A-Z OF RETIREMENT INCOME PLANNING

Getting the most from your retirement income can help you achieve your aspirations for life after your teaching career.

Financial planning for retirement can be complex and time consuming. To help get you started we've put together an A-Z of factors you may need to consider as a teaching professional.

Financial Advice: Retirement Planning • Investing • Funding • Insurance

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A

ACCESSING YOUR BENEFITS

Pensions are front of mind for many when considering retirement income. There are different rules for accessing different benefits, but the age at which you can access your pensions (excluding due to ill-health) depends on one key factor – your date of birth.

Within both the STSS and TPS, your pension is payable in full from your normal pension age. You currently have options to retire and draw your pension from age 55, or after your normal pension age (to a maximum age 75). If you retire early, your benefits will be reduced (Actuarially Adjusted Benefits – AAB) as they are being paid early. The amount of reduction will depend on how early you take your benefits.

B

BREAK IN SERVICE

If you were a member of the TPS or STSS before 1 January 2007 and had a break in service of more than five years (and returned to work after 1 January 2007), your normal pension age will be 60 up until the end of your break. For future service your normal pension age will be defendant on which section and scheme you return to and will be between 65 and 68.

C

COSTS OF RETIREMENT

The amount people receive in retirement can be very different to what they actually need as an income. It's ideal to go through an income expenditure/budget planner with a Financial Consultant as early as possible. A planner will help you compare what you'll have as an income against what you need and establish any shortfall.

D

DEATH BENEFITS

Death in Service

CARE Arrangement (Career Average Arrangement):
3x your final full-time equivalent salary (at the date of your death).

Final Salary Arrangement:
3x your final average salary.

Death after retirement

Lump sum is not normally available. However, if death occurs within five years of retirement the lump sum will be the lesser of five times pension less amount of pension already paid or twice the member's pensionable pay less retirement lump sum paid.

Survivor's Pension

A survivor's pension is available in the event of death both before and after retirement. The amount of pension available is dependent on which section/scheme you are a member of.

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D

Who can receive a survivor's pension?

- Your spouse or civil partner
- Your nominated partner (if they are still interdependent when you die)
- You children if they are either:
  - under 23 and in education
  - incapacitated and financially dependent on you

E

EARLY RETIREMENT

This enables you to take your pension from age 55 and before your normal pension age. Your benefits will be reduced (Actuarially Adjusted Benefits – AAB) as they are being paid early. The amount of reduction will depend on how early you take your benefits.

F

FLEXIBLE RETIREMENT OPTIONS

This could provide an option of a gradual move to retirement. You can access some or all of your pension and continue to work, whilst contributing to the TPS. You'll need to reduce your hours, or move to a less senior position. Any pension taken before your normal pension age will normally be subject to a reduction.

If you take flexible retirement after your normal retirement age, no reductions are applied to your benefits.

G

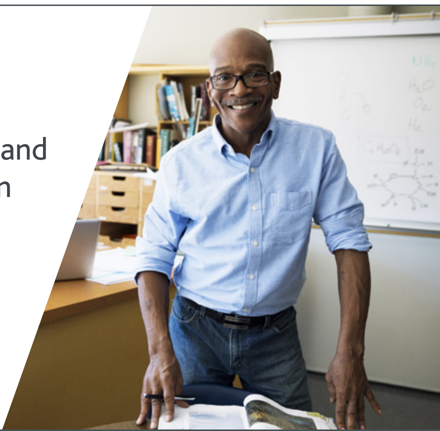
GRANDCHILDREN

If you have grandchildren, there are a number of ways this may influence your financial planning for retirement – for example, you may be able to claim extra National Insurance Credits to boost your State Pension if you look after a grandchild under the age of 12. You may also be considering making gifts out of any excess income or capital – for example by contributing to school fees.

