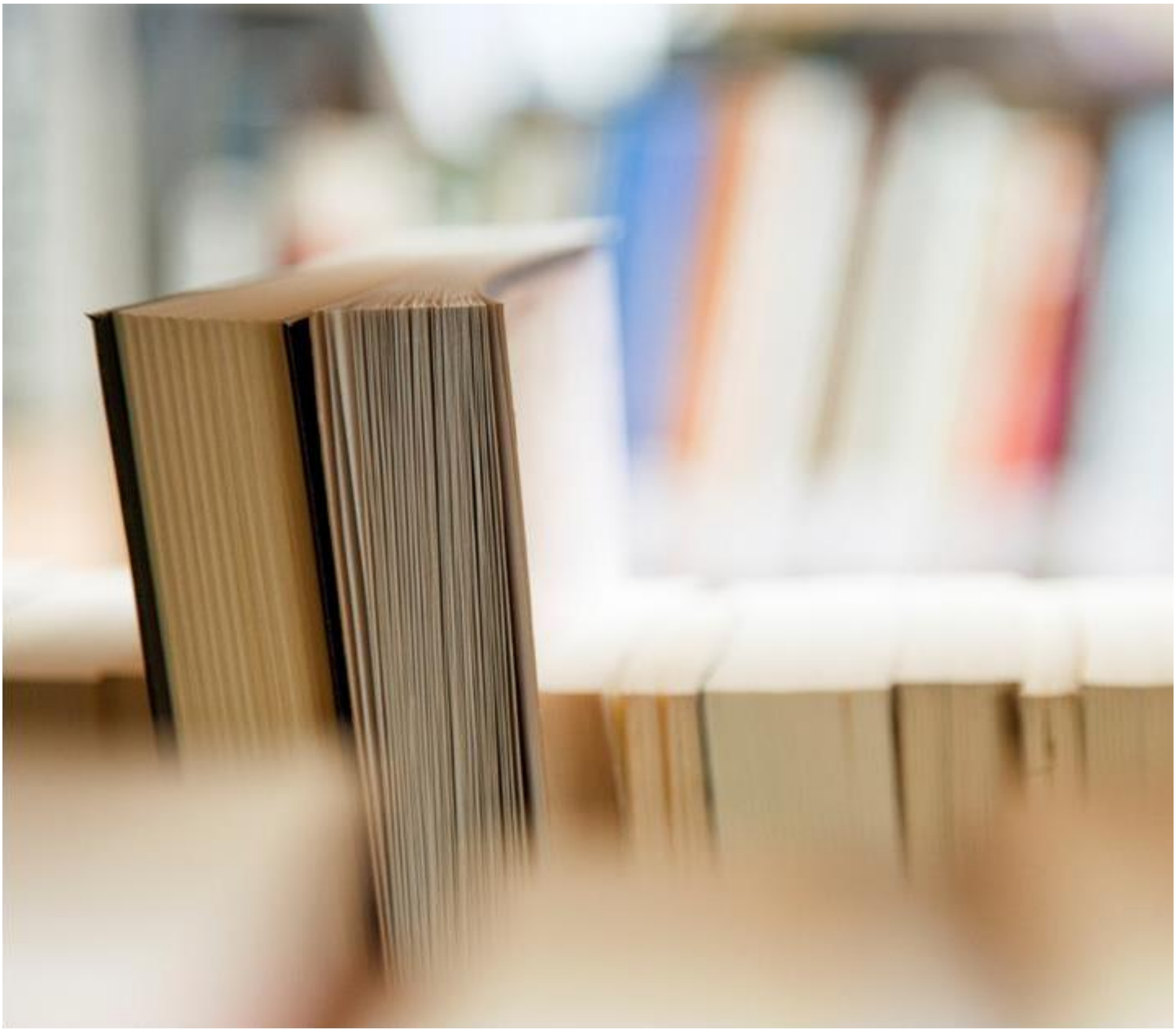
Appendix



Haven Protect Limited
Protection & Wealth Management

Earle House, Ground Floor, Atlantic Street,
Altrincham, Cheshire, WA14 5DD.

0161 519 8500
www.havenprotect.me.uk - info@havenprotect.me.uk

At Haven Protect Limited, we advise you on your retirement arrangements, helping you to secure the right financial outcomes to meet your retirement objectives. We aim to present everything in a fair and balanced way, allowing you to make up your own mind about whether you wish to follow our advice. That's why we provide this guide, including factual information you may find helpful to understand as you make your decision.

You may also find the retirement section on the government's Money Advice Service website useful, at **www.moneyadviceservice.org.uk**

Our particular area of expertise is advising those who are members of a defined benefit (or final salary) pension scheme on whether or not they should consider moving to another type of arrangement.

Defined benefit schemes are considered the gold standard for pensions, offering valuable, guaranteed benefits related to your salary and service period with the providing employer. The next sections of this guide look at what they have to offer in more detail, along with the pros and cons of the main alternative pension arrangements you can consider.

A transfer might be worth considering if:

- **Flexibility:** you want or need greater flexibility in your arrangements overall than your defined benefit pension scheme offers, for example you want to retire earlier than it will let you, or it offers benefits for a spouse or civil partner, but you are single and would like to leave benefits to another person.
- **Tax-free cash:** you need to optimise the amount of tax-free cash you can take from your pension and be as flexible as possible around how and when you can take it.
- **Inheritance:** you want any remaining pension savings to be left behind for your beneficiaries after you die. With a defined benefit pension scheme, when you (and perhaps your spouse if they would be entitled to a survivor's pension) die, your pension dies with you.
- **Poor health:** you are in poor health that might limit your life-expectancy, in which case you might be able to get a higher income by transferring.
- **Other sources of income:** you have alternative, reliable sources of income for your retirement, which mean that you won't be relying on the guaranteed income for life from your defined benefit pension scheme to support your standard of living. An example might be if your spouse also has a defined benefit scheme and their guaranteed income for life from this is enough to support both of you.
- **The future of the employer who provides your scheme:** you have good grounds to be seriously worried about the financial future of the employer who provides your scheme, wonder if that might put your future benefits at risk and are not happy to rely on the back-up of the Pension Protection Fund (PPF). The PPF was set up to pay compensation to members of defined benefit schemes should the company or the pension provider go bust.

