THE GUIDE TO RETIREMENT INCOME PLANNING FOR EDUCATION PROFESSIONALS IN ENGLAND AND WALES

WESLEYAN

we are all about you

Financial Advice: Retirement Planning • Investing • Funding • Insurance

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Arrange a no obligation financial review by contacting Jonathan Darbinson

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WHEN IT COMES TO PLANNING YOUR RETIREMENT INCOME THERE'S A LOT TO THINK ABOUT. IT CAN SEEM DIFFICULT TO KNOW WHERE TO START AND IT'S SENSIBLE TO TAKE PROFESSIONAL ADVICE.

But before you do, here are six factors you might like to consider before speaking to a Wesleyan Financial Services Consultant - they are specially trained to understand your financial needs, including the Teachers' Pension Scheme (TPS) and the Local Government Pension Scheme (LGPS).

For further details on the relevant Pension Scheme, visit **teacherspensions.co.uk** and **lgpsmember.org**

This guide will help you to consider:

- Your income needs and how these are likely to change throughout your retirement.
- What your retirement income streams will be and the importance of planning when to access them.
- When you can access your pensions.
- How to access your personal pensions flexibly.
- Whether you'll qualify for the full flat rate State Pension now that the TPS and LGPS are no longer 'contracted out'.
- How to protect your pension income from additional tax charges of up to 55%.

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1 UNDERSTAND HOW MUCH INCOME YOU'LL NEED AT DIFFERENT STAGES OF YOUR RETIREMENT

Unless you know how much income you'll need, or would like, throughout the different stages of your retirement, it will be difficult to plan effectively.

Your monthly expenditure in retirement may look significantly different:

- Usually, you'll have stopped making monthly pension contributions.
- Your mortgage should be paid off, or monthly payments significantly reduced.
- Your children may have left home, helping to reduce your household bills.
- As you may have stopped working you'll no longer need to pay for travel to and from work.
- You may want to work past your normal retirement date, or work reduced hours.
- You may spend more on holidays and leisure activities.

Another important consideration is factoring in care costs that you may need to cover as you get older. When calculating your retirement income and expenditure, you may also want to factor in making gifts to your children or grandchildren - to help towards paying school fees, mortgage deposits, and so on.

POINTS TO DISCUSS WITH YOUR FINANCIAL CONSULTANT

Talk to your Financial Consultant about:

- What your personal expenditure throughout retirement might look like, and how this could differ from your current income and outgoings.
- Whether you plan to return to work following retirement, and how this might affect your pension benefits.

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THE BEST TIME TO ACCESS YOUR RETIREMENT INCOME STREAMS

When planning your retirement it's important to think about all of the potential income streams you'll need to access. There are a wide variety of options available to you, some of which may already be in place to draw on, or you may be looking to boost existing plans or holdings. This could include personal pensions, savings, investments, property or stocks and shares.

You'll need to consider the best time to access these, for example:

- You may not be able to get your money as quickly as you need it as some investments can't be cashed in instantly - property, for example, can take time to sell.
- You may not wish to sell shares until the market conditions are most favourable.
- There may be financial penalties for surrendering investments early.

POINTS TO DISCUSS WITH YOUR FINANCIAL CONSULTANT

Talk to your Financial Consultant to plan access to your income streams at the time that will best suit your individual needs.

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UNDERSTAND WHEN YOU CAN ACCESS YOUR PENSIONS

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 TPS and LGPS, 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).

ACCESSING YOUR LGPS BENEFITS - AT YOUR NORMAL PENSION AGE

Prior to 1 April 2014 normal pension age in the LGPS was 65. In the LGPS 2014 your normal pension age is the same as your State Pension age.

Protection is in place if you built up benefits before April 2014 (in the final salary scheme) which means that the normal pension age for these benefits is protected and remains, for almost all members, age 65.

You cannot take your benefits built up to 31 March 2014 separately from the benefits you build up from 1 April 2014. All your pension must be drawn at the same time (except in the case of flexible retirement - see below).

ACCESSING YOUR LGPS BENEFITS - BEFORE YOUR NORMAL PENSION AGE

Voluntary retirement: This enables you to take your pension from age 55, with reductions applied to your benefits as you're taking them early. The amount of reduction will depend on how early you draw them.

Flexible retirement: This option is available from age 55 and 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 LGPS. 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.

The 85 year rule: If you were a member of the LGPS at any time between 1 April 1998 – 30 September 2006, you could have protection from early payment reduction on some or all of your pension. Your employer will have their own policy on flexible retirement and the 85 year rule, which members can request from them.

ACCESSING YOUR TPS BENEFITS - AT YOUR NORMAL PENSION AGE

Normal pension age in the TPS will differ depending on when you became a member and if you moved, or will move to the career average arrangement.

