition, the government has proposed that everyone with defined contribution pension pots will be offered free and impartial guidance on the range of options available to them at retirement.



Decide what to do if you only have a small pension pot

If you are aged 60 or over and your total pension savings (excluding State Pension) amount to £30,000 or less, you can now take the entire amount as a lump sum. This is called 'trivial commutation'.

Alternatively, if you have small pension pots in personal or stakeholder pension schemes worth £10,000 or less, you can take up to three of these as a lump sum. You can do this even if your total pension savings exceed £30,000.

You may also be able to take workplace pension schemes worth £10,000 or less as a lump sum, but you will need to check with your pension scheme administrator, pension provider or employer.

Remember, you are normally only entitled to receive a quarter (25%) of each pot's value tax-free. The value of the rest is added to your other income for the year and taxed. Depending on how much other income you have, the value of any pension pots taken as cash might push you into a higher tax bracket, meaning you could pay tax at 40% or even 45% on some or all of it.

Examples

1. If you have one pension pot worth £28,000 and you take it as a cash lump sum, £7,000 (a quarter) will be tax-free, but you'll have to pay Income Tax on the remaining £21,000.

2. If you have three personal or stakeholder pension pots of £3,000, £5,000 and £8,000, you are entitled to take a quarter of each amount tax-free. The combined value of these pots is £16,000, so you would get £4,000 tax-free and pay Income Tax on the remaining £12,000.

Remember

The pension pots you have built up over your working life are designed to provide you with an income during your retirement.

It may be tempting to cash them in and use them for other things, but then you will be left with only the State Pension to live on (and any other savings you may have).

Cashing in your pension pots may also affect how much you're entitled to in state benefits when you retire as any money held in non-pension savings is included in the assessment for means-tested benefits.

We recommend you take advice before deciding what to do – see page 26 for ways to do this.

What to do if you have more than one pension pot

Increasingly, many people build up more than one pension pot during their working lives and it can seem easier to have everything together under one roof. Often, combining pension pots can make good sense.

However, some schemes may give you a better investment choice or have lower charges than others, or have valuable guarantees that you wouldn't want to lose. Other schemes might apply penalties if you switched out before you retire.

Combining pension pots isn't necessarily straightforward so we suggest you take advice before you decide what to do. See page 26 for how to do this.

Retirement income products

This first section, pages 12 to 19, looks at lifetime annuities and the different types available. Pages 20 to 22 looks at other types of retirement income products.

These are the main retirement income products available now, but already new products are coming onto the market ahead of the proposed rule changes, so you may find different versions of these are available. If in doubt, always take advice.

Lifetime Annuities

Lifetime Annuities provide a guaranteed income for life in return for a lump sum. You can add different options and get different types depending on your needs and circumstances.

Buying an annuity may still be the right choice for many people and should definitely be considered when you are looking at options for your retirement income. However, given there are already more flexible choices available, you should consider other options alongside this. We recommend you take advice to help you decide, see page 26 for how to do this.

If you do decide an annuity is for you, there are different types to choose from. Once you take one out, you can't change your mind, so it's very important to shop around and get help from a financial adviser before you make your choice (see page 27).

Choosing the right annuity for you

You can get different types of annuity – and add different options -depending on your needs and circumstances.

Single or in a couple?

A single-life annuity provides an income just for you. It may be suitable if either you don't have a spouse or partner, or you do, but they have their own pension arrangements. If you do have a partner, think carefully before choosing a single-life annuity – it will stop paying out when you die, leaving nothing for your partner. A joint – sometimes called a joint-life – annuity will pay out to you and then your spouse or partner after your death (normally at a reduced rate).

Concerned about rising prices?

You can also choose whether you want your single or joint annuity income to stay at the same level or increase each year.

A level annuity pays out a fixed amount of retirement income throughout your life. In other words, the amount you receive will never go up. You get more money to start with than you would from an increasing annuity, but it will buy you less in the future because of inflation.

An increasing annuity will start at a lower rate than a level annuity and will gradually build up. With an increasing annuity there are two main choices:

- your income goes up each year by an agreed fixed rate (for example 3% or 5%)
- your income is adjusted each year to reflect changes in the Retail Prices Index (RPI) or the Consumer Prices Index (CPI). The amount by which your retirement income goes up will vary from year to year to match the rise in the Index.

