cbf wealth management

Our guide to planning for retirement

Introduction

The following information has been provided to give you a balanced overview of the risks associated with the potential benefits you are about to read in this document.

CBF Wealth Management provides financial planning advice which includes taking into account any tax planning opportunities that may be applicable to your individual goals. If you require specific advice on tax liabilities and treatments, then you should speak to a tax professional.

While financial well-being is clearly not the only contributor to a satisfying, healthy and enjoyable life, it's still a pretty important one.

For most, during working life, financial well-being is substantially dependent on your job, career or business – basically, whatever you do to earn money.

As well as securing the living standards you need or want during your working life, you will also need to think carefully about putting some of that income aside for your future.

Generally speaking, and subject to investment performance and charges, the more you save and the earlier you start saving, the better the shape your financial assets are likely to be in when you need to draw on them.

When work ends or reduces, your financial assets have a bigger part to play. And for many their pension fund will be an important (but quite possibly not their only) financial asset. The decision on where to draw funds from when money is needed to replace or supplement earned income will be an important one, a sometimes complex one and one for which you may need expert financial advice.

In relation to pension savings as part of your financial assets – particularly in what are known as defined contribution schemes – the decision as to whether, and if so, how and when to convert those savings into income is critical. And it doesn't matter whether those savings have been built up through a workplace pension scheme or through a private or personal pension, the importance of making the right choices at the right time is crucial.

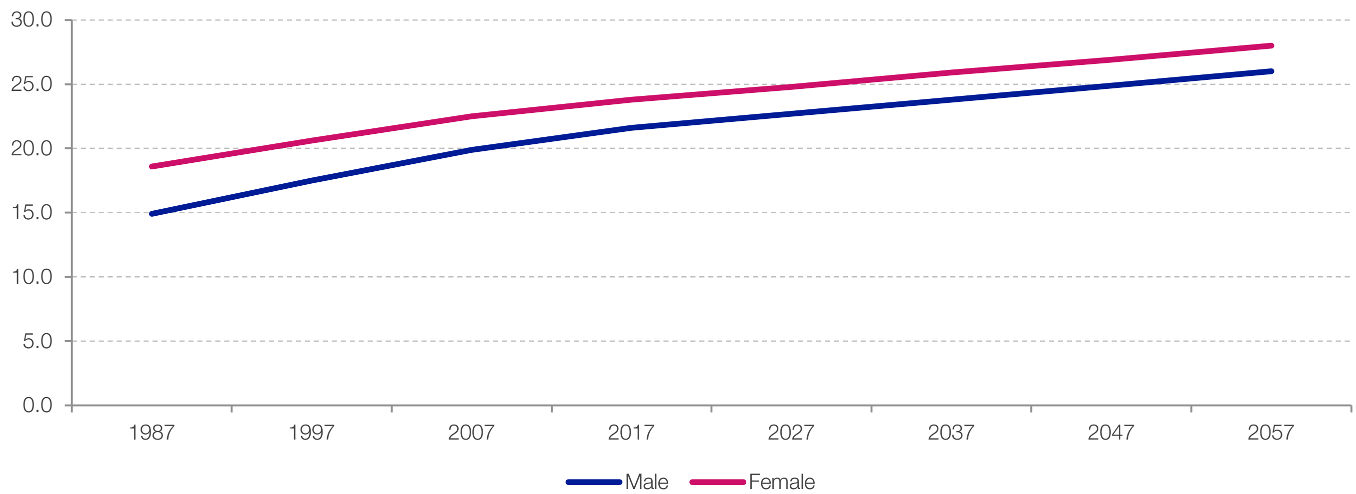
There are many factors that can influence this decision. One is that most of us are now living longer. According to the Office of National Statistics a man aged 65 can expect to live until he's 86 on average – that's seven years longer than thirty years ago. A woman aged 65 today can expect to live for nearly twenty four years on average – that's nearly six years longer than thirty years ago. That's the good news.

The bad news is that this means that our pension savings have to last much longer, if we don't just carry on working.

Another important factor is the impact of inflation. For someone retiring at 65, inflation at 3% can reduce a fixed income by nearly half by the time they are 85. Finding an income that provides protection against the effect of inflation is important but not easy – and everything has a price.

