For customers

Planning for your future retirement – understanding your options

Life can change a lot when you retire, so having a clear understanding of your financial situation can help you along the way. We've designed this pre-retirement checklist to help you think about some of the main considerations before taking any pension benefits and to understand the options available under your self-invested personal pension (SIPP) on Aegon Retirement Choices (ARC) or One Retirement.

This guide is for your information only - it does not provide recommendations or advice.

There are a number of options available when taking pension benefits from your pension savings. These can open new possibilities for your future. The minimum age to start drawing pension benefits is normally 55 years old (changing to 57 years old from 6 April 2028). You may have the option to take pension benefits earlier if you have a protected low pension age, or you're unable to work due to ill health.

The following checklist isn't exhaustive and we recommend speaking to your financial adviser, if you have one, to make sure you fully understand your options. There may be a charge for this. If you don't have an adviser, you can find one near you on MoneyHelper.

You should consider shopping around to make sure you get the right solution. For free and impartial guidance to help you understand what you can do with your pension pot visit Pension Wise, a service from MoneyHelper which is backed by the government. If you're over age 50, you can arrange an appointment with Pension Wise – this can be face-to-face or by telephone.

AEGON

Consider your retirement goals and lifestyle

There's no one size fits all when it comes to retirement with each of us having different goals. Some of us may choose to completely retire at a specific age, some of us may choose to continue working part time later in life, while others may take the opportunity to switch careers or even start a business.

As well as changes to your working habits, it's important to consider how events after you retire could impact on your finances. Whether this is long term health care needs, a house move, or even children or grandchildren who may require financial help with education, getting on the property ladder or a wedding.

It's also crucial to understand how any other savings, investments, property or entitlements you have could provide you with an additional income in retirement. No matter how much you've put aside for your retirement, the decisions you take now can have a significant impact on the income you receive. We've listed some of the main considerations that you may want to think about and discuss with your financial adviser.

Have you?

- [ ] **Checked your State Pension entitlement and your State Pension age?** The State Pension can help provide a valuable guaranteed income from State Pension age. You can check your entitlement online at gov.uk/check-state-pension and find out if you can make additional National Insurance contributions to help increase your entitlement.

- [ ] **Checked if you're entitled to any other State benefits or entitlements?** These may help supplement your income or could be something as simple as a travel pass that you can benefit from in your retirement.

- [ ] **Checked the value of your pension with us?** You can check the value online of your ARC or One Retirement pension and view an illustration for an idea of how much you could receive.

- [ ] **Considered any other pension savings you may have?** You need to take into account the values or benefits available from these. There are a few different types of pension schemes in the UK and you need to understand what type you have to help understand the options you're likely to have when taking pension benefits. If you have trouble locating details of some of your pensions, you can visit gov.uk/find-lost-pension.

- [ ] **Looked into the range of options available to you when taking benefits from your pensions?** Not all pensions offer the same benefit choices.

- [ ] **Found out about how any pension benefits you take are taxed?**

- [ ] **Thought about if you're likely to continue making pension contributions once you start to take your benefits?** The money purchase annual allowance (MPAA) limits how much you can pay into a defined contribution pension without incurring a tax charge after you've flexibly accessed pension benefits (for example, by taking a taxable lump sum payment or income from flexi-access drawdown). Find out more about the MPAA., including the current limit, here.

- [ ] **Thought about what outgoings you're likely to have in retirement?** This helps tailor the income you're likely to need. Also remember to think about any existing debts you might need to repay into retirement such as a mortgage or credit card debt.

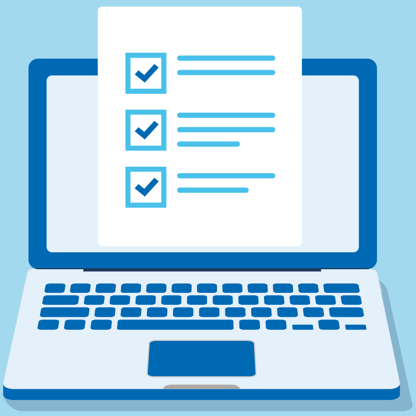
- [ ] **Considered any other income you may have?** For example, from other savings, investments or by continuing to work? If you have a partner or spouse, have a think about any savings or investments they may have too.

- [ ] **Checked what death benefits are payable from your pension schemes?** How do these fit with your intentions of providing benefits to your beneficiaries when you die? You should check what benefits your pension schemes offer, that you have a death benefit nomination in place for each scheme, and all the beneficiaries' details are up to date.