H

HEALTH AND WELL-BEING

In our Twitter poll, 37% of teachers told us that their health and well-being would have an impact on their decision over when to retire*. Research, commissioned by the charity Education Support Partnership, found that 67% of teachers in the UK describe themselves as 'stressed' – rising to 80% amongst senior leaders (Teacher Wellbeing Index, 2018).



I

INFLATION

The cost of goods and services tends to increase over time, in-line with the government's inflation targets. If you're in receipt of an occupational or State Pension there will be some degree of 'inflation proofing' built in – as the amount you receive will increase in-line with inflation, or a set amount, each year. If part of your retirement income will be coming from savings and/or investments you'll need to ensure any interest you gain out-performs inflation – to avoid its value decreasing in real terms – meaning you'll be able to buy less with your money than you can now. Inflation will also be a consideration if you plan to travel or live abroad during retirement as it can affect the cost of foreign travel, or the cost of living in another country (depending on how the local economy performs).

J

JOINED-UP PLANNING

If you have a spouse or partner, it's important to plan your retirement finances together. Although your aspirations for life after work may be the same, your minimum pension ages, State Pension benefit entitlements, life expectancy, and so on, may be different.

K

KARATE, KAYAKING, AND KOREA

Retirement gives you the time to explore new hobbies and go on new adventures. It's important to start your retirement planning by identifying all the things you'd like to achieve in life after work. You can then build a financial plan to help you meet these ambitions.

L

LUMP SUMS

It may be possible to take all of the fund in a defined contribution pension as a lump sum, (currently from the age of 55) – regardless of whether you have retired or not. However, not all providers are able to offer this, so please check with them. Defined contribution pensions include personal pensions, additional voluntary contributions and stakeholder pensions. Any defined contribution pensions you have from existing or previous employment would form an integral part of your retirement planning.

M

MINIMUM PENSION AGE (MPA)

This is the earliest you are eligible to access your pension, which is age 55. Different rules apply for different members of the pension scheme – if you're a protected member you can take two phased retirements before finally retiring. In the 2015 scheme, members will be able to take three phased retirements in total – two phased retirements before age 60 and one after.

N

NORMAL PENSION AGE (NPA)

Your normal pension age will be defined by the pension scheme you are a member of. It could be 60, 65, or linked to your State Pension Age if that is later.

O

OUTGOINGS

Your income and expenditure is likely to change as you move through the different stages of your retirement. For example, you may be very active in your early retirement years – spending more on travel and holidays.

Your expenditure may also increase in later retirement if you need to cover the costs of care for yourself or your partner. We can help you understand what your income and outgoings might look like and ensure you have a tailored plan in place that matches your ambitions and lifestyle.

P

PARTNERSHIPS (UNDERSTANDING YOUR PENSION RIGHTS)

A civil partnership is a legally recognised union of same-sex couples in some countries. In October 2018 the government announced that civil partnerships are to receive the same survivor rights as opposite-sex couples in England and Wales.

The Teachers' Pension Scheme is working in conjunction with The Department of Education to ensure changes are implemented.

Regulatory changes will be introduced to provide that:

- survivors of same-sex marriages and civil partnerships are treated in the same way as widows of opposite sex marriages (survivor benefits in relation to service from 1 April 1972 or 6 April 1978 if the marriage was after the last day pensionable service); and
- the change applies from the date civil partnerships and same-sex marriages were implemented.

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Q

QUALIFYING YEARS

If you've got 35 years of 'qualifying' National Insurance contributions (NIC), you'll be entitled to the full-flat rate State Pension (worth a maximum of £9,1140.40 per annum in the 2020/21 tax year). If there are gaps in your NICs record (for example because you've worked and lived abroad at some point) you may be able to apply for credits to fill them.

R

REDUCED RESPONSIBILITY

This could provide an option of a gradual move to retirement. To be eligible for phased retirement your pensionable earnings must have reduced by 20% over the previous 12 months – this is achieved by either a reduction of hours, or responsibilities. You can access up to a maximum of 75% of the benefits you have accrued and can continue to make contributions into the TPS or STSS, whilst you are working. Any pension taken before normal pension age will be subject to actuarial reduction. If you take phased retirement after your normal pension age, no reductions are applied.