Historically, most people have chosen (and some, effectively have been "forced") to buy a "lifetime" annuity when faced with the above decision. An annuity provides a safe and regular income. It also ensures that you will never run out of income however long you live. But the income you secure through buying an annuity is substantially dependent on the level of interest rates and life expectancy at the time of purchase. For some years interest rates have been extremely low and longevity expectations have been increasing. As a result, the annual income you've been able to secure recently using an annuity has been much lower than in the past.

Actual and projected expectancy in years for 65 year olds in UK



Source: Office for National Statistics

But this all-important decision isn't just about the type and amount of annual income you can secure with an annuity. Equally, or arguably more, important is whether you should buy an annuity at all – and if so when is the right time to buy one and what type of annuity you should buy. These are complex issues which may impact on your spouse or partner, if you have one, and potentially on your other dependants including children and grandchildren. We consider these issues in more detail later in this guide.

In April 2015, though, there were some big changes to the various ways in which you can take money from your pension fund. These are described later in the guide. The new options introduce more choice – and more complexity. Everyone's circumstances are different. You will have your own aspirations for your retirement – and your own priorities. **The fundamental principle of these changes, though, is that once you have reached age 55 you will have the ability to access all or any part of your pension fund, albeit taxed, however and whenever you want to. Whether you should and to what extent though, is a different matter.**

For many the income that the State provides will form a key part of their retirement. The amount of State Pension you will get usually depends on the National Insurance contributions you have paid.

If you reach your State Pension age after 6 April 2016, you may be entitled to the new state pension. The amount of the full new state pension is £164.35 a week (2018/19). The full state pension is payable with 35 years national insurance contributions or credits.

The age at which you can claim State Pension is changing. It is currently 65 for men. State Pension Age for women is gradually increasing from 60 and will reach 65 by November 2018. State Pension Age for both men and women will then increase to 66 by October 2020 and then to 67 and eventually 68 by 2046.

You can find out more about State Pension Age changes online on the Gov.uk website, or by telephoning the Pension Service.

Your defined contribution pension savings may be only part of your accumulated wealth, though. You could have money on deposit and investments in all or some of: ISAs, collective investments, stocks and shares, insurance based products and even buy to let property, Venture Capital Trusts and Enterprise Investment Schemes – to name a few!

For many, there will also be locked up, (and for most) inaccessible value in their own home.

Self-evidently, the greater the value of your investment, the greater chance you will have of a financially rewarding retirement. But the more investments you have, the more important it will be to think very carefully about where you take money from when the time comes to take it.

The various investments mentioned all have different tax rules applying to them, so having a good understanding of these rules will be essential to good decision making.

In addition to the decision on where to take money from, there will be the continuing need to think about the relative importance of certainty of income, access to capital, and preservation of capital for your family as well as the degree of risk you are prepared to take to achieve your required level of return on the investments that remain in your pension fund.

And finally, but increasingly important, is the extent to which you continue to generate an income from work – as an employee, through self-employment, consultancy, contracting, or through business ownership. The longer you continue to generate an income from work, the lower the likelihood that your financial assets will be insufficient for the lifestyle you aspire to, and the greater the level of risk you may be able to take in order to generate the return on your investment that you require.

The importance of saving – and making the right choices on where to save

Throughout your working life there will be many calls on your financial resources and, as a result, many choices that you will need to make on how to use the money that you earn.

Of course, everyday living expenses and the cost of renting or buying a home will take priority. If you have a family these "everyday" costs will demand a bigger slice of your available income. And while your family is financially dependent, that "bigger slice" will be even bigger.

For most of us, as well as providing for our current needs while working, sooner or later (preferably sooner) we need to think about providing for our future. This means building up financial assets from which we can draw down money when our earnings from work cease or reduce.

People are living longer, and with increased longevity comes the need for our money, or ability to generate it from continued work, to last for longer.

The reality, for many, of increased longevity, potentially lower overall investment returns, investment volatility and the impact of inflation is that the investment decisions made when building financial assets and when drawing down from them are incredibly important.

Setting clear investment goals and regularly assessing progress towards them is essential. Being aware of the likelihood of achieving goals, so that any necessary action can be taken if it looks likely that you are falling short, is also an important part of the process of investing for retirement.

And, in saving and drawing, doing so tax efficiently can give you a greater chance of achieving your objectives.