If inflation is low for a long period, it can take many years for an increasing income linked to the RPI to pay out as much as a level one. But if you don't have an increasing income, even low levels of inflation can, over time, significantly reduce your standard of living. There is no right answer that fits everyone. The decision depends on a number of things, including what other income you have. Take advice if you need help with this decision see page 26.

Worried about value for money?

An optional feature you can include with an annuity is a guarantee period. With this, you choose to pay for a guarantee that your retirement income will continue to be paid for a set period, if you die shortly after taking the annuity out. You can usually choose to 'guarantee' your income for five or ten years after your annuity starts. If you die during this period, the income continues to be paid to whoever you choose until the guarantee period ends. If you live beyond the end of the guarantee period your guarantee expires, but your income will continue to be paid for the rest of your life.

Adding the option of a guarantee period will reduce the amount of income you receive from the annuity, but often not by very much, so it's worth checking out.

It's possible to have both a guarantee period and a joint life annuity. You'll need to decide whether – if you die within the guarantee period – you want your partner's or dependant's pension to start from the date you die or the end of the guarantee period.

A capital protected annuity is a way of ensuring that whenever you die, your annuity pays out at least as much as you paid for it. Your estate or beneficiaries will receive a lump sum equivalent to the pension pot you used to buy the retirement income, minus the income you've already been paid. There will be an Income Tax charge, and possibly Inheritance Tax to pay.

This is likely to be a more expensive option than opting for a guarantee period of five or ten years as you will be paying for this extra protection. However, it's always worth checking all your options and comparing.

Remember

If you take your pension pots as cash normally only a quarter will be tax-free – the rest will be added to your other income and Income Tax will be charged on it. Depending on how much other income you have and how much your pension pot is, it may push you into a higher tax bracket. If any part of your pension pot falls into one of the higher tax brackets you could pay 40% or even 45% on it. Even if it stays within the basic rate tax bracket, you will pay 20% Income Tax on the part of your pension pot that's not tax-free.

Interested in a more risky but possibly higher income?

You could consider an investment-linked annuity. But these involve extra risk, so unless you are a very confident investor, speak to a financial adviser who can go through the pros and cons with you (see page 27).

Investment-linked annuities put your pension pot into investments, such as stocks and shares. This means you could continue to benefit from any growth in stock market investments after retirement, but you will also suffer any falls. Effectively, you are linking your income in retirement to the ups and downs of the stock market instead of receiving a pre-set income, as you would with a basic annuity.

Investment-linked annuities can be either:

- **with-profits.** Your pension pot is invested in an insurance company's with-profits fund. Your income will depend on the insurance company's annuity rates and the bonuses (if any) added to your pot. Bonuses are not guaranteed – it depends on the financial strength of the firm, and the performance of the fund, or
- **unit-linked.** Your pension pot is invested in units in investment funds and your income is linked directly to the funds you have invested in.

Some investment-linked annuities offer a minimum level of income regardless of investment performance.

Get advice before taking out an annuity – you need to be sure it's the best option for you

Key points – if deciding to buy a lifetime annuity

- Think very carefully about the type of annuity you want, as you cannot change your mind once you've bought it.
- Check whether you could get a better income because of your health or lifestyle.
- Think about whether you need to provide an income for your partner on your death.
- Think about whether you want your retirement income to keep pace with inflation.
- Investment-linked annuities offer the chance of a higher income in future – but only by taking extra risk.

Want to see the impact of retiring early or late?

Try our Pension calculator

This tool will show you the retirement income you might get from your existing pension pots and by saving extra. You can vary the retirement age you put into the calculator to estimate the effect of retiring earlier or later.

moneyadviceservice.org.uk/pensioncalculator

the Money Advice Service

How annuity rates vary according to age and type of annuity

These figures show average annuity rates at one point in time. They are only an illustration to help give you an idea of how different types of annuity product affect what you might get. Rates change often for many reasons.