Our starting point is that moving to an alternative arrangement from a defined benefit pension scheme won't be right for most people, unless one or more of the following is an important consideration for them.

If your situation doesn't fit with one or more of these it may well be the case that our service is not right for you because you'd likely be better off staying in your defined benefit scheme. We'd be happy to explore this with you further before either of us make a commitment to each other.

About Defined Benefit Pensions

What is a defined benefit pension?

A defined benefit pension scheme provides a pension linked to a member's salary and years of service with the providing employer, regardless of the ups and downs of financial markets or the contribution they have made in to the scheme over the years.

This gives defined benefit schemes a notable advantage over other types of pension, where your income will vary according to how much your pension investments are worth by the time you retire.

Your guaranteed benefits

Your defined benefit pension scheme will usually offer you a tax-free lump sum of 25% of the cash value of your total benefits, plus a guaranteed income for life. Sticking with what's already on offer to you has a number of advantages.

- **You will get paid guaranteed income every month for the rest of your life:** your pension payments are taxed as appropriate automatically before you receive them and you don't have to worry whether markets are up or down, whether you live to 75 or 105.
- **You may get other valuable bells and whistles:** that can include a pension for your spouse on your death, discounts, memberships, and inflation-linking of your pension so that it keeps pace with rising prices over the years.
- **You also don't have to worry about how or where your money is invested**: that is the responsibility of those who manage the defined benefit pension scheme (the trustees).
- **You are protected by the Pension Protection Fund:** This was set up to pay compensation to members of defined benefit pension schemes should the company or the pension provider go bust and you can find out more about it at **www.ppf.co.uk**
- **There is no temptation to dip into your pension investments**: for example, every time you fancy a holiday, or the house needs refurbishment!

Transferring from a defined benefit pension scheme

It is usually possible to transfer out of a defined benefit pension scheme and invest the money through an alternative pension arrangement instead. If you are interested in the idea of this, your defined benefit pension scheme will give you something called a cash equivalent transfer value, which is an amount of money they offer you in return for giving up your rights to your guaranteed benefits under the scheme.

In some cases, this transfer value can look very high and tempting because:

- **We are in a low interest environment**; this means the amount of money you need to generate an income equivalent to your guaranteed benefit under the scheme has grown compared to when interest rates were higher. This is factored into your transfer value. Interest rates may go up again in future which could reduce the transfer value you are offered compared to now.
- In some cases, **companies with defined benefit schemes are trying to reduce their pension liabilities** and are therefore boosting transfer values.

However, you need to remember that you will usually still need to generate an income to support you in retirement and you may need a large amount invested in an alternative pension arrangement to do this. If you move to an alternative arrangement you will also be exposed to investment markets which can go down as well as up. You risk ending up worse off than had you kept your guaranteed benefits.

This is why it is so important – in fact compulsory if your cash equivalent transfer value is worth £30,000 or more – to take professional, specialised advice on whether a defined benefit pension scheme transfer is right for you, from an appropriately qualified and authorised adviser like Haven Protect.

Most people will be better off staying in any defined benefit pension scheme they are a member of, and that is always our starting point at Haven Protect Limited. But – as we already touched on at the start of this guide - there are some valid reasons why you might consider it, and it is cases where these might be a factor that we usually focus on.

- **Flexibility on when you take your benefits:** each defined benefit pension scheme sets its own retirement age and may not allow you to take early retirement.
- **Flexibility on how to take your tax-free lump sum:** in general, all pensions allow you to take a tax-free lump sum of up to 25% of the value of your pension benefits or investments on retirement. With a defined benefit pension scheme, you may be forced to take the tax-free lump sum in full the moment you want to take benefits from the scheme. An alternative pension arrangement would usually allow you to take this lump sum bit by bit, which may have tax advantages in certain circumstances.
- **Flexibility on the level of income you can take:** you can't vary the income you receive from a defined benefit pension scheme over the years, to meet shifting spending needs or manage your tax liabilities for example. Moving to an alternative pension arrangement usually gives you options around this, using something called drawdown, which we'll come back to later.
- **The potential to buy a higher guaranteed income for life:** for example, your defined benefit pension scheme may factor in a pension for your spouse after you die. If you don't have a spouse, that means your pension will potentially be lower than it could be if you took the cash equivalent transfer value and asked an adviser to shop around elsewhere for a guaranteed income for life for you. The same goes if you have a health condition, where you may be able to buy a higher guaranteed income for life elsewhere if the provider doesn't expect you to live as long as others.
- **Control over who receives your death benefits:** defined benefit pension schemes often give you no control over the death benefits they offer, which are paid in line with the scheme rules (usually in the form of a dependent's pension that dies with them) and may be limited to spouses and children. In a defined contribution scheme, you can nominate whoever you like to receive whatever is left in your pension when you die – from grandchildren to the local cat charity.

Can you take a mix of guaranteed benefits and a cash equivalent transfer value from a defined benefit pension scheme?

Taking a mix of both may seem like the perfect option. You get a guaranteed income to pay bills, while retaining some flexibility by investing the cash equivalent transfer value part in an alternative pension arrangement. Unfortunately, many defined benefit pension schemes do not allow partial transfers. Usually, to achieve this balance of guaranteed income and flexibility, you will need to transfer in full, and then look at a blended or hybrid approach (see below).

If you do decide to transfer money out of a defined benefit pension scheme to an alternative pension arrangement, you will then have to decide what to do with it to support yourself in retirement. Our advice will include recommendations for this if we do think transferring out of a defined benefit pension scheme might be in your interests.
The rest of this guide outlines the main options you can consider.

The world of pensions and retirement income planning is very complex. There are many potential options for achieving the retirement income you want. Here we focus on the main two options for taking income that are available to most people today.

