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chartered financial planners

Risks associated with taking income and capital withdrawals from pensions

There are a number of key issues you need to consider when taking withdrawals from savings and pensions.

Plan how long your money needs to last

Your costs and financial needs are likely to change during retirement. You need to think about when you'll start taking money from your pension pot and how much you'll need at different times.

Work out how much you'll have in retirement

How much income you have is likely to change as you get older. Work out how much money you'll get from your pension and from other income you have and how it'll cover your costs.

Watch out for tax

Your income in retirement is taxed, just like it is when you're in work.

Importantly you should consider the following specific risk factors:

1.Your state of health
Are there aspects of your health or lifestyle that would make you potentially eligible for a better value annuity – for example, simply smoking may entitle you to an enhanced annuity? If there are, why do you not want an annuity?

2.Loss of guarantees
Will you lose any guarantees attached to the pension? If so, why are you giving these up? Think carefully that giving up any guarantee is worth the different benefits you are obtaining.

3.Whether you have a partner or dependants
Do you have a partner or dependents that might benefit from a joint life annuity (where you are not already purchasing one)? How are you planning to make provision for them in retirement? To maximise your income now may mean your dependents have no income in the future if you die before them.

4.Inflation
If you are seeking to buy a level annuity, do you understand that inflation will erode the real value of the income you receive from your annuity? Even at a low rate, inflation means that you will need more income in the future to simply maintain your current standard of living.

5.Sustainability of income in retirement
Are you expecting the money you take from the pension to help provide an income in retirement? If you are taking a lump sum, will you still have enough income for your retirement? High levels of income may be unsustainable and taking lump sums may increase the risk that you will run out of savings. See point 11.

6.Tax implications
Do you understand the tax implications of taking money from your pension savings?
You may have to pay higher rates of tax than you were expecting.

7.Charges (if you intend to invest your pension savings)
Have you considered how the charges you may face when investing your pension savings elsewhere compare with those on your current pension savings? Whilst there is some cost to buying an annuity, these are low compared with the ongoing costs of managing a drawdown pension.

8.Impact on means-tested benefits
Are you aware that taking money from your pension may impact on any means-tested benefits you receive?
Are you aware that the DWP have confirmed that if an individual does strip out benefits and spend this immediately or even over a period of time on what they refer to as 'frivolous things, not covering usual living expenses for example', then they would NOT be entitled to state benefits once the fund has been depleted.

9.Debt
Are you aware that creditors may have a call on any money taken from pension savings?
If you are in debt you should consider how you will clear these debts or seek advice from a debt counsellor.

10.Investment scams
Are you aware that investment scams exist, and that you should be careful where you invest money taken from your pension savings?
Check the FCA register if you wish to check that you are getting advice from a regulated company - http://www.fca.org.uk/firms/systems-reporting/register

11.Lump sum withdrawals
If you take lump sum withdrawals, are you aware that this could seriously reduce that income or capital that may be available to you in the future? Why do you feel it is important to access a lump sum at the risk of future income?
There is a danger if you take too much or too often that you may run out of money!

12.Investment factors – in addition to those above:-

Annuities
a. Annuity rates may be at a better or worse level in the future and so may provide a different level of income that could be obtained today.

Drawdown (FAD or capped)
b. The capital value of the fund may be eroded;
c. The investment returns may be less than those shown in the illustrations;
d. The value of the investment is determined by the value of the units, the price of which can fall as well as rise. What you get back is not guaranteed. It will depend on investment performance and the cost of converting your pension fund into an income for life. The value of your investment may be eroded by the effect of inflation over time;
e. Past performance is no guarantee of future returns.

Pension Saving

f. The Annual Allowance will fall to £10,000 where any income is drawn from FAD and scheme administrators have a duty to inform HMRC if they think someone has paid pension contributions which exceed this limit.

Are there any other factors you wish us to take into account? Please circle any area you feel is of relevance to you

I confirm that I have read and understand the risks outlined above.

Name

Signed

Date