Types of retirement income product	Single life £/month	Joint (no reduction on death of scheme member) £/month	Joint (reducing by 50% on death of scheme member) £/month
Level	128.06	107.76	116.73
Level (guaranteed 10 years)	125.83	107.69	115.67
Increasing 3% each year	89.77	70.71	78.37
RPI-linked	76.80	58.51	65.63
Enhanced: rates for a male smoking 30 cigarettes a day. Spouse is a non-smoker. Level annuity, no guarantee.	146.83	111.03	125.29

Source: Money Advice Service Annuity comparison tables (June 2014). Average of top three returned rates.

The chart opposite gives an indication of the pre-tax monthly income from a lifetime annuity that could be bought in 2014 for each £25,000 of pension pot for a 65-year-old. Rates for the Level, Increasing and RPI linked annuities assume the individual is a non-smoker and the annuity is a single life, level annuity. Rates for the enhanced annuity assume the individual is a smoker taking out a level annuity. The figures in the joint columns assume the person buying the product is two years older than their partner.

The rate you might get is likely to be different, reflecting your particular circumstances and rates at the time. Annuity rates may also vary with the size of your pension pot, for example:

- some providers will not accept small pension pots at all
- some providers pay higher rates for pots above a specified amount (often £50,000). This creates a 'cliff-edge' so that just £1 less in your pension pot can mean a much lower retirement income.

So different providers may offer you a very different income for the same pension pot – one more reason why it is important to shop around for the best deal.

Notes to the chart opposite:

1. Level (no guarantee period): The income provided is the same each year for the rest of your life.

2. Level (guaranteed 10 years): The income is the same each year for the rest of your life and is guaranteed to be paid for at least 10 years, from the start of the annuity, even if death occurs during that time.

3. Increasing 3% each year (no guarantee period): The income increases each year by 3% but stops immediately on death.

4. RPI linked (no guarantee period): The income increases each year by the Retail Prices Index (RPI) but stops immediately on death.

5. Joint: On the death of the scheme member, the income continues to be paid to your spouse or partner for the rest of their life, at the level you select when you take out the product.

6. Enhanced: You may be able to get a higher monthly income if you have a medical condition, are overweight or if you smoke. The rates shown are for a level annuity with no guarantee for a male smoker of normal weight with no other health factors.

You may see a rate expressed as a percentage, or as so many pounds of income for each £10,000 you have invested in your pension pot. For example, a rate of 6% is the same as £600 a year income for every £10,000 in your pension pot. Check rates as you get near to retirement and shop around for the best deal.

Other retirement income choices

The options below may offer an interim solution if you want to wait and see if the proposed changes from April 2015 are adopted, but can't afford to delay drawing money from your pension pot.

However, these products may only be suitable if you have a larger pension pot or other sources of income, and you are comfortable taking some risk with your pension pot, your retirement income, or both.

Income drawdown

This option (also called income withdrawal) lets you draw an income from your pension pot while leaving the rest of it invested. This means you can continue to benefit from growth in the investments within your pension, but don't forget you will also suffer any falls in the investment value as well. Not all schemes offer it so you may need to switch to use it.

There are two kinds of pension drawdown products: capped drawdown and flexible drawdown.

In both cases you pay tax at your highest marginal rate on the pension income you take from your pot, provided you stick to certain rules. You are currently taxed at 55% on any income withdrawal that doesn't meet the rules – but if the new rules proposed in the 2014 Budget are adopted, these restrictions will be lifted after April 2015. Between now and then the rules and limits for income drawdown have been relaxed to allow you to take out more than before – see right.

Income drawdown – interim rules

For **capped drawdown** the amount you can take as income is capped at 150% of the income a healthy person of the same age could get from a lifetime annuity. However, it is possible that someone with health problems could get more buying an enhanced annuity than they could under drawdown.

Under **flexible drawdown** there are no limits on the income you can draw. However, you must be able to show you are already receiving other pension income of at least £12,000 a year. This minimum income level includes State Pension, a pension paid from a defined benefit scheme, lifetime annuities or other scheme pensions. However, if the income can fall, as with an investment-linked annuity, only the minimum guaranteed amount (if there is one) can count.

These restrictions will be lifted under the new proposed rules from April 2015 and you will be able to access as much or as little of your pension as you wish, subject to the rules of your pension scheme. In some cases you may need to transfer your pot to another provider to access the full range of the proposed new options.

