# SIPP MEMBER RETIREMENT RISK WARNINGS - ACCESSING YOUR PENSION SAVINGS

## Taking Your Pension – The Background

From April 2015, when you reach the age of 55, you will have a greater choice of how and when you can take money out of your pension. This is one of the most important decisions you will make in your lifetime, both for you and your family, so you need to fully understand your retirement options and the risks involved with taking these before you proceed.

As your SIPP administrator, Carey Pensions UK LLP and Carey Pension Trustees UK Limited as your Trustees, are not authorised to provide financial advice and this includes advice on the best retirement options for you. Therefore, it is important that you fully understand the decisions you will need to make when considering accessing your pension and that you have either sought free and impartial guidance from Pension Wise www.pensionwise.gov.uk or have obtained appropriate independent advice from a qualified financial adviser.

The purpose of this document is to provide you with information only on the risks involved with taking money out of your pension. Please take time to read this thoroughly and reflect on the contents. Upon reading this document if you are unsure about your retirement decision, please refer to (or recontact) Pension Wise or your adviser for further guidance before proceeding. It is important that you are certain before taking your pension benefits.

In line with guidance from the financial services regulator, the Financial Conduct Authority (FCA), Carey Pensions UK LLP will also issue you with a personal 'taking benefits confirmation letter' that should be read in full in conjunction with this risk warning factsheet. This letter will highlight the relevant risk warnings that could affect you personally, based on the information you have provided to us in your retirement key facts questionnaire. This is for information purposes only and should not be construed as advice. Please ensure you read and understand all of the risk warnings in full.

## Retirement Risk Warnings – *Important Please Read*

## Dependents and Sustainability of Your Retirement Income

Your pension is designed to help financially support you in your retirement. This could be for a considerable length of time therefore, it is important that you make your pension fund last as long as possible.

If you spend all of your pension fund in the early years of retirement you could have little or no money left to support your standard of living in the later years. This is irreversible and could impact not only on you, but also on your next of kin, should they be financially dependent on you.

If you have no pension fund left, this could have a significant and negative impact on your standard of living in retirement and what you can or can't afford to do in your retirement, particularly if you have minimal or no alternative sources of income.

It is important to note that the maximum Basic State Pension currently available in tax year 2015/2016 is £115.95 per week for a single person or £185.45 per week for a married couple/civil partnership (source gov.co.uk March 2015).

## Health

If you are suffering from ill health at the time of accessing your pension, you should seek urgent guidance from Pension Wise or independent financial advice from a regulated financial adviser. Ill health could mean you have access to your pension benefits early or that you are eligible for ill health options, such as enhanced / ill health annuities (this is a fixed term or lifetime income in exchange for a lump sum from your pension).

If your primary concern is to provide benefits for your dependents, the amount of benefits they will receive will be affected by the decision you make in relation to taking your pension benefits or leaving your pension as it is.

## Tax

From April 2015, when you access your pension, you can withdraw a lump sum of 25% of the value of your pension tax free up to the Lifetime Allowance (currently £1.25 million – this will be reducing to £1 million in 2016). The remainder, whether withdrawn as lump sum(s) and / or regular income, will be taxed at your marginal rate of Income Tax (ie the percentage of tax applicable to you personally).

What this means is Her Majesty's Revenue & Customs (HMRC), will treat withdrawals as income for that tax year and will calculate what Income Tax you need to pay. **Care** should be taken particularly where you have income from other sources paid to you in the same tax year or you are taking your entire pension fund at once, as this may result in you going into a higher rate Income Tax band and / or your personal allowance being reduced or lost altogether (your personal allowance is the amount of income you can receive at 0% Income Tax).