How phased retirement could work for you will depend on your individual membership, i.e. whether you are a transition member or a member of the final salary arrangement.

It is important to note that for phased or flexible retirement, you must have your employers' permission. This can often be overlooked and is an important consideration before making any plans.

S

STATE – WHAT THEY WILL PROVIDE

The State Pension and Additional State Pension have now been replaced by the new flat rate State Pension.

TPS and STSS members were 'contracted out' of paying Additional State Pension contributions until April 2016. For example, until April 2016 the TPS automatically contracted members out of the Additional State Pension – allowing both employer and employee to pay lower National Insurance contributions (NICs). The State Pension and Additional State Pension have now been replaced by the flat rate State Pension.

You must have 35 years' qualifying NICs to be entitled to the full State Pension.

Your 'starting amount' at 1 April 2016 will be based on your historic NICs less a deduction for being contracted out.

T

TAX

Taxation is a major consideration in both:

- building for retirement (for example managing your pension annual and lifetime allowances, as well as tax efficient savings and investments)
- deciding how you'll fund your lifestyle in retirement (income tax, tax-free lump sums from your pensions, inheritance tax, and so on).

U

UNDERSTANDING YOUR OPTIONS

You are able to access your pension benefits in a variety of ways which include taking the whole of a defined contribution pensions, such as personal pensions, as a cash lump sum (currently from the age of 55), regardless of whether you've retired or not. The best options around this will depend on your personal circumstances, so things to discuss with your Financial Consultant include:

- leaving your pension pot untouched
- using your pension to buy a guaranteed income for life (annuity)
- using your pension to provide a flexible retirement income (flexi-access drawdown)
- taking your pension pot as cash
- taking your pension as several lump sums
- mixing your options.

Your Wesleyan Financial Services Consultant can also help you to understand the tax implications of these options.

V

VALUABLES

If you're planning to cash in, or gift, valuable items such as collections of jewellery, antiques, or paintings as part of your retirement planning, you need to be clear on the rules around Capital Gains Tax, Inheritance Tax, and Deliberate Deprivation of Assets. Falling foul of these could leave you and/or your loved ones liable to unexpected charges.

W

WIND DOWN EMPLOYMENT

This allows teaching professionals to reduce their working hours or days, within their existing role, without having to retire fully. Please note that there is select criteria such as:

- you've elected to wind down no earlier than 4 years before your NPA
- you've been in continuous full time service for a period of 10 years immediately before commencing winding down employment
- you've accrued a minimum of 25 years teaching service prior to commencing winding down (you must have had a contract to teach for at least 25 years).

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W

The period may include, for qualifying purposes, a maximum period of up to 5 years during any break or breaks in teaching service which will count towards the requirement of having 25 years teaching service, but will not count towards the calculation of benefits:

- you have the consent of your employer
- you go part-time and your employment is equal to or more than 0.5 full time equivalent
- you remain in winding down employment for no longer than 4 years.

X

GENERATION X

If you or your partner are a member of generation X you're amongst those most likely to be affected by changes to the State Pension age. You'll need to factor this into your retirement planning as it's important to understand what income you'll have throughout the different stages of your retirement.

Y

GENERATION Y

Whether it's struggling to get a foot on the housing ladder, paying off large student debts, or facing the prospect of working well into older age – generation Y face a tough financial future. If you're considering passing on some of your wealth to younger members of your family as part of retirement planning it's important you're clear on inheritance tax rules.

Z

GENERATION Z

Whether it's treating them to days out, the latest gadgets for their birthday, or the odd weekend away – don't forget to factor in the costs of keeping generation Z happy when planning your retirement finances.

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* Twitter poll of UK teaching professionals, 2,479 respondents, July 2018.

This guide does not constitute financial advice

This information is based on our current understanding of legislation. Legislation and tax treatment can change in the future.

TEA-BRO-1 02/20