How income drawdown affects retirement income

Bear in mind that (with the exception of the 25% tax free lump sum) anything taken from a pension scheme is taxable, so unless you need the extra income you may want to limit how much you take each year to avoid paying more tax than you need to. This will become especially relevant from April 2015 when there will be no limit on how much you can take out.

If you are considering drawdown as a long-term option, bear in mind that it's suitable only if you can manage on an income that may vary and be careful how much you draw each year – or you may outlive your pension savings. Also there are charges for continuing to run your pension fund and carrying out performance reviews.

Do all schemes offer income drawdown?

Income drawdown is an option with some personal or stakeholder pensions that you've taken out yourself and some workplace defined contribution schemes. However, some schemes (both workplace and personal) don't offer drawdown in which case you must first transfer your pension pot to a scheme that does. Bear in mind that you may incur charges to switch schemes.

For more detailed information about income drawdown, visit the Pensions Advisory Service website or talk to a financial adviser – see *Getting help and advice* page 26.

Fixed-term annuities

Under a drawdown arrangement, you can use part of your pension pot to buy a fixed-term annuity. This provides you with an agreed income for the specified term (say, three or five years). Your remaining pension pot can stay invested and you can use this, if you wish, to buy a further fixed-term annuity, a lifetime annuity or to take advantage of new options that may be available from April 2015.
The retirement income you can buy at the end of the fixed term will depend on annuity rates and your circumstances at that time, so may be higher or lower than the income you had been getting.

Hybrid products

Similar to fixed-term annuities, these products use a variety of different structures to pay a regular income and offer guarantees of either investment growth or the amount of pension fund you will have left to convert into retirement income later on.

They vary in what they're called, the guarantees they offer, and the charges they make to cover the cost of the guarantees.

Phased retirement

Phased retirement uses part of your pension pot to buy an annuity. The rest of your pot remains invested. You can later convert another portion of your pot to retirement income. Each time you convert part of your pot to retirement income you can first take some tax-free cash from that portion of the pot. Not all schemes offer the ability to do this.

Phased retirement and income drawdown can be combined. This means you would start to draw an income from just part of your pension pot on one date, leaving the rest of the pot intact. To increase your income at a later date, you could either increase the rate of withdrawal (provided you did not exceed the maximum limit) or start to draw an income from a further slice of your pension pot.

Key points

- These options may offer an interim solution if you can't afford to delay drawing from your pension pot until April 2015, but are unsure about taking out an annuity.
- However, these options are more risky than buying an annuity and may only be suitable if you have a large pension pot or other sources of guaranteed income.
- Always take financial advice if you're considering any of these options. Although you will have to pay for the advice, it could save you from expensive mistakes later on.

Step 3: Shopping around for the best income

Six to 10 weeks before you expect to retire, your pension scheme or pension provider should write again, reminding you of your options and the need to act.

It's very important to shop around whether you are buying an annuity or one of the other types of retirement income products.

Research by the Financial Conduct Authority in February 2014 showed that eight out of ten people who bought an annuity from their existing pension provider would have received a higher retirement income by shopping around. And don't forget to check whether you would be eligible for a higher income based on your health or lifestyle.

With other retirement income products, charges, product features and investment choices will differ between providers, so it is always worth checking what is available in the market. You could get a much better deal elsewhere, or find that your provider is offering you the best deal. But unless you check you won't know.

Decide on the type of retirement income product

If you haven't already done this, now is the time to decide whether you want to buy a lifetime annuity or opt for a different retirement income product. Pages 12 to 22 explain your options.

Use our Annuity comparison tables

If you choose a lifetime annuity, you can use our online **Annuity comparison tables** on **moneyadviceservice.org.uk/annuities** to compare the features and costs based on the amount in your pension pot and your needs and circumstances. The tables show real-time rates for a range of different types of annuity, including including examples of annuities that might be paid people with certain health problems or who smoke or are overweight.

Consider using a financial adviser

Financial advisers are qualified professionals who can give you individual advice on your retirement income choices. See page 27 for more information.

Talk to the Pensions Advisory Service

The Pensions Advisory Service offers a free telephone advice service and can talk you through your options and how to shop around, but cannot recommend a specific product or provider provider. See page 26 for more information.