In either case, unless you are planning to use all of your cash equivalent transfer value from a defined benefit pension scheme immediately to provide an income, transferring from one will usually mean investing at least some of it in an alternative pension arrangement of some kind. **Before deciding whether this is right for you, there are some important things to consider.**

A transfer might not be right for you if:

- **You want certainty:** you don't know how long you'll live in retirement or how investment markets might perform. Transferring from a defined benefit pension scheme to another type of pension arrangement means you'll need to think about and manage these unknowns for yourself. A big upside of a defined benefit pension scheme is that the employer providing it absorbs the risk of these unknowns and guarantees to give you a set income for life no matter how long you live or how investments perform. At least that's the case where they stay in business. If they go bust, you would have to rely on the Pension Protection Fund to pay you compensation.
- **You're concerned about inflation:** inflation reduces the buying power of your money over time. Defined benefit pensions often build in some protection for this by increasing your retirement income each year by a certain amount. Transferring, again, means you'll have to manage this risk for yourself.
- **You're worried about how investments might perform:** if investment values go down, with a defined benefit pension that's the sponsoring employer's problem to manage. They've guaranteed your income. If you transfer, it becomes your problem. You must be willing and able to accept the risk of investments going down as well as up and that potentially affecting the income you'll get.
- **You want to be sure your spouse is provided for if you die:** since 1997, defined benefit schemes have had a legal duty to provide a survivors' pension for your spouse if you have one, and that duty was extended to civil partners from 2005. If this is important to you, you'll need to make provision for this yourself if you transfer, and this may be expensive.
- **Your service was long and your leaving salary high:** if you worked for a sponsoring employer for many years and left when your salary was relatively high, when it comes to taking an income you may be more exposed to the risk of a high tax charge if you take a transfer to a personal pension instead. This is because of the pension Lifetime Allowance (more on this later). It is a very complex area that we can explain in more detail if you think it may affect you.

Buying a guaranteed income for life on the open market

After getting help from an adviser to shop around, you can buy a guaranteed income for life (known as an annuity) from an insurance company using the money you raise from selling investments in your pension. The level of income you'll be able to get depends on your age, the annuity rate set by the insurance company, your health, what your pension investments are worth at the time and other options selected. Annuity rates tend to mirror interest rates. Annuity payments are taxed at source in the same way as your salary or a defined benefit pension payment would be.

There are many variables and options to consider when it comes to deciding on the right annuity for you, which is another good reason for taking professional advice. We outline some of these below.

Inflation protection: you can accept a lower initial guaranteed income for life in order to ensure that your future payments rise with inflation. For those who may spend 20 or 30 years in retirement, this is an important consideration when it comes to future the purchasing power of your income.
Value protection: one of the arguments you can make against an annuity (or any kind of guaranteed income for life) is that if you die young, your pension pot is effectively wasted. If that's a concern for you, you can build in value protection when you buy an annuity, which allows for your original fund value, less the payments already made, to be paid out on death.
Guaranteed periods: these allow you to opt for your annuity to be paid out for a specific number of years even if you die within this time.
Joint life/single life: a single life annuity will just run until you die. A joint life annuity will then pay out to a second person until they die.
Impaired life annuities: these offer a higher income to those people who have experienced health problems, such as diabetes or who have had certain jobs. This is often subject to a medical examination. Some individuals may be offered enhanced rates due to their lifestyle or physical condition, for example smokers or the clinically obese.
With profits/unit-lined annuities: these are similar to a normal annuity in that a series of payments is made at selected intervals in return for a pension fund. The level of payment is also dependent upon age, annuity rate, size of fund and options selected. The main difference is that the initial pension level and future income levels are also dependent on the performance of the underlying with profits fund or unit-linked funds that the payments are made from.

Advantages of buying an annuity

- You will receive a guaranteed income for life, and you can elect for your beneficiaries (for example a spouse or civil partner) to receive a guaranteed income or a lump sum less tax upon your death.
- You can usually combine taking one with taking some tax-free cash at outset.
- There are no additional charges applied to an annuity contract once in force. All charges are taken at outset and are reflected in the annuity rate offered.
- The contract is simple to understand, there is no need to review the contract and there is minimal paperwork needed to start the payment of benefits.

Disadvantages of buying an annuity

- You don't have the potential to benefit from future returns on your pension investments. But, on the other hand, you won't be exposed to the risk of falling investment values either.
- The various options in relation to death benefits and increasing / decreasing income levels etc must be selected at outset and will result in a lower initial pension payment. These selected benefits cannot be altered in the future.
- You usually 'lock in' to a certain interest rate for life.

Drawing down an income as you need it, from pension investments

This is the main alternative to buying a guaranteed income for life from an insurance company. Your pension remains invested in the stock market, fixed income holdings or other assets and an income is then taken from those pension investments either regularly or as and when you need it.

The government used to impose caps on how much income you could take from a pension you left invested. But from 6th April 2015 those caps were abolished and there are now no limits on the income you can take apart from – obviously – how much is left in your pension altogether.

From age 55 it is possible in most circumstances to access 25% of your fund as a tax-free cash sum. The government has confirmed it will raise the minimum age at which people can access their private pension from 55 to 57 in 2028.

