



A Guide to Phased Retirement



A Guide to Phased Retirement (Also known as Unsecured Pensions)

We understand the changing lifestyles of people approaching retirement.

Many people no longer make a 'once and for all' decision to retire. You may wish to 'partially retire' or 'phase-in' your retirement by, for example, working part-time for a period.

Income Withdrawal can help, by allowing you to defer the purchase of a lifetime annuity, whilst drawing an income from your fund, if required. However, if your entire pension fund is applied to income withdrawal, you must take your 'Pension Commencement Lump Sum' (PCLS) at the outset, if you require it; otherwise, you will lose your entitlement to it.

It is for this purpose that many Phased Retirement and Income Withdrawal contracts are sub-divided into several hundred or thousand separate, but identical, segments. This means that you can choose to take benefits from a certain number of segments and leave the remainder fully invested in a "Phased Retirement Plan". Part of each segment 'crystallised' to provide pension benefits can then be paid as a (potentially tax-free) PCLS, with the remainder being used to provide a (taxable) income. This may be provided either by income withdrawal, or by the purchase of an annuity.

Therefore, with a Phased Retirement Plan ("the Plan"), it is also possible to phase the purchase of annuities. Here, a specified number of segments could be used to purchase a lifetime annuity, with the remaining segments staying fully invested in the Plan.

In summary, by following a 'phased' approach, you maintain full control over the income amount you receive, which is met by a combination of (potentially) tax-free PCLS payments and either annuity and/or income withdrawal payments. This process is illustrated in the diagram overleaf.

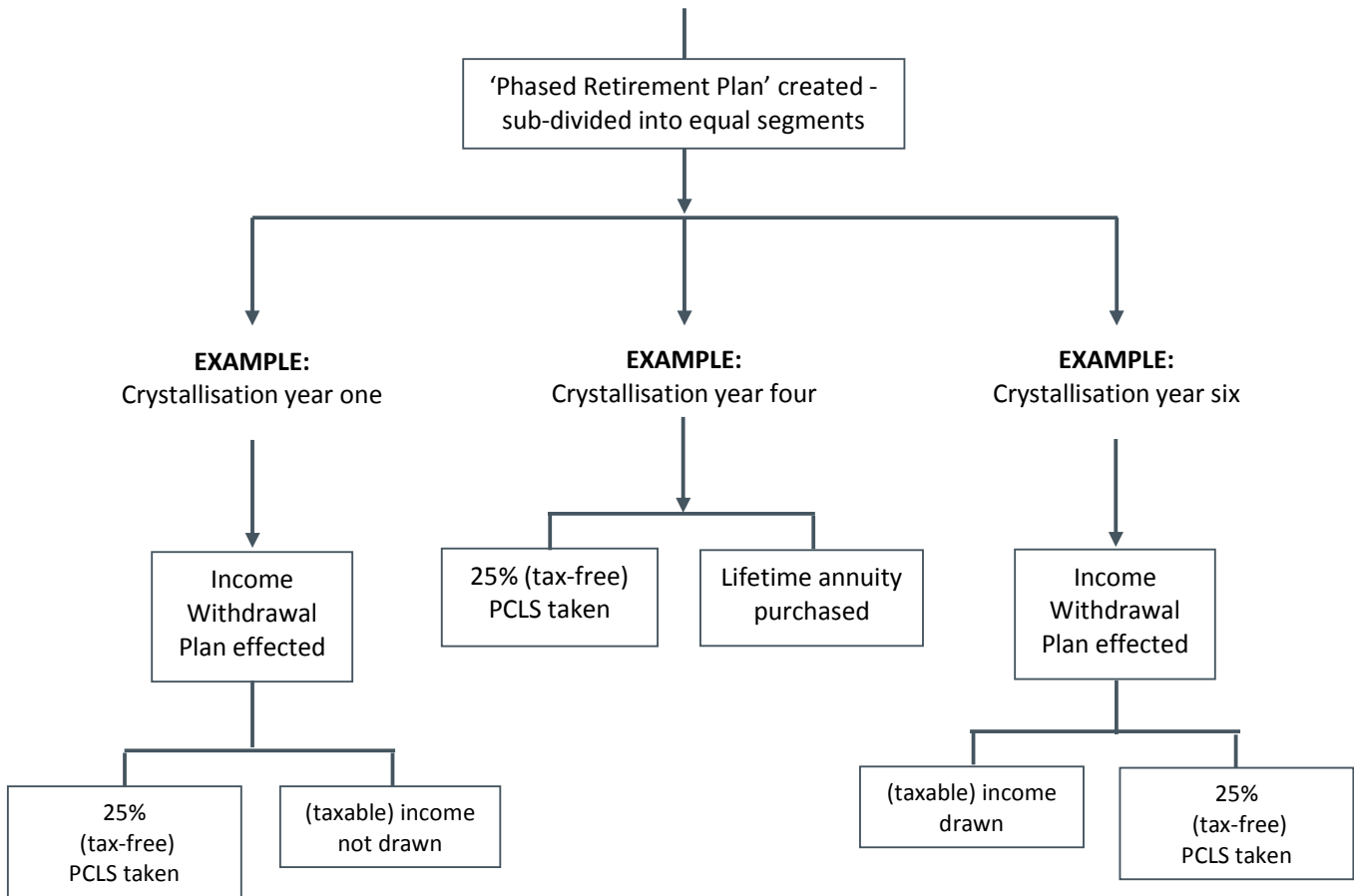
Please note: The Government recently announced that Phased Retirement is now possible for Protected Rights (that is, 'contracted-out') funds. However, very few providers have offered a contract.