Talk to your pension provider or pension scheme

You can talk directly to your pension provider or pension scheme. They will help you understand all your options, and give you information about the scheme you have with them and the products they can offer you. However, remember that you don't have to buy any of their products if they aren't right for you. Use their information to compare against what other providers can offer you. Talking to your own pension provider first will help you prepare for either a guidance or regulated financial advice session and will make sure you have all the relevant information you need to make a decision.

How to shop around for an annuity

Check what your current scheme is offering

Most pension providers offer annuities and it is likely that you will receive an information pack telling you how much income your provider could offer you, should you decide to stay with them.

If you are interested in buying a lifetime annuity, use this as a baseline for comparing what you can get elsewhere. Make sure you compare like with like, so don't for example compare an annuity just for you from one provider with a joint annuity from another. Annuity quotes are normally fixed for between seven and 28 days.

Check whether your current scheme offers a guaranteed amount of income – if it does, this will have been set some time ago and may be hard to beat. Check carefully whether any conditions apply – for example, must you take your pension on certain dates to get the guarantee and can it be a joint annuity if you want one or just a single annuity? Be aware that you will lose the guarantee if you take your pension pot to a different provider.

In most other cases, you can usually get a better deal by shopping around. Check how much pension pot you will have, after any charges have been deducted, if you decide to buy your retirement income from another provider.

Shopping around: information you will need

When you shop around you'll need to provide the following information:

- the value of your pension pot
- whether you will be taking a tax-free cash lump sum
- whether you have any other pension pots (you might benefit if you combine them)
- whether you intend to take any small pension pots as cash
- whether you are married or have a partner or a dependant
- whether you are concerned that your retirement income product may lose value because of inflation
- whether you have any lifestyle factors (such as smoking) or medical conditions that may mean you are eligible for an enhanced annuity
- some personal details.

Information on medical conditions and lifestyle

If you are buying an annuity, in addition to details about you and your partner (if you have one), you will need to complete a questionnaire about any medical or lifestyle conditions. It's worth completing the questionnaire because if you, or your partner, answer yes to any of the following questions, you could be eligible for a much higher level of income from your annuity:

- are you a smoker?
- have you been diagnosed with a medical condition?
- are you currently taking medication for a health condition?

You can get a copy of the questionnaire from your financial adviser, an enhanced annuity provider or from **commonquotation.co.uk.** You may need to check with your doctor for details of any treatment you have had or any medication you are taking.

Key points

- Research by the FCA showed that eight out of ten people who bought an annuity from their existing pension provider would have received a higher retirement income by shopping around.
- Make sure you check whether you could get more from an annuity based on your health lifestyle.
- Use our online **Annuity comparison tables** on **moneyadviceservice.org.uk/annuities**

Getting help and advice

The 2014 Budget also proposed that everyone with a defined contribution pension scheme coming up to retirement will be offered free and impartial guidance from April 2015. Exactly how this guidance will be delivered hasn't been finalised yet, but in the meantime we strongly recommend that you do get some help before deciding how to take your retirement income – especially in view of the proposed changes to the pension rules. Help and advice is already available, so you don't have to make these important decisions alone. We explain these options below:

Free help, guidance and information

The Pensions Advisory Service

The Pensions Advisory Service (TPAS) is an independent non-profit organisation that provides free information, advice and guidance on the whole spectrum of company, personal and stakeholder schemes. Their advisers all have specialist pensions knowledge and can talk you through your options and how to shop around. They can't give you 'regulated financial advice' (see page 27) or recommend a product provider, but will, tell you if they feel you should speak to a regulated financial adviser.

Your pension scheme or pension provider

Many workplace pension schemes already offer help and guidance to their members who are coming up to retirement. Some larger employers also arrange for members to attend retirement seminars or speak to an adviser or annuity broker. Check with your pension scheme administrator or employer to see if there is help available.

You can also contact your pension provider (the insurance company your pension pot is invested with). It will give you information about the scheme you have with them and the retirement income products it can offer you. However, remember that you don't have to buy any of their products if they aren't right for you.

Use this information to compare against what other providers can offer you. Talking to your own pension provider first will help you prepare for either a guidance or regulated financial advice session and will make sure you have all the relevant information you need to shop around.

Regulated advice

Regulated financial advisers

Financial advisers are qualified professionals, regulated by the Financial Conduct Authority (FCA), who can give you personalised financial advice on your retirement income choices. They must assess your individual circumstances, talk you through your options and recommend a product and a product provider that is suitable for your particular needs.

