What choices do I have for income in retirement?

Pension benefits can be taken from the age of 55. You do not have to stop working in order to take benefits from your pension fund, and it is possible to provide yourself with income from various sources (if you have accrued these through your working life) which could prove tax efficient.

It is important to remember that the State Pension will form a proportion of your total fixed income and should not be discounted. Current levels are £144pw for a single person, which is a fixed income of £7488pa from the age of 65 and double that if you are married. (State retirement ages will increase to 66 between 2018 and 2020, and again to 67 between 2026 and 2028.)

If your private pension fund is the only other source of your income in retirement (apart from the state pension), then it may well be prudent to purchase an annuity so that your income is fixed at a set level and you can budget effectively.

Annuities are payable for life and as we are all living longer they can be arranged to increase each year to combat inflation although this does mean that they start at a lower amount, so if you are looking to phase your retirement and continue working part time this may be an appropriate solution. If you continue working and receive a pension as well, this will affect the level of tax you pay but this will depend on your individual circumstances.

When looking at purchasing an annuity you should consider the amount offered to you by the company who holds your pension, against the offers available on the rest of the annuity market. It is likely that you will get a better deal if you shop around. Additionally if you have been prescribed and take some forms of medication you may be eligible for an ‘enhanced annuity’ rate which pays you more. We can help you with this comparison to show you which is the best deal for you, to allow you to make an informed decision.

If you have more than one potential source for income then by nature you will have more options available to you. Annuity purchase remains an option however placing a large pension fund into an annuity is not a course of action we would generally recommend, especially when annuity rates are low.

Pension plans such as Self Invested Pension Plans (SIPPs) can be used to provide facilities where you can draw down your pension income (and lump sums) on a more flexible basis, within certain pre-defined limits. These are calculated using a combination of your current age, gilt rates at the time, and the Government Actuary’s Department’s table of annuity rates. Once you commence drawing down your pension the annual maximum pension limits are reviewed every 3 years.

The income is paid by cancelling units held within the fund each month, which remains invested (an annuity has no investment content) thereby giving you more control over investment strategies. This is important as you (and LWM) retain the responsibility of ensuring that your pension fund creates sufficient growth to maintain your income requirements.

In addition to private pension funds and the state pension, we would also consider your other sources for income provision; this could be by using investments to take regular withdrawals, or if you have property you rent out you would be receiving income. The source used will dictate the type of tax applied and some are more tax efficient than others, although the main aim with this type of financial planning is to ensure the available allowances are used and that you are not paying any more tax than you need to.

I will go into further detail about the taxation of assets (as it is a wide ranging subject) in a separate article however it should be borne in mind that your individual circumstances and approach to income will affect the options you have or are prepared to take.