Tax efficiency can help you to save more and also to draw less from your capital to secure your net income target.

Throughout this entire process the value of experienced expert financial advice cannot be underestimated.

If you are lucky enough to be in your employer's pension scheme and especially if, increasingly rarely, this scheme is one that guarantees a pension related to your earnings and period of service (a "defined benefits" scheme) you will at least be building a financial asset that will help to sustain you financially in the future.

Automatic enrolment will mean that more employees will become members of and make contributions to employer pension schemes. Not so for business owners and the self-employed, though. Pension saving for them will, effectively, come as a result solely of their own initiative.

Pension savings are extremely tax effective within limits. Tax relief is available on your and your employer's contribution. The income and capital gains generated by your pension savings is tax free and in most cases the value of your pension fund on death is free of inheritance tax. Yes, the pension is taxable as income when you take it but up to, usually, 25% of the pension fund can be taken tax free. The rest can be taken as income or a lump sum – all subject to income tax via PAYE in the year that you take it.

But there are limits on the amount that can be saved in pensions. The "annual allowance" imposes a £40,000 pa cap on how much can be accrued or contributed to a registered pension arrangement each year and be tax relievable.

Since 6 April 2016, if your total income from all sources (plus pension contributions) exceeds £150,000, this "annual allowance" is reduced by £1 for every £2 that your earn, until it reaches its lowest possible level of £10,000 for those whose income plus pension contributions amount to £210,000 or more. There has been much talk about the possibility of change to the way that tax relief operates – it is no secret that it is a large 'expense' of the government. However, at the time of writing there has not been any confirmation but there is an expectation of change at some point in the future.

If you don't use your annual allowance in full in a year though, you could contribute an amount up to the unused allowable amount in any of the three previous tax years and get the tax relief/ deductions in the year of payment. This is known as "carry forward".

As well as the "annual allowance" on the amount you can contribute to a pension with tax relief, there is also a "lifetime allowance" applying to the total amount that can be built up in a pension fund before a lifetime allowance charge applies. The current lifetime allowance is £1,000,000 and will rise in 2018/19 to £1,030,000 and this will increase each year by CPI.

This lifetime allowance has steadily declined over the years and various forms of "protecting" a higher allowance existed for those who had pension funds in place before a fall in the lifetime allowance took place.

So, registered pensions are extremely tax effective, but for these reasons they are also costly to the Government.

Calculating how much can be contributed and planning the most efficient way to draw on your pension funds has become more complicated.

As has been mentioned, as well as pensions (an even more attractive "savings destination" since the removal of the constraints on how you can take your money from a defined contribution scheme) there are many other savings vehicles that individuals can use to invest for their future.

Some will access these "non-pension" investments by choice and some (though only a relative few) because they have reached the pension input and/or fund size limits.

Individual savings accounts (ISAs) do not offer tax relief on the investment made. They do deliver tax free income and capital gains though. Basically, complete tax freedom. Though, in most cases, they will not be free of inheritance tax.

And then there are a whole range of collective investments (UK and offshore), insurance based investment and other "direct" investments to choose from. None give tax relief on the amount invested and the taxation of the income and gains generated varies dependant on the investment type. Importantly though, these days, it is usually possible to secure the portfolio and asset mix that is most suitable for you through all of these "non-pension" investments.

More important than the structure in which you invest, though, is that the underlying portfolio/asset mix is suitable for you taking account of your investment goals and attitude to risk. These factors are, of course, equally important in choosing the investments to underlie any defined contribution (money purchase) pension arrangement or ISA that you have.

As well as pensions, ISAs, collectives, insurance based investments and direct investments there are also the specialist investments. These include tax effective venture capital trusts (VCT) and enterprise investment schemes (EIS) that, within limits, deliver 30% upfront income tax relief and other tax benefits in return for the increased risk and potential illiquidity taken on board by the investor.

There's also buy-to-let property through the attraction of these investments on tax ground are greatly diminished by new rules limiting tax relief on interest paid on borrowings to the basic rate, additional stamp duty land tax of 3% and tougher rules on deducting refurbishment costs for tax. For some, the release of stored up value in their homes through downsizing or, subject to great care and advice being taken, some form of equity release may also be considered.

Lastly, for business owners, there's the potential value to be unlocked through sale or continuing income that their business could provide. Neither is without risk though.