For your information, the Income Tax Bands for tax year 2015/16 are as follows (source HMRC website March 2015):

| | **Amount of income** | **Income Tax** |
|---|---|---|
| Standard personal allowance * | First £10,600 | 0% |
| Basic rate tax | The next £31,785 | 20% |
| Higher rate tax | The next £118,215 | 40% |
| Additional rate tax | The remainder | 45% |

*If you were born before 6th April 1938, you will be entitled to a higher personal allowance of £10,660 if your annual income is less than £27,000. Please note that if your income is above £27,000, the 'Age Allowance' will apply which will begin to reduce the extra personal allowance and if your income reaches £28,320 and above, you will revert to the standard personal allowance.

**Care** should also be taken if you receive income over £100,000 in the same tax year, as your standard personal allowance will be reduced and could be completely removed.

You should take guidance and / or advice about the tax implications of accessing your pension before proceeding. If you make the wrong decision, you could go into a higher tax bracket which means you will pay more Income Tax.

Carey Pensions UK LLP cannot provide advice on any matters including tax. We are required by HMRC to deduct Income Tax before paying out your benefits.

Please note that each tax year runs from 6$^{th}$ April to 5th April the following year and you have the flexibility to take money out of your pension in one tax year or over a series of tax years.

## Means Tested State Benefits

If you are in receipt of state benefits or any other source of financial support that is means tested, this could be withdrawn if you hold over a certain amount in savings and investments. It is important that you seek the appropriate advice and guidance before accessing funds from your pension.

When you take money out of your pension, it becomes personal savings and this means it would be included in any calculations for means tested support.

This could result in your benefits or financial support being reduced or completely withdrawn.

## Long Term Care

When you take money out of your pension, it is classified as personal savings. If you subsequently need to go into long term care, the Local Authority will take these personal savings into account when calculating the financial support that you may be entitled to.

This could result in you having to make a larger contribution to your long term care costs or having to fund it entirely yourself.

## Debts and Bankruptcy

When you take money out of your pension, it is also classified as personal savings in terms of any debt positions.

If you were to default on a debt or become bankrupt, the creditors would have a right to this money, as it belongs to you personally.

## Losing Guarantees

If you are transferring from a company pension scheme, in particular a 'final salary' or 'defined benefits' pension, to provide you with more flexibility to access your pension savings, it is important that you seek financial advice from a qualified adviser before proceeding.

By transferring out of your company pension scheme you could lose valuable benefits, such as a guaranteed level of pension income, guaranteed growth rates, bonuses (i.e. if invested in a 'With Profits' Fund), additional life cover and benefits for your family. Therefore, your position should be fully assessed by a professional adviser, prior to any transfer taking place.

Please note that in line with guidance from the Financial Conduct Authority (FCA), your pension provider will need to see evidence that you have sought advice before allowing the transfer of such pension schemes. If the value of your transfer is less than £30,000, this is at the discretion of the pension provider.

## Further Pension Contributions

If you want to access your pension savings but also continue to contribute to a pension, care should be taken and you should seek guidance and / or independent financial advice first.

Depending on how you access your pension, this could reduce the maximum you are allowed to put into a pension going forward and also limit your ability to use up any unused contribution allowances from the three previous tax years.

Care should also be taken that you are not 'recycling' your pension money, which is taking it out of one pension to put into another, as this could incur a tax charge.

## Scams

**Care** should be taken when withdrawing your pension fund and in terms of what you do with the money afterwards and the charges involved with this.

You should take appropriate guidance and / advice from Pension Wise or a qualified financial adviser before proceeding.

The regulator, the Financial Conduct Authority (FCA), provides guidance to consumers regarding scams and the link is below for your information:

http://fca.org.uk/consumers/scams/how-to-avoid-scams

## Shopping around

It is important to obtain advice and shop around, particularly if you are proceeding with buying an annuity.

This is because annuity rates and costs can vary considerably between providers, particularly if you are a smoker and / or have health issues. You will need to take into account all of the different options available to you including, whether you have an income which increases with the cost of living for example.

You should seek appropriate guidance and / or advice before proceeding.