- [ ] **Thought about any potential health issues you, or your partner/spouse if you have one, may have?** This could have an impact on your current income through health care costs, future income, or ability to carry on working if you're intending to.

- [ ] **Considered any potential events that may incur significant cost?** This could be things like a family wedding, house moves or contributing to university fees or care costs.

- [ ] **Considered consolidating any pensions you have?** Consolidating could give you increased flexibility, wider investment choice and reduced costs and charges. Consolidating a pension may not be the best option for you. You may lose features, protections, guarantees or other benefits – so make sure you compare products before consolidating. If you're not sure, speak to a financial adviser – there may be a charge for this. It's important to remember the value of your consolidated pension pot can still fall as well as rise and the final value of your pension pot when you come to take benefits may be less than has been paid in. Any new funds you move your money into will have their own set of risks that will be detailed in the fund information available to you. It's up to you to decide if this is the right decision for you.



Understanding these considerations can help shape the decisions you make when it comes to what to do with your pension savings. Whatever option you choose to take your benefits, it's important to carry out regular reviews along with your financial adviser, to look at your ongoing retirement income needs and to monitor the effect the benefits you take have on your remaining pension fund.

Understand the options available to you with your SIPP

When it comes to the retirement options available from your ARC or One Retirement SIPP, there's a wide range of possibilities open to you. The information in this guide is based on our understanding of current taxation law and HMRC practice, which may change.

You can take all of your pension benefits from the scheme at the same time, or you could decide to take them as and when you need them over a period of time. We'll write to you before you take your pension benefits and give you details of all your options.

Normally, each time you take pension benefits, any tax-free portion will reduce your available lump sum allowance (LSA) and lump sum and death benefit allowance (LSDBA). These allowances put a limit on the aggregate amount of tax-free benefits you can be paid from all your pension schemes. For information on the LSA and the LSDBA, including the current limits, please visit MoneyHelper.

If you access your benefits flexibly, you'll trigger the money purchase annual allowance (MPAA), which restricts future tax-relievable contributions to money purchase pension arrangements. You can find out more about the MPAA including the current limit here on MoneyHelper.

You can normally take 25% of any pension benefits tax free with the remaining benefits subject to income tax.

Your SIPP will, at any time, consist of one or both of the following:

- **Your uncrystallised fund** – this is the part of the SIPP from which you haven't taken pension benefits, and/or
- **Your crystallised drawdown fund** –if you designate part or all of your pension fund for flexi-access drawdown, it will be held as a crystallised drawdown fund. It's available for the payment of taxable income.

Your options

When you decide to crystallise either part or all of your SIPP benefits, you have a number of options available to you.

Each option has its own upsides, downsides and tax implications to consider. The amount of tax you will pay is based on your circumstances and your tax situation at the time you take your pension savings. Depending on what option you choose, you should consider the impact of withdrawals on your remaining fund and whether you could run out of money. Before taking any benefits it's important you fully understand your options on how to take your pension savings. If you're 50 or over, Pension Wise a service from MoneyHelper, is a free and impartial government service that helps you understand what you can do with your pension savings.

Alternatively you can seek financial advice from a financial adviser. If you don't have one, you can find a financial adviser near you on MoneyHelper.

Taking a full cash lump sum

It's possible to take your entire pension fund as a cash lump sum. It's worth considering whether a full cash lump sum is the most tax-efficient way of taking your pension. Although 25% of the cash lump sum, or sums is tax free, the balance is taxed as income at your marginal rate of income tax (this is the rate of tax paid on the next pound earned), which may put you in a higher tax bracket. The amount of tax you'll pay depends on your individual circumstances.

Taking a partial cash lump sum

This option lets you withdraw money from your pension pot in one or more cash lump sums. You can take some of your pension pot as a cash lump sum and leave the remaining fund invested until you need it. After that, you can take a further cash lump sum at a later date, or convert the remaining fund into a regular income. It's worth considering whether a partial cash lump sum is the most tax-efficient way of taking your pension. Although 25% of the cash lump sum is tax free, any balance is taxed as income at your marginal rate of income tax (this is the rate of tax paid on the next pound earned), which may put you in a higher tax bracket.