The rewards from business ownership can be great, but care should be taken to avoid over reliance on a single asset class as the sole or main source of future financial well-being. Some form of "financial diversification" through saving into one or more of the investments summarised above, most notably pensions, could represent a very sensible "hedge".

Every investment carries some form of risk, but accepting an appropriate degree of risk is essential to securing an acceptable return.

Getting the "risk/reward" balance right, which will change throughout life, is one of the most important contributors to future financial well-being. And advice is essential.

Perhaps the biggest risk to achieving your future financial objectives though is what is known as "savings risk", which is failing to save enough and failing to start early enough.

Tax effectively drawing money from your savings and investments

When the time comes to draw money from your savings and investments, it is likely that (not necessarily by design) your pension fund may not be the only source that you have. However, for many it is likely to represent a substantial part of your financial assets capable of supplying an income. The recent changes to how you can draw your benefit from a pension fund have made savings into pensions more appealing. They have also considerably heightened the importance of knowing what the new rules are and how they will impact on your decisions as to how and when to drawdown your benefits – from your pension and, as a result, from any other investments you own.

Retirement income choices

Overview

If you are aged 55 or over and are in a defined contribution pension plan, from 6 April 2015 you may have been able to access your pension savings in a number of different ways. These are as follows:

- Buying an annuity.
- Flexi-access Drawdown.
- Uncrystallised Funds Pension Lump Sum (UFPLS).

Each of the options for taking money from your pension fund is described in more detail below.

You should think long and hard when considering these options, though. It's also important to consider not only all your pension savings – including the state pensions – but also any other savings and investments that you may have such as ISAs, stocks and shares, collective investments, insurance based investments and bank deposits along with any other investments, including any properties that you own and, possibly, VCT and EIS investments. In taking any decisions about accessing your savings and, whether and how to continue to invest amounts that you do not need to access immediately, you should think about:

- Your current essential income needs such as your day-to-day living expenses and other "known/planned" expenditure.
- Your current state of health.
- Your lifestyle and other, "non-essential" expenditure such as holidays, new cars, sports and hobbies, entertainment etc.
- Future possible/anticipated living expenses incorporating, possibly, a budget for care.
- Unexpected items such as car repairs, home maintenance and health problems.
- Gifts – either now or in the future.
- The extent to which you would like to leave an inheritance for your family and dependants.

If you decide that the amounts that you need should come from your defined contribution/ money purchase pension funds (and if you have other accessible investments to draw from, drawing from your pension may well not represent the most tax efficient choice – especially if maximising capital preservation for you, your family and dependants is important to you) the main choices available to you are as follows:

Annuity

For many, the security and certainty offered by an annuity will, subject to the rate of return secured, remain attractive. Providers of annuities can now "guarantee" that payments will continue for any period that is chosen rather than limit such guarantee periods to ten years, which was the case until quite recently. Also, the income under annuities can rise and fall – either chosen when the annuity is purchased or as a result of a link to investment performance. It's also possible to buy an annuity that provides income for a fixed term – say 5 years – rather than for your lifetime. Typically, at the end of the selected term, a capital sum would be available and a new decision on investment would be made – depending on the circumstances.

When thinking of buying an annuity there are at least three important points to consider:

- Are you getting the best deal? Annuity rates vary depending on which provider you choose and, as is the case for many things, some providers are more competitive than others. It's important that you seek the best rate taking into account your state of health.
- Are you buying the right type of annuity? Should you buy an annuity that increases, providing some protection against inflation? Do you want an annuity that continues to provide income for your spouse or partner in the event of your death?
- Is it the right time to buy an annuity? As mentioned earlier the income you secure through an annuity will depend on interest rates at the time. It may be that you would be better to delay purchasing an annuity until you are older using a different method of investment to deliver your required income requirements in the meantime. The eventual income you are able to buy via an annuity may improve as a result of higher interest rates. This "fact of financial life" has led some to conclude, in relation to lifetime annuity purchase, that "75 is the new 65".

Example: Mary, aged 65, has defined contribution pension savings of £120,000. In May 2018 she decides she wants to buy a lifetime annuity. She can take £30,000 as a lump sum tax free. The remaining £90,000 is paid to an insurance company to provide her with an income of £4,928 a year. This is added to her other income – she has a part time job – and to her state pension – and is taxed accordingly.