If they recommend an unsuitable product you have the right to make a complaint and if this is rejected you can take your case to the Financial Ombudsman Service. You therefore have more protection if you take regulated advice and buy through a financial adviser than if you buy direct or through an intermediary who can sell you a product but doesn't offer advice (such as some annuity broker services) – see page 28.

If you consult a financial adviser there will be a charge for financial advice. You may have to pay this as a lump sum fee at the time you get advice or by instalments. Always ask your adviser how much they are charging.

You can check if a firm is regulated by looking at the FCA register – see *Useful contacts* page 32.

Types of financial advisers

There are two different types of financial advisers – 'independent' and 'restricted' – and this can affect the advice you are given.

Both independent and restricted advisers must pass the same qualifications and meet the same requirements to ensure they are providing suitable advice.

An adviser or firm has to tell you in writing whether they offer independent or restricted advice, but if you are not sure which they offer ask for more information.

Independent advisers

An adviser or firm that provides independent advice is able to consider and recommend all types of retirement income products that could meet your needs and objectives.

Independent advisers will also consider products from all firms across the market, and have to give unbiased and unrestricted advice.

An independent adviser may also be called an 'independent financial adviser' or 'IFA'.

Restricted advisers

A restricted adviser or firm can only recommend certain products, product providers, or both.

The adviser or firm has to clearly explain the nature of the restriction. If you are not sure, ask for further information. Some examples of restricted advice are where:

- the adviser works with one product provider and only considers products that company offers
- the adviser considers products from several – but not all – product providers
- the adviser can recommend one or some types of products, but not all retirement income products
- the adviser has chosen to focus on a particular market, such as pensions, and considers products from all providers within that market.

Restricted advisers and firms cannot describe the advice they offer as 'independent'.

For more about finding a professional adviser, see *Useful contacts*, page 32.

The difference between regulated advice and other services

Be careful, as sometimes what looks like regulated financial advice is really only guidance or information and this type of service doesn't carry the same protection as regulated advice.

If you buy a retirement income product without regulated financial advice, then this means you, rather than the adviser or intermediary, are responsible for the choice of product and product provider. You will still have to pay for the intermediary's service, but this is usually through charges on the product, rather than by a fee as with regulated advice. It's therefore much harder to tell what you are paying for and how much.

However, more importantly, buying a financial product this way means you might not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme (FSCS) if things go wrong.

If you are not sure whether you are receiving guidance or regulated advice and therefore how protected you are, ask the adviser or firm to explain.

If things go wrong

If you have a complaint about the advice you received when you bought your retirement income product, first take your complaint to your financial adviser or the company that advised you. If they cannot resolve the problem, you may be able to take your complaint to the Financial Ombudsman Service.

If you have a complaint about or dispute with your pension scheme, you can ask the Pensions Advisory Service to help you resolve this. If you cannot resolve the problem with them, you may be able to use the Pensions Ombudsman.

If your pension provider is an insurance company and goes out of business, the Financial Services Compensation Scheme (FSCS) may arrange to transfer your policy to another insurer, or arrange for a new policy to be issued or, if these options are not possible, provide compensation. The FSCS is independent and its service is free to customers. To find out more, contact them or visit their website.

See *Useful contacts* on page 32 for the organisations mentioned in this section.

Key points

- Make sure your adviser understands your financial and personal circumstances, including future needs.
- Check you understand how the retirement option you choose works and any risks involved.
- Read the information your financial adviser gives you and ask questions if anything is unclear.

Jargon buster

Additional State Pension
Part of the State Pension accrued by employed people (so not the self-employed) where the amount you get depends on your earnings and National Insurance contributions paid during your whole working life. For people reaching State Pension age from April 2016 onwards, it is due to be replaced by a new single flat-rate State Pension.

Annuity
A type of retirement income product which provides you with a regular payment, usually for life.

AVCs – Additional Voluntary Contributions
A pension top-up policy for a workplace pension. You pay contributions into a scheme run by your employer.

Defined contribution pension scheme
A pension where your contributions are invested in, for example, the stock market. The size of your pension pot depends on how much is invested, charges and how well the investments do. Defined contribution pension schemes include some workplace pensions and all personal pensions, stakeholder pensions, group personal and stakeholder pensions and some AVCs.