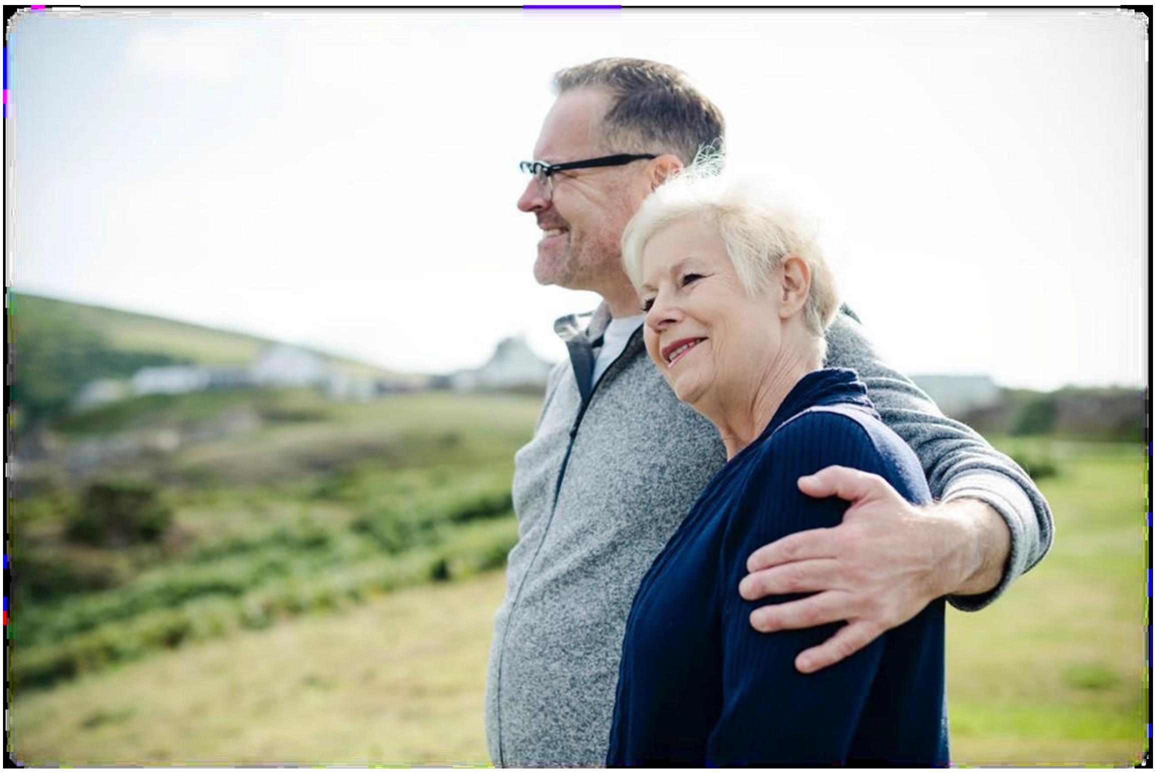
This may in certain circumstances be restricted as a result of having a pension fund which is above the Lifetime Allowance. The tax-free cash can be taken in the form of a single lump sum, partial lump sum or a regular part of your income to assist in managing tax liability.

Advantages of drawing down

- You are able to take all of your tax-free cash lump sum entitlement.
- You do not receive a set income but can vary it to suit your personal circumstances, or to supplement other sources of income.
- You are able to mitigate your liability to income tax in certain years.
- You have the potential to benefit from good investment performance in a tax-efficient environment and to exercise control over your own investment portfolio.
- There are flexible death benefits

Disadvantages of drawing down

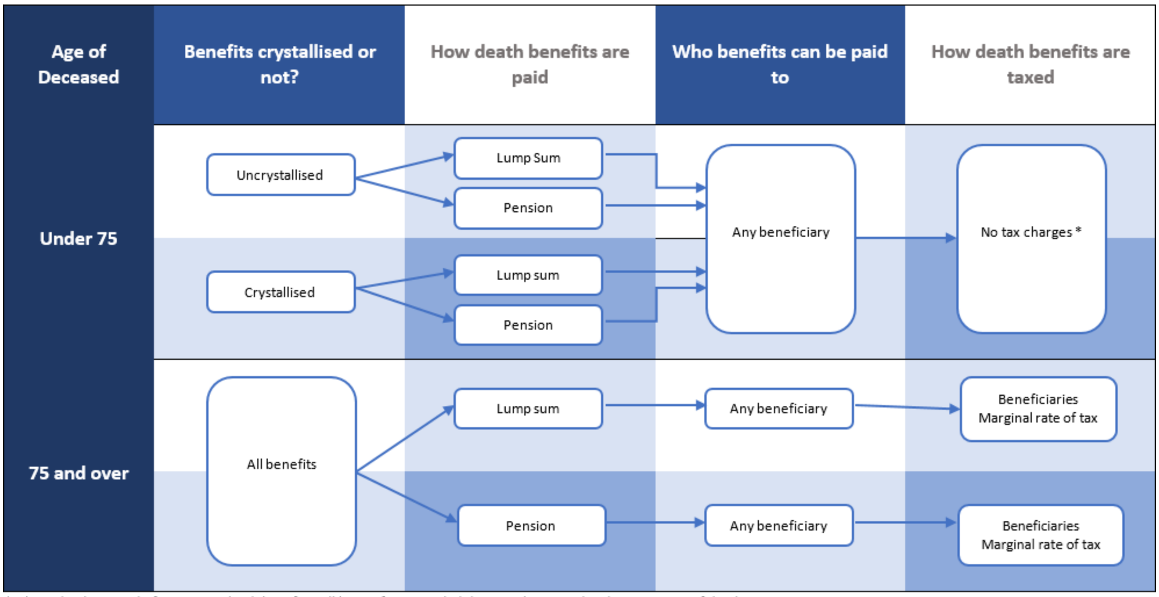
- You may run out of money and have no pension left, especially if you take high income withdrawals.
- If you take large withdrawals these may affect your entitlement to any means tested benefits that you receive from the Department for Work & Pensions. Your State Pension is not means tested.
- Taking large withdrawals may erode the capital value of the fund, especially if investment returns are poor and you take a lot of income.
- You are vulnerable to changes in the value of investments which can go down as well as up. This means the value of your pension investments could fall and affect your future income levels.
- Withdrawing too much income in early years may have an adverse effect on preserving your pension purchasing power or preserving the capital value of your fund.
- Increased flexibility can bring increased costs and the need to review arrangements regularly.
- There is no guarantee that your future income will be as high as that offered by buying a guaranteed income for life today



Payment on Death

The pension on death from a DB scheme is usually a prescribed percentage of your pension (50% or 67%). This will be paid alongside a guarantee to ensure that you achieve 5- or 10-years pension (see scheme booklet). If you have children under 21 (23 if in full time education) or with a permanent disability this may be paid to them.