Flexi-access drawdown

With this option your pension savings are treated as being moved into a new "pot". You can withdraw your pension savings from this "pot" without any limits on the amount or timing of any payments that you choose to take. This is subject to any restrictions that your pension provider or scheme imposes. When you start flexi-access drawdown, usually 25% of your pension savings will be available tax-free. Thereafter any payments you take will be liable to income tax via PAYE.

The benefits payable and tax position on death are described elsewhere in this guide.

Example: Simon has £60,000 of defined contribution pension savings. He has just turned 60 and he and his wife want to celebrate by visiting South America – a long-time dream. Simon decides to take his tax free lump sum of £15,000 to fund the trip. At the same time he designates £45,000 to Flexi-access drawdown with his current pension provider. As he's still working he decides not to take any income for the time being, but he is aware that as soon as he does he will trigger the £4,000 money purchase annual allowance – see section "Beware the tax man" for more details.

Uncrystallised funds pension lump sum (UFPLS)

This option allows you to draw money directly from your pension fund. Of each payment that you withdraw, 25% is tax-free and the other 75% is taxed as income via PAYE.

If you are in a workplace defined contribution scheme this may only offer UFPLS or an annuity. In those circumstances if you want to use flexi-access drawdown you will have to transfer your pension to a private pension that allows this option.

The benefits payable and tax position on death are described elsewhere in this guide.

Example: Jane, 59, is currently a higher rate taxpayer with an income of £50,000 per annum. She has defined contribution pensions savings of £170,000. In June 2017, Jane and her partner decide to build a small extension to their home. They estimate that they will initially need £15,000 to start the project and then a further £2,000 per month for about 9 months. Rather than designate funds to Flexi-access drawdown, Jane takes a one-off payment from her pension savings of £60,000 as an Uncrystallised funds pension lump sum (UFPLS).

Jane can receive 25% of this payment – £15,000 – tax-free and the remaining £45,000 is taxed as income at her marginal rate of 40%. Her total income for the year for taxation purposes will be £95,000.

Jane could then "dip into" the net of tax £27,000 (£45,000 less £18,000) to help finance the rest of the project over the next 9 months. This would leave her with around £9,000 to cover those "unforeseen extras" that seem inevitable with any building project.

If your personal pension savings "pots" are each worth less than £10,000 then you can take up to three of these pots wholly in cash. The rules are different if you have small occupational schemes pension pots valued at less than £10,000, in that you are not restricted to the 'three times' rule. 25% of any cash taken will be tax free with the balance taxed as income. In this way you avoid having to use flexi-access drawdown or UFPLS and you will not trigger the money purchase annual allowance of £4,000.

And you can use more than one of the above options at the same time.

For example, you might choose to use part of your pension savings to buy an annuity and use Flexi-access drawdown with the rest. You might also decide to defer taking any drawings from your Flexi-access drawdown. Alternatively, you might take some cash and income using UFPLS for some time and then buy an annuity with your remaining pension savings at a later date. Which options you select will depend on your personal circumstances and the advice or guidance you receive.

Pension withdrawal choices: pros and cons

	Pros	Cons
Flexi-access drawdown (“FAD”)	• Adaptable to changing circumstances • Can withdraw up to 100% of fund • Allows continued investment returns to be secured in a way that reflects your attitude to risk • Permits a mix of income now and future growth • Funds remaining invested are highly tax efficient • Up to 25% of FAD fund can be taken tax free • Can take tax free part and leave rest of funds invested	• Investment risk needs to be considered; you could get back less than invested • Future income/capital values not guaranteed • After tax free part (25%), amounts drawn fully taxable as income • Taking income from FAD will trigger the money purchase annual allowance • Ongoing decisions need to be made on the funds that remain invested • Charges may be incurred when funds are reviewed
Uncrystallised Funds Pension Lump Sum (UFPLS)	• Highly flexible/adaptable to personal circumstances • Can withdraw up to 100% of fund • Allows continued investment returns to be secured • 25% of each UFPLS payment tax free • Funds remaining invested are highly tax efficient	• Investment risks need to be considered; you could get back less than invested • Future income/capital growth not guaranteed • 75% taxable as income • Payment of UFPLS will trigger the money purchase annual allowance
Annuity	• Income secured for life or fixed term • Tax free cash can be taken (25% of the value of fund) and remainder used to by an annuity • Inflation proofing can be built in – but at a cost • Flexible annuities will permit increasing/ decreasing payments	• All access to funds given up • Flexibility to deal with changes in circumstances given up • Flexible annuities will trigger the money purchase annual allowance

Leaving a "pension legacy"

Since 6 April 2015 there have been new rules for the way in which pension death benefits are taxed. As has been the position for many years, most payments from a pension scheme following a member's death will continue to be free from inheritance tax.