Defined benefit pension scheme
Also known as 'final salary' and 'career average' schemes, where the pension you'll be getting is normally worked out as a proportion of your pay.

FSAVCs – Free-Standing Additional Voluntary Contributions
A pension top-up policy for a workplace pension, but separate from your employer's pension scheme and normally run by an insurance company.

Income drawdown
Allows you to draw an income from your pension scheme while leaving the pot invested.

Inflation
Increase in the general level of prices of goods and services.

Market value reduction
A reduction to your pension pot that could apply if you want to cash in your with-profits policy before or after its maturity date or other date(s) specified in the policy.

Open market option
Your right to shop around and buy your retirement income product from the provider offering the best deal for you.

Retirement annuity contract (RAC)
Similar to a personal pension, but was sold before 1988 when personal pensions first became available.

S32 policy (buy-out bond)
Used by members of some types of workplace pension schemes when they leave service or the scheme is wound up.

Tax-free cash sum
An amount of cash set by HMRC which you can take at retirement free of tax. Individual pension schemes may have different rules on the amount of tax-free cash you can take, but it is usually up to a quarter of your pension pot.

Trivial commutation
Taking your whole pension pot as cash if your retirement savings do not exceed a certain level.

Workplace pension
A pension scheme, often run by trustees, set up by an employer for its staff.

Useful contacts

Money Advice Service

The Money Advice Service is independent and set up by government to help people make the most of their money by giving free, impartial money advice to everyone across the UK – online, over the phone and face-to-face.

We give advice, tips and tools on a wide range of topics including day-to-day money management, savings, planning your retirement and for your future, as well as advice and help for life changing events such as starting a family or losing your job.

For advice and to access our tools and planners visit
moneyadviceservice.org.uk

Or call our Money Advice Line on
0300 500 5000*

Typetalk
1800 1 0300 500 5000

Financial Conduct Authority (FCA)

To check the FCA Register, or to report misleading financial adverts or other promotions.

Consumer helpline: 0800 111 6768
Typetalk: 1800 1 0800 111 6768
fca.org.uk/register

Pension information and advice

For details of your workplace pension scheme talk to your pensions administrator, pensions manager or pension trustees at work.

The Pensions Advisory Service

For free independent information and guidance on all pension matters, including help with resolving a pension complaint or dispute.
Also various online planners, including an Annuity Planner.

0845 601 2923
pensionsadvisoryservice.org.uk

GOV.UK

For information about planning and saving for retirement, including State Pensions, and how to find a lost pension.

State Pension statements
0845 300 0168

State Pension deferral
0845 606 0265

The Pension Tracing Service
0845 600 2537
gov.uk/find-lost-pension

Finding a financial adviser/planner

Institute of Financial Planning

financialplanning.org.uk/wayfinder

Personal Finance Society

findanadviser.org/

Unbiased.co.uk

unbiased.co.uk

VouchedFor

vouchedfor.co.uk

Complaints and compensation

Financial Ombudsman Service

0800 023 4567 or 0300 123 9123
financial-ombudsman.org.uk

Financial Services Compensation Scheme (FSCS)

0800 678 1100 or 020 7741 4100
fscs.org.uk

The Pensions Ombudsman

020 7630 2200
pensions-ombudsman.org.uk

the Money Advice Service

Your pension: it's time to choose is one of the guides available from the Money Advice Service. To see our full range of guides and request copies visit **moneyadviceservice.org.uk/freeguides**

Money Advice Line **0300 500 5000***
Typetalk **1800 1 0300 500 5000**

Don't miss out on money advice. To get more from your money, sign up to our emails and receive advice and news straight to your inbox. Sign up at **moneyadviceservice.org.uk/signup**

If you would like this guide in Braille, large print or audio format please contact us on the above numbers.

*Calls to 0300 numbers are free if you have free or inclusive call minutes as a part of the contract you have with your landline or mobile phone provider. If you don't have free or inclusive call minutes then calls to 0300 numbers will be charged at standard rates for UK geographic numbers (eg UK numbers starting with 01 or 02). To help us maintain and improve our service, we may record or monitor calls.

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