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If you joined the TPS:

- Before 1 January 2007, your normal pension age is 60.
- On or after 1 January 2007, your normal pension age is 65.
- After 1 April 2015, your normal pension age will be linked to your state pension age.

If you moved to the career average arrangement then the benefits you accrued before you moved will maintain the normal pension age above.

If you were a member of the TPS 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 any future service your normal pension age will be 65.

You may have benefits in more than one TPS arrangement. If this is the case it's sensible to speak to a specialist to understand exactly which benefits you'll be able to access and when.

ACCESSING YOUR TPS BENEFITS - BEFORE YOUR NORMAL PENSION AGE

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.

Phased retirement: 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 twelve 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, whilst you're 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're 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.

POINTS TO DISCUSS WITH YOUR FINANCIAL CONSULTANT

Understanding the detail of your pension benefits can be a complex process. As your Financial Consultant specialises in your profession, they are best placed to guide you through this. They can advise on what your exact benefits are, when to claim them and how best to use them to maximum effect.

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UNDERSTAND THE 2015 PENSION FLEXIBILITIES

Following the introduction of 'Pension Freedom' in 2015, you may be able to take the whole of any defined contribution pension as a cash 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.

The TPS and LGPS are defined benefit schemes based on your annual pensionable earnings, re-valued each year, rather than a scheme reliant on how investments perform. You can see what pension benefits you've built up and work out how much pension you'll receive, at your chosen retirement date.

POINTS TO DISCUSS WITH YOUR FINANCIAL CONSULTANT

If you're a member of a defined contribution pension scheme, the best options depend on your personal circumstances, so areas 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.

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YOUR ENTITLEMENT TO THE FLAT RATE STATE PENSION

Until April 2016 the TPS and LGPS 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 new flat rate State Pension.

Only those with 35 years qualifying NICs will be entitled to the full flat rate pension (currently £168.60 per week). Individuals who have been contracted out will have this taken into account when entitlement is calculated. You'll need to make sure you know whether you qualify, so that you can make accurate calculations about your retirement income.

If you're unsure as to whether you'll have enough qualifying years, you can check your National Insurance record to see if there are any gaps at **gov.uk/check-state-pension**. You may then be able to apply for credits to fill these gaps.

In addition to applying for credits, you may be able to **make voluntary contributions** to fill gaps in your National Insurance record (if you're eligible), and find out how much it will cost you to do this.

Your State Pension age is linked to your date of birth, so you'll need to plan with this in mind. You can calculate your state pension age online at **gov.uk/state-pension-age**.

POINTS TO DISCUSS WITH YOUR FINANCIAL CONSULTANT

Talk to your Financial Consultant about what your retirement income from the State Pension is likely to be and how to make up any shortfalls in your National Insurance record.

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PROTECTING YOUR LIFETIME ALLOWANCE

The Lifetime Allowance (LTA) was introduced in April 2006 and is the total amount you can build up in all your pension plans over your lifetime without incurring a tax charge. For the 2019/20 tax year, the Lifetime Allowance is £1,055,000.

If the total value of your pensions exceeds the LTA when you take benefits you'll incur a tax charge on the excess - reducing your retirement income.

The LTA was originally set at £1.5 million and increased gradually to £1.8 million in 2010. It has since reduced three times. On 6 April 2012 it reduced from £1.8 million to £1.5 million, on 6 April 2014 it reduced again to £1.25 million and finally it was reduced on 6 April 2016 to £1 million.

When the LTA was introduced, HMRC introduced LTA protection to cover individual's existing pension savings. They then introduced further LTA protection when the LTA was reduced. If you do not already have LTA protection in place there are still two forms of protection available following the final reduction in 2016.

- Individual Protection 2016 (IP16) - which gives you a personal LTA equal to the lower of a) the value of your benefits at 5 April 2016 or b) £1.25 million.
- Fixed Protection 2016 (FP16) - which gives you a personal LTA of £1.25 million.

POINTS TO DISCUSS WITH YOUR FINANCIAL CONSULTANT

Talk to your Financial Consultant about applying for protection to avoid paying unnecessary tax on your pension income.

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NOTES

KEY TAKEAWAYS

- The amount of income you need is likely to vary throughout your retirement.
- The financial implications of taking your pension early and/or continuing to work past your normal retirement date will depend on your membership arrangement within the TPS or LGPS.
- You'll need to consider the best time to access your retirement income streams.
- The age at which you can access your retirement income varies depending on pension scheme rules and is subject to change.
- The pension flexibilities introduced in 2015 give greater flexibility around how pensions are accessed and there are several possibilities for you to explore.
- Only those with enough qualifying years NICs will be entitled to the new flat rate State Pension.
- The total value of your pension benefits at retirement may be subject to additional tax charges if they exceed the LTA unless protection is in place.

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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.

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