Following transfer to a Personal Pension the full fund value is available as a tax-free lump sum prior to age 75 (after age 75 the benefits are taxed at the beneficiary's marginal income tax rate).



*Where death occurs before age 75 death benefits will be tax-free provided they are designated within two years of death

Should you access Flexi-Access Drawdown, you are now able to transfer such benefits on death to your nominated beneficiary, who does not now need to be a dependent. One advantage of this is that on the death of a beneficiary, any remaining funds may be passed on to further nominated beneficiaries. This makes it possible to continue passing on the fund until it eventually runs out (and keep it out of their Estate for Inheritance Tax purposes).

If you are 75 or older at death your beneficiaries can still take the entire fund as a lump sum but it will be taxed as income at their marginal income tax rate. When they die, any money left would be included in their estate and distributed as per their Will but may then be subject to Inheritance Tax at 40%.

As an alternative to the cash sum, they could opt for a 'Nominees Flexi-Access Drawdown Account'. If you die prior to age 75, they could take any withdrawals from the Nominees Flexi- Access Drawdown Account Tax-Free. If you die at age 75 or after, then the withdrawals are taxed at their marginal income tax rate, but they would be able to plan withdrawals to minimise this, which is likely to be more tax efficient than taking it as a lump sum.

Your nominated beneficiary would also be able to complete a nomination of who they would like to benefit upon their death, presumably children and grandchildren; you can nominate more than one person. When your nominated beneficiary dies, their beneficiaries will have the same options they did: take it as a cash sum or pay it to a Successors Flexi-Access Drawdown Account.

Once again, the tax treatment depends on age but it is now the Nominated Beneficiary's age at death not yours; if they are under 75 it is tax-free if taken as a cash sum or if taken via the Nominees Flexi-Access Drawdown Account. If death is after age 75 both would be taxable at the beneficiaries' marginal income tax rate.
Three key points:

- The Nominees Flexi-Access Drawdown Account allows you and future beneficiaries to pass on your pension funds without paying Inheritance Tax;
- The investment fund benefits from virtually tax-free growth and;
- The tax treatment of withdrawals is dependent on the age of the last Nominee/Successor Flexi-Access Drawdown Account holder.

As referred to above, it is now possible for pension funds to be left within the pension wrapper indefinitely following your death to be drawn on by subsequent generations of beneficiaries for as long as the funds last. **It is therefore very important that your death nomination form accurately reflects your wishes and is kept up to date.**

Whole of Life Assurance Plans

If death benefits are an important driver for you transferring your pension, we will also consider a whole of life plan to see if this will meet your life cover and expenditure needs.

You may be able to replicate the potential death benefits from a transfer to a personal pension by arranging a 'Whole of Life' plan, which could be designed to provide a lump sum (the 'sum assured') to your family when you die.

'Whole of Life' plans are intended to remain in place for the rest of your life, and you may be required to continue to pay a regular premium for the remainder of your life.

'Whole of Life' plans can sometimes also provide other benefits, for example, cover for specified illnesses or disabilities.

Your Will

It is important that you write a Will to ensure that your assets pass to the specific individuals that you wish to benefit. I strongly recommend that you have an up to date and valid will in place so that it fully reflects your wishes.

At present, if someone dies without a will - intestate (the legal term) - the government decides, on the basis of the intestacy rules, who benefits from that person's estate.

Currently when someone in England & Wales dies without a will, the law states that if the deceased is survived by a spouse/civil partner and children, all personal possessions ("chattels") and an amount up to £250,000 will be left absolutely to the surviving spouse/civil partner, plus 50% of the balance absolutely.

The other half of the residue is passed absolutely to children when they reach 18. If the deceased is survived by a spouse/civil partner but has no children, then your spouse will receive all personal possessions and the proceeds of your estate.

If you have no spouse/civil partner at the time of your death, but have children, then the total estate held in trust until that time passes to your children once they have attained the age of 18.

If you die intestate with no spouse/civil partner and no children, your entire estate will go to the following relatives, in this order:

- Your parents
- If your parents are deceased, your estate will go to your brothers and sisters.
- If you have no siblings, your estate will go to your grandparents.
- If your grandparents are deceased, your estate will go to uncles and aunts.
- If you have no living relatives and die intestate, your estate will go to the crown.

Your Life Expectancy

As part of your pension planning, you have to ensure that your money does not run out before death and Haven Protect when running our calculations use the table below from the Office of National Statistics to ensure your income is sustainable.

Current Age Attained	Male		Female	
	Expected Life Expectancy	Projected Age at Death	Expected Life Expectancy	Projected Age at Death
55	31	84	34	87
56	30	84	33	87
57	29	84	32	87
58	28	84	31	87
59	27	84	30	87
60	26	85	29	87
61	25	85	28	87
62	24	85	27	87
63	23	85	26	87
64	22	85	25	87
65	21	85	24	87
66	21	85	23	87
67	20	85	22	88
68	19	86	21	88
69	18	86	20	88
70	17	86	19	88
71	16	86	18	88
72	15	86	17	88
73	15	87	16	88
74	14	87	16	88
75	13	87	15	89
76	12	87	14	89
77	12	88	13	89
78	11	88	12	89
79	10	88	12	90
80	10	88	11	90

Source: Office of National Statistics

Life expectancy is the average number of years a person is expected to live before death. This is usually calculated from the time of birth but can also be calculated from any specified age. This estimates the remaining further number of years a person, on average, can expect to live given their age.

Protection Available

DEFINED BENEFIT PENSION SCHEME

The Defined Benefit scheme is funded by the employer and although legislation determines the level of funding required, a scheme may not always have sufficient assets to cover its liabilities.

If a scheme has insufficient assets, the benefits payable may be reduced. This could occur if, for example, the employer is insolvent. In such a case, the Pension Protection Fund (PPF) may provide payment of benefits (if the scheme qualifies).

