Hawsons
Wealth Management

PENSIONS: DECUMULATION

# The Decumulation Phase...

**So, you've saved year upon year into your pension, invested it where you think you should and now you've madeit to retirement... congratulations! But now what?**

This period in your life is commonly known in the financial services industry as the 'decumulaiton phase'. One thing is for sure, you have never had so much choice. With choice, comes confusion! Hopefully this article will give you some insight.

In May 2014 in his 5th budget, the ex-chancellor, George Osborne announced unprecedented changes to the way in which you can use your pension savings. Giving ultimate flexibility to you as the investor. These changes came into force on 6th April 2015.

Another added benefit, which many don't realise is that your pension can be passed on to anyone you wish and they do not have to be your next of kin/direct family.

Aside to giving flexibility and turning pensions into a fantastic generational planning tool, there was one additional underlying reason for change... the government may earn more in taxes. The treasury have increased their forecast year upon year and in 2017 estimated the revenue from tax to increase to £1.6bn from the initial £910m estimated – mainly on the back of the pension freedoms.

**So, let's look at your options: -**

What age am I allowed to access my pension?

- Age 55. This will increase to age 57 in 2028 (when the age you can receive your state pension becomes 67).

What can I do with the money in my pension?

- Let's get straight to the point...pretty much anything you like!

But of course, it is never that simple...

## Flexi-Access Drawdown (FAD)

As the title suggests, this is where you move your pension funds to an arrangement which allows you to draw money out as, and when you require. When you transfer your pension into a drawdown plan, you are then able to take 25% as a tax free lump sum. The rest is treated as income but you can have as much of this as you like, meaning you can control your income tax position. Equally if you wish to withdraw the whole fund you can, watch out for a large tax bill coming your way.

## Uncrystallised Fund Pension Lump Sum (UFPLS)

This is the term for accessing some or all of your pension funds, without having to move them to a

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drawdown pension first. Normally when this is paid the first 25% is tax free and the other 75% is taxed.

**Lifetime Annuity**

Nothing new here. Despite the changes to the rules you can still purchase an annuity if you are looking for zero investment risk and a regular income. With an annuity you exchange the money held within your pension for an income. There are many extras you can purchase with your annuity such as an escalating income, spouses pension and guarantees to name a few. Some providers have introduced more flexible annuity solutions.

**Small Pots Payment**

Dependent on the type of arrangement, you may take up to 3 or even more small pots payments if the value of the pension in question is £10,000 or below.

The tax treatment of this is dependent upon whether the arrangement is already crystallised or not.

This information is set at a high level, there is a lot of technical aspects, such as the type of scheme you are in, lifetime allowance, your age, annual allowances, taxation rules etc. These can all have a major influence on whether you can actually access your pension flexibly and if you do, how much tax you will pay.

It is clear that seeking advice is the key to ensuring you structure your retirement plans in a way that is right for you and your respective family members/beneficiaries. Everyone's circumstances are unique and an appointment with a qualified, professional financial adviser is a good place to start.

Because Defined Benefit pensions are not as widely held nowadays, this article focuses on the legislation around Defined Contribution pension schemes/Personal Pensions.

**The information contained within this is based on our current understanding of the legislation. Past performance is no guide to the future and investments can go down as well as up.**