How does Phased Retirement work?

If you wish to take some, but not all, of your benefits from your pension fund, then, on receipt of the transfer value(s) from your previous pension arrangement(s), the Phased Retirement Plan provider would apply the part that was not to be used to provide immediate benefits, to a multi-segmented (possibly Self-Invested) Personal Pension Plan for flexibility. The amount required to provide benefits can either be used to purchase an annuity, or paid into an income withdrawal plan.

Going forward, any number of segments can be 'crystallised', at any time, in order to generate a (tax-free) PCLS and (taxable) income. If preferred, crystallised segments, after payment of the PCLS, could be used to buy an annuity, with whatever "add-ons" were required at the time. The key point to remember is that taxable income benefits are created, whenever any part of the available PCLS is accessed. Under current legislation, however, a taxable income does not have to be taken from an income withdrawal arrangement.

Transfer-in of existing pension fund(s) - if feasible



This diagram provides an example of how a Phased Retirement Plan could work. Accrued pension funds are transferred into the Phased Retirement Plan, (which is essentially a multi-segmented (and possibly Self-Invested) Personal Pension Plan.

In the first policy year, the required number of segments are crystallised and applied to an Income withdrawal Plan, with 25% of the monetary value of the segments being paid as a (tax-free) PCLS. Although a (taxable) income amount is also created, the policyholder decides not to draw this.

This process is repeated in the sixth policy year, although this time, the policyholder decides to draw the (taxable) income amount.

By comparison, in the fourth policy year, 25% of the monetary value of the crystallised segments is paid as a (tax free) PCLS, with the remaining 75% used to buy a (taxable) lifetime annuity.

Phased Retirement and Death Benefits

Potentially, different death benefits are available from each possible component within a Phased Retirement arrangement;

- **Phased Retirement** – the full monetary value of all ‘uncrystallised’ segments remaining within the Phased Retirement Plan (that is, the fund not yet utilised to provide a PCLS and/or an income) will potentially become available on the death of the Phased Retirement Plan member. Generally speaking, this fund value will be payable to nominated beneficiaries as a tax-free lump sum
- **Annuities** – annuities are generally only payable during the lifetime of the annuitant. Income payments would, therefore, stop on their death (subject to the inclusion of a prevailing guaranteed payment period or ‘value protection’). However, if the annuity included provision for a surviving spouse’s and/or dependant’s pension(s), those income payments would continue.
- **Income Withdrawal** – the value of the income withdrawal fund on death will be available to surviving beneficiaries as either a (potentially tax-free) lump sum (less a one-off 35% tax-charge), or as an ongoing income for a surviving spouse / civil partner / other ‘qualifying’ dependant, either by the purchase of a lifetime annuity, or through the continuation of the income withdrawal arrangement, or Alternatively Secured Pension if the surviving beneficiary is aged over 75. Any income payable to surviving beneficiaries would be treated as earned income for tax purposes.

Advantages of Phased Retirement

- Phased Retirement allows the greatest flexibility in planning for your retirement and for your dependants after your death;
- With retirement benefits coming from up to three different sources (that is; from phased retirement, income withdrawal and annuity purchase), you can adjust the level of investment risk that your total funds are subject to, according to your needs;
- Phasing benefits gives you greater control over the amount of income received from your pension fund, allowing you the option of crystallising additional segments, if and when you need to. It may also allow you the opportunity to vary your income in such a way as to reduce your overall income tax liability; and
- Phasing-in the purchase of annuities can help to reduce the impact of changes in annuity rates over time.

Disadvantages of Phased Retirement

- The potential benefits of your existing pension arrangement(s) may outweigh the merits of transferring them into a Phased Retirement Plan and the ability to effect any transfers should also be considered carefully. Please discuss the feasibility of transferring with ourselves, before taking any action;
- You will not be able to take your maximum (tax-free) PCLS, when (and if) you draw your first (taxable) income amount from the Phased Retirement Plan. A separate PCLS will be calculated every time you crystallise some segments and will equate to a percentage of the monetary amount of the crystallised segments, (usually) to a maximum of 25%;
- The more times that you crystallise some segments, the more complex the ongoing management of your resulting arrangements will become. The impact of charges may also be higher than for other crystallisation options, particularly conventional annuities;
- Neither the value of investments held within the Phased Retirement Plan, nor any attaching Income Withdrawal arrangement(s) are guaranteed, and thus their value may go down, as well as up. There is no guarantee that the overall benefits provided by ‘phasing’ will be as good, or better than, those that could have been provided by the purchase of a lifetime annuity, or by effecting ‘full’ Income Withdrawal, with the entire fund at outset;
- In particular, great care is required to ensure adequate provision is made for your dependants on your death; and

- Finally, there is no guarantee that lifetime annuity rates will improve in the future. Indeed, they may even get worse.

Suitability

The Unsecured Pension route is most suited to clients with a pension portfolio valued at £100,000 at the very minimum.

Phased Retirement is most likely to suit those individuals who are looking to 'ease themselves' into retirement over a period of time and who do not require the maximum tax free cash at outset.

Given the relative risk of retaining some or all of the pension fund within an investment environment (up to, and possibly beyond, age 75), it is most likely to be suitable for those individuals with a "medium to high" attitude to investment risk.

Phased Retirement can constitute an extremely efficient tax-planning tool and offers a greater range of death benefit options, compared with income withdrawal and lifetime annuities.

For further information or to book an initial consultation, please call us on 0208 722 0734.

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