The PPF may not provide members with the full level of benefits to which they are entitled under the scheme (the scheme will automatically reduce deferred benefits by 10% and increases in payment may be lower, whilst the PPF also applies a cap on the amount of annual pension payable of £41,461.07 (from 1st April 2020) at age 65.

PERSONAL PENSION

Whilst no UK pension/annuity provider has ever defaulted, it is important for you to be aware that a protection system is in place. The Financial Services Compensation Scheme (FSCS) is the ‘last resort’ if a pension provider was unable to meet its commitments.

If an ‘eligible’ Pension Provider is declared in default, you would have a claim limited to 100% of the fund value with no compensation cap. Please note that if you invest in a Self-Invested Personal Pension (SIPP) then the individual assets may have other compensation caps.

An annuity is covered under the terms of a long-term insurance policy; the compensation would be 100% of the annuity payment with no upper limit. The options included such as escalation and partner’s benefits would also be protected.

CURRENT LIMITS OF THE FINANCIAL SERVICES COMPENSATION SCHEME (FSCS)

Deposits	100% of the claim limited to £85,000 per person (per bank or building society) *
Investments – ISA /Unit Trust/OEICs	100% of the claim limited to £85,000 per person (per fund management company) *
Pensions & long-term life assurance including onshore investment bonds invested in insurance company own funds and annuities	100% of the claim with no upper limit
Insured Self Invested Personal Pensions (SIPPs)	100% of the claim with no upper limit
SIPP - underlying investment	100% of the claim limited to £85,000 per person (per fund management company) *
SIPP - underlying deposit	100% of the claim limited to £85,000 per person
General insurance - Compulsory insurance (e.g. third-party motor)	100% of the claim with no upper limit

General insurance - Non-compulsory insurance (e.g., home and general)	90% of the claim with no upper limit

If you held, for example three funds with one Fund Management House, your claim would be limited to £85,000; however, if your three funds were with three different Fund Management Houses, your claim would be limited to 3 x £85,000, or £255,000 (the same would hold true for the Deposits held, although it is probably less likely that you would hold sufficient cash in your pension to make this an issue).

Income Tax Liability Example - Annual

Peter is aged 55 and he has earnings of £23k in the 2020/21 tax year. He has a pension fund of £100k which he decides to cash in completely in May 2019.

25% of the fund is paid out as tax free cash, and Peter receives £25k with no tax deducted. However, the remaining £75k is added to Peter's taxable income in the 2020/21 tax year. As a result, Peter's total earnings now come to £98k in just this one tax year. Peter's total liability to tax will be calculated as follows.

Tax Free Personal Allowance in 2020/21 Tax Year	£12,500	No tax to pay on the first £12,500
Remaining Basic Rate Tax Band at 20% available in 2020/21 Tax Year.	£37,500	£7,500 tax to pay
Amount by which income goes into the Higher Rate Tax Band at 40% (between £37,501 and £150k).	£48,000	£19,200 tax to pay
	£98k total earnings in year	£26,700 total tax liability

Had Peter not cashed in his pension, his tax liability from ordinary earnings would have only been £2,100. However, as a result of adding £75k to his tax bill in the 2020/21 year, this has risen to £26,700. Putting it another way he has paid an extra £24,600 to access the remaining £75k of his pension fund which is equivalent to an overall tax rate (for Peter) of 27%.

Clearly this is not a tax efficient way of taking the benefits, and Peter would have benefitted by spreading out the remaining £75k across many tax years, rather than just one. In addition, the money has left the largely tax perfect pension environment, where it would have been free of tax on death until age 75, and where it may have carried on rising in value free from Capital Gains Tax and Income Tax.

Please note that this is a simplified example to demonstrate the consequences of taking the entire fund in just one tax year. Taking large amounts of money across two or three (or more) tax years could also result in large liabilities arising. In reality many people have a much more complex tax situation than is demonstrated in this example. Salary Sacrifice, Pension Contributions, State Benefit Payments and a multitude of other possible factors could all have an impact of the calculation. It is also worth being aware that the impact of this money could have an impact on any state benefits being paid, and you should check this point carefully if you receive state benefits of any type.

This is why **I strongly recommend that you speak to an accountant** to be clear as to your exact tax situation. The pension provider may pay your lump sum taxed at a high emergency rate, possibly 40% or even 45%. You will need to claim the amount you are entitled to back by submitting a Tax Return; again, you are likely to require the services of an accountant to ensure this is submitted correctly.

Income Tax Liability Example – Emergency Month 1 Tax Code

Personal Tax allowances suffer a reduction if the annual equivalent "income" exceeds £100,000, at a rate of £1 of allowances lost for every £2 of annual equivalent income above £100,000. Under "emergency tax" (M1 basis) the monthly tax calculation is based on 1/12th of all figures. This applies to each month in isolation whilst the client is on "emergency tax". Therefore, personal allowances will begin to be lost if withdrawal in <u>any</u> month exceeds £8,333.33 whilst the "emergency tax" condition applies. (£8,333.33 x 12 = £100,000)

Personal tax allowances will be fully lost if annual income exceeds £125,000 for 2020/21 which equates to a monthly figure of £10,416.67. So, for <u>any</u> month where income exceeds £10,416.67 there will be no personal allowances given for that month's tax calculation whilst the "emergency tax" condition applies.