Lump sums and income payable on the death of a member who dies before reaching age 75 will be tax free, subject to the member's pot not exceeding the lifetime allowance. If the member dies on or after age 75 then lump sums and income payable from the fund will be subject to income tax in the hands of the beneficiaries under Pay as You Earn. If the funds are payable to a Trust then different tax rules apply.

Changes were also made in 2015 to those who can inherit pension savings. This applies particularly to those using Flexi-access drawdown and some types of annuity. As has been the case up to the point of these changes, a scheme member can nominate one or more individuals as a potential beneficiary to receive their remaining pension savings on their death. Now, there is the option for someone who is not financially dependent on the member (a "nominee") to inherit a pension – previously they could only receive a lump sum.

A beneficiary can now nominate a "successor" to whom the remaining pension savings (paid as a lump sum or a "pension" through drawdown) can be passed on their death (providing the pension scheme offers the new flexibility options on death). That "successor" can in turn nominate a further "successor" to receive any fund remaining after their death. So in future it will be possible for pension savings to be passed down the generations in a very tax efficient manner. There are no restrictions on who can be nominated as a beneficiary or "successor". The pros and cons of lump sums or "inherited funds".

The pros and cons of lump sums or "inherited funds"

	Pros	Cons
Lump sum	• Inheritance tax free • Income tax free (death pre-75) if paid within 2 years • Beneficiary has freedom to spend • Simple • Can pass to a ("by-pass") trust to protect from creditors and retain some control via trustees but subject to a potential tax charge depending on the age of the deceased	• Loses "tax protection" of pension fund • If invested, income and gains potentially taxable – dependent on the investment chosen • IHT possible on any remaining funds left in estate of the beneficiary • Lump sum or income taxed at the marginal rate of the recipient if death occurs at age 75 or over or at 45% if payable to a Trust
Flexi-access drawdown	• Remain invested inside tax advantaged pension fund • Nominee or successor can draw regularly, irregularly or just leave • Income tax free on death before age 75 if moved to the flexi access beneficiary's pot within 2 years of the date of death • Can be left to the next generation/others • Inheritance tax free • Does not form part of the beneficiary's own annual or lifetime allowance	• Subject to income tax on withdrawals at the recipient's rate if deceased was age 75 or over • Potentially accessible to creditors etc.
Annuity	• Guaranteed income for life for the beneficiary • Income tax free on death before age 75 • Inheritance tax free	• No flexibility • No fund to pass down when the beneficiary dies • Subject to income tax if deceased was age 75 or over on death • Income potentially accessible to creditors etc.

Beware the tax man

In drawing down funds from any investment, having an understanding of, and taking due account of the tax implications is essential to maximising benefit. This is especially so in relation to the new ways in which you can draw down your benefits from your defined contribution/money purchase pension funds.

Taxation of payments from defined contribution pension plans

There can be complicated tax implications of accessing your pension pot. This is particularly so for payments made under Flexi-access drawdown and UFPLS.

The organisation running your defined contribution pension plan scheme will be responsible for ensuring that the correct tax is deducted from all payments. In practice this will mean that most initial payments will be paid after deduction of tax using an emergency code unless you can provide them with an up to date tax code. For some recipients this is likely to mean over-deduction of tax, in some cases by significant amounts. Prompt action to get a repayment may then be needed. This may be challenging for all involved.

The impact on further pension contributions

There are measures to “ensure that individuals do not exploit the new system to gain unintended tax advantages”. The most important is the “money purchase annual allowance” for defined contribution pension savings. This limit can be triggered in a number of ways including taking income through Flexi-access drawdown or through UFPLS.

If you trigger the £4,000 money purchase annual allowance it will apply immediately to all defined contribution schemes that you are a member of