Taking a small pots lump sum

If you're eligible, this option lets you take an entire pension arrangement as a lump sum if it's worth £10,000 or less. You can do this a maximum of three times from personal pension type arrangements. There's no limit on the number of small pots you can take from occupational pension schemes. Small pot lump sums are designed to help people with smaller pension pots get better value from their pension savings. Instead of having to buy a low-value annuity which would only provide a small income, you can take up to £30,000 in cash lump sum payments (three payments of £10,000) from personal pensions. With each cash lump sum payment you get 25% tax free, and the remaining 75% is taxed as income. As the cash lump sum payment is classed as income, taking this option may put you in a higher tax bracket. If you're still contributing to a pension, taking a small pot lump sum won't, unlike some other options, trigger the money purchase annual allowance. The tax-free element of a small pot lump sum does not reduce your available LSA or LSDBA. This could be useful if you are close to, or have exceeded, your LSA or LSDBA limit.

Buying a lifetime annuity

You can take up to 25% of your pension savings as tax-free cash, then use the balance to buy an annuity which pays you a guaranteed income for life. This gives you the security of knowing exactly what you'll receive. Annuity providers consider a range of factors such as age, postcode, health and lifestyle to determine their rates, which in turn determine how much income you'll receive. It's possible to add in additional features to an annuity such as to include an annuity for your partner/spouse if you have one on your death, to guarantee that your payments will be made for a certain number of years should you die before then or to have your annuity increasing each year. Including any of these options will affect the initial amount of the annuity you'll receive. As annuity rates can change substantially and rapidly, there's no guarantee that if you do purchase an annuity the rates at the time will be favourable. This could mean that your annuity income thereafter may be less than you hoped for.

Allocating funds to flexi-access drawdown

Designating funds to flexi-access drawdown lets you keep your money invested but gives you the opportunity to draw income to suit your needs and your yearly income tax position.

Each time you designate funds to drawdown, up to 25% of the amount crystallised can be paid as a tax-free lump sum. Drawdown gives you significant flexibility over how you take your pension benefits with a range of options to choose from to suit your requirements.

All in one go

One option is take up to 25% of your uncrystallised fund as a tax-free lump sum and designate the remainder to flexi-access drawdown. The funds in drawdown remain invested and you can draw taxable income as and when you need it.

Phased

It could be you want to access your uncrystallised pension fund in stages, perhaps to help support a phased retirement reducing your hours or days of work. You decide how much of your fund you want to crystallise - you can take up to 25% of the crystallised fund as a tax-free lump sum and designate the remainder to flexi-access drawdown. The funds in drawdown remain invested and you can draw taxable income as and when you need it.

As an extension of the phased retirement approach above, you could choose 'drip-feed drawdown'. This allows you to take pension benefits at regular intervals using an automated process - you can take a tax-free lump sum and taxable income at each designation or just a tax-free lump sum, with the associated fund remaining invested

Our Using flexi-access drawdown to take your pension benefits guide has more information on flexi-access drawdown options.

The level of income isn't guaranteed. There's a real chance that you may need to reduce your drawdown income in the future in order to prevent your fund running out. In particular, this may happen if the performance of your investments is lower than expected, or you live to a greater age than originally anticipated when choosing your initial income level.

Flexi-access drawdown will reduce the size of your pension fund and the investment growth may not be sufficient to maintain the level of income you wish to draw. If you withdraw money at a rate greater than the growth achieved by your investments, your remaining fund will reduce in value. The level of income you take will need to be reviewed if the fund becomes too small – this is more likely the higher the level of income you take.

Taking a combination

To meet your income needs, it's possible for you to take more than one retirement income option. Blending options might give you the exact balance of security, flexibility and growth potential you're looking for. There are many possible combinations to choose from if you decide to go with more than one option. It's important to note that, choosing the combination that makes the most sense for you will depend entirely on your individual circumstances.

Drip-feed drawdown

In summary

There are a number of options available when taking pension benefits from your pension savings. You can take all of your pension benefits from the scheme at the same time, or you could decide to take them as and when you need them over a period of time.

The amount your SIPP is worth depends on how much is paid into it over the years, the effect of charges on your fund and the performance of your investments over time. The value of an investment and any income can fall as well as rise and isn't guaranteed. The final value of your pension pot when you come to take pension benefits may be less than what has been paid in.

We recommend speaking to your financial adviser if you have one to make sure you fully understand your options. If you don't have an adviser, you can find one near you on MoneyHelper.

You should consider shopping around to make sure you get the right solution. Pension Wise is a government service from MoneyHelper that offers free, impartial pensions guidance about your pension options. If you're aged 50 or over, you can book an appointment to speak with someone at Pension Wise – appointments are free. They'll talk you through your options to help you make an informed choice when you access your pension savings.

If your personal circumstances mean you need any additional support, or if you'd like a large print, Braille or audio version of this document, please call 03456 081 680 (call charges will vary) or visit aegon.co.uk/support/additional-support

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