Examples:

- £8,333.33 - the maximum lump sum before tax allowances begins to be affected
- £10,416.67 – the lump sum at which point all tax allowances are reduced to nil
- £15,000.00 – worked example

	Annual Allowance	Monthly Allowance	Withdrawal in month one £8,333.33 Annual equivalent £100,000	Withdrawal in month one £10,416.67 Annual Equivalent £125,000	Withdrawal in month one £15,000 Annual Equivalent £180,000
Tax Free Personal Allowance in 2020/21 Tax Year	£12,500	Or £1,041.67 per month	No tax to pay on this amount as no tax allowance restriction applies	Tax allowances fully restricted so nil allowances available	Tax allowances fully restricted so nil allowances available
Remaining Basic Rate Tax Band at 20% available in 2020/21 Tax Year.	£37,500	The next £3,125 per month (£37,500/12)	£625 tax to pay (£3,125 x 20%)	£625 tax to pay (£3,125 x 20%)	£625 tax to pay (£3,125 x 20%)
Higher Rate Tax Band at 40% (between £37,500 and £150k).	£112,500	The next £9,375 per month (£112,500/ 12)	£1,666.66 tax to pay (£4,166.66 x 40%)	£2,578.33 tax to pay (£7,291.67 x 40%)	£3,750 tax to pay (£9,375 x 40%)

Additional Rate Tax Band at 45%		The remaining income	N/A	N/A	£1,125 tax to pay (£2,500.01 x 45%)
			Immediate Tax deduction £2,291.66	Immediate Tax deduction £3,541.67	Immediate Tax deduction £5,500.00
		Actual Net Amount Received	£6,041.67	£6,875.00	£9,500

This serves to indicate the immediate liability which could arise on taking ad hoc lump sums from your pension. An Emergency Tax Code will never accurately deduct the right amount of personal tax and depending on the size of the withdrawal will probably result in an overpayment of tax which will need to be reclaimed by HMRC. You will need to reclaim any overpaid tax via your self-assessment. If you have other income sources or if you only have your state pension, you will be required to complete the relevant HMRC form to apply for a refund. Either way, you may have to wait until the end of the current tax year to receive your refund.

Lifetime Allowance Charge

The lifetime allowance charge applies if benefits exceed the lifetime allowance when they are taken. The LTA charge can be applied in either of two ways or a combination of both depending on how the excess benefits value above the LTA is taken. The charge is:

- 55% if taken as a lump sum, or
- 25% if taken as income.

Members who decide to take their benefits in stages (more commonly referred to as phased retirement) will find that they will use up a proportion of the LTA in force each time benefits are taken.

When is Your Pension Measured Against the Lifetime Allowance?

Your pension benefits are not measured against the LTA until a 'Benefit Crystallisation Event' (BCE) is triggered. A test usually has to be carried out each time benefits are taken from a UK registered pension scheme, to make sure the tax charge is applied if the lifetime allowance is exceeded.

BCEs generally only happen before or at age 75. The only exception to this is if an individual's scheme pension in payment is increased by more than an allowable level, known as the 'permitted margin', which can occur at any age. There is no BCE when a lifetime annuity is bought from a drawdown pension fund after age 75.

An individual could have several BCEs - the BCE is designed to make sure that the lifetime allowance is applied to the total of an individual's benefits across **all UK registered pension schemes.**

The different BCEs are detailed below:

No.	Benefit Crystallisation Event	Crystallised Amount
1	Movement of money or assets held under a money purchase arrangement into drawdown.	The total value of the amount moved into drawdown pension. Any assets moved will be valued at market value.
2	A member becomes entitled to a scheme pension (whether from a defined benefits arrangement or a money purchase arrangement).	20 times* the pension payable to the individual in the first year.
3	A scheme pension already in payment is increased above the permitted margin (in most cases this is the original level of pension increased by the higher of 5% and the Retail Prices Index). There is an exemption for increases that apply to a certain number of scheme members.	20 times* the excess pension arising from the increase.
4	A member becomes entitled to a lifetime annuity under a money purchase arrangement (from uncrystallised funds or a drawdown fund).	The total of the individual's rights under the arrangement used to buy the lifetime annuity funds (less any amounts previously crystallised under BCE1 in relation to any drawdown pension funds). Any assets will be valued at market value.
5	An individual reaches age 75 and has not taken all of their entitlement to a scheme pension and/or lump sum under a defined benefits arrangement.	20 times* the pension, plus the lump sum, the individual would be entitled to if these benefits were taken on reaching age 75. If a lump sum is only available by commuting pension, the lump sum can be ignored.
5a	An individual with drawdown pension funds, set up on or after 6 April 2006, under a money purchase arrangement reaches age 75.	The total value of the drawdown pension funds less the amounts previously crystallised under BCE1 in relation to these drawdown pension funds**. Any assets will be valued at market value.
5b	An individual reaches age 75 with uncrystallised funds under a money purchase arrangement.	The value of the uncrystallised funds.
5c	A member dies before age 75 and their remaining uncrystallised funds are designated for dependant's or nominee's flexi-access drawdown, on or after 6 April 2015, within two years of the scheme administrator being informed of the member's death.	The total amount that's designated into drawdown. Any assets will be valued at market value.
5d	A member dies before age 75 (on or after 3 December 2014) and their remaining uncrystallised funds are used on or after 6 April 2015 to purchase (in whole or in part), a dependents or nominees' annuity within the two-year period mentioned above.	The total amount used to purchase the annuity.
6	Payment of a relevant lump sum (other than on death) before age 75. This could	The amount of the lump sum.

	either be: Tax-free cash (known as a 'pension commencement lump sum')	
7	Payment of a lump sum death benefit (a defined benefit lump sum death benefit or an uncrystallised funds lump sum death benefit), where: the individual died before age 75, and the lump sum is payable within two years of the individual's death	The amount of the lump sum death benefit.
8	Transfer to a qualifying recognised overseas pension scheme (QROPS).	The amount transferred (less any amounts previously crystallised under BCE1 in relation to any drawdown pension funds**). Any assets transferred will be valued at market value.
9	Any event prescribed in regulations as being a crystallisation event.	The events so far prescribed in regulations are: the payment of arrears of pension instalments after death certain payments of tax-free cash based on pensions errors Tax-free cash type payments paid after death.

*HMRC and the scheme administrator may agree a higher valuation factor than 20 for scheme-wide use.

How do you Measure your Pension Against the Lifetime Allowance?

If you were in a pension arrangement that allowed you to access your benefits "flexibly" you would not have to take all your benefits at the same time. You would be able to choose the timing of your benefits and when they are measured against the LTA. When you take your benefit initially, they are measured against the LTA applying at that time and you utilize a proportion of your LTA. Your remaining LTA can be used at a later date.

For example, if your benefits at age 65 were:

- A scheme pension of £30,000
- A pension commencement lump sum of £90,000
- A defined contribution pension fund £150,000

If you take your scheme pension and the PCLS, but defer taking the defined contribution pension fund, then you have crystallized £690,000 (20 x £30,000 plus £90,000). If the LTA at that point is £1m then you have crystallized 69%, and you have 31% of your LTA remaining.

If you then choose at a later to take the benefits of your defined contribution pension fund, then these benefits are measured against the LTA **at that time**. If the LTA has increased to £1.25m, then you have 31% of that, i.e., £387,500, to use prior to any LTA Excess Charge being applied.

Key Terms, Phrases and Common Abbreviations

HMRC	HM Revenue & Customs (formerly Inland Revenue) – responsible for collecting taxes and paying tax credits.
HMRC – Income Tax reclaim forms, when emergency tax has been applied to pension withdrawals	P55 – Income tax refund, when funds have been flexibly accessed, but not depleted P50Z – Income tax refund, where funds have been depleted, but the individual has no other income P53Z – Income tax refund, where funds have been depleted, but the individual is still working or receiving benefits.
Hybrid Products	An alternative to lifetime annuities, a mixture between the features of lifetime annuities and investment products providing income which may or may not be guaranteed.
MPAA	The Money Purchase Annual Allowance, (pension contribution limit) is currently £40,000 but reduces to £4,000 on taking an income under flexi-access drawdown
Mortality Gain	The process by which lifetime annuities can pay people an income for life – by using the funds of others who die earlier than expected.
Mortality Drag	To compensate for losing the mortality gain (see above) if you delay buying an annuity, your investments must grow by an extra amount.
Open Market Option (“OMO”)	Your right to shop around and buy your annuity from the company offering the best rate.
Pension Income	The income you get from your pension savings by buying an annuity, or using income withdrawal or phased retirement. Pension income is taxed as earned income.
Phased Retirement	A way of using small segments of your personal pension as income while leaving the bulk or remaining segments of the fund invested.
Short-term Annuity	A type of drawdown that allows you to use part of your pension fund to buy an annuity lasting up to five years, while leaving the rest

	of your pension fund invested. Often with a guaranteed minimum fund value at maturity.
Single Life, Lifetime Annuity	An annuity that will not pay out to your spouse, partner or dependant after your death (unless there is a guarantee period – but it will only pay for a fixed number of years).
Tax Free Lump Sum / PCLS	A one-off sum of money that you can take from the pension fund. HMRC rules allow you up to 25% of your pension fund as a tax-free lump sum.
Flexi-access Drawdown	Ability to take a pension commencement lump sum and take the remainder of the fund as taxable income with no upper limit. Taking an income under flexi-access drawdown will trigger the MPAA which restricts the annual allowance from £40,000 to £4,000. Taking PCLS alone does not trigger the reduced MPAA
Uncrystallised Funds Pension Lump Sum	Available from age 55 or earlier for those in ill-health. 25% of the fund will be tax-free and the remainder available as pension income. Taking any UFPLS triggers the reduced MPAA (see above)
Annuitant	The person who is receiving annuity payments.
Annuity	An investment product that converts your pension fund into a pension income. Pension income is taxed as earned income.
Annuity Rate	The amount of monthly income you get from your pension fund, depending on several factors, such as interest rates and mortality rates.
Critical Yield B	For income withdrawal plans, the amount your fund must grow to keep paying your chosen income.
GAD	The Government's Actuary Department – responsible for setting some rules for pensions and life assurance scheme.

Other factors to be aware of

Your State Pension

The State Pension is a regular payment from the government that you can get when you reach State Pension Age. To get it you must have paid or been credited with National Insurance contributions.

The new State Pension is based on your National Insurance contribution record and you will need 10 'qualifying years' to get any State Pension and 35 years to get the full amount. The full State Pension from April 2020 is currently £175.20 per week.

The State Pension currently increases every year by whichever is the highest:

- Earnings - the average percentage growth in wages (in Great Britain)
- Prices - the percentage growth in prices in the UK as measured by the Consumer Prices Index (CPI)
- 2.5%

You can still get a State Pension if you have other income such as a personal pension or a workplace pension.

You can request an estimate of your State Pension from the Government Future Pension Centre (https://www2.dwp.gov.uk/tps-directgov/en/contact-tps/fpc.asp) and/or ask HMRC for a statement of your National Insurance account to check your NI contribution record (https://online.hmrc.gov.uk/shortforms/form/NIStatement).

Your tax allowances

There are both annual and lifetime allowances for pension savings. When looking ahead to your retirement, your lifetime allowance may be a consideration for the advice we give you.

As well as restricting the total amount of your pension benefits with the Lifetime Allowance, the Government has also brought in restrictions on the amount that can be saved each year – the Annual Allowance.

The objective of the annual allowance charge is to remove the tax relief given to any pension contributions over the annual allowance.

In simple terms, the tax relief given is based on the tax that would have been paid if the pension contribution had been taken as income. This means that the charge could be at 45%, 40% or 20% or a combination of all if the pension contributions fell over these tax thresholds.
The current Annual Allowance is £40,000 per annum. There are no current plans for this to increase in future.

You can find further details of both allowances at **www.gov.uk/tax-on-your-private-pension**. If you have pension savings and benefits totalling over the lifetime allowance you may have to pay a tax charge on the excess once you start taking any money out.

It's worth checking you won't be caught by the lifetime allowance as the value of any benefits you have in a defined benefit pension scheme in particular can add up over the years, so it is something you need to stay aware of.

If you have questions

We hope you found this guide useful. If you have questions, we would be happy to cover these when we call for our discussion with you. Or if it can’t wait until then please don’t hesitate to email us at info@havenprotect.me.uk or call us on 0161 519 8500.

Remember, a transfer from a defined benefit pension scheme to another type of pension is an irreversible decision. It won’t be in the interests of most people and any potential advantages of transferring are often outweighed by the costs, risks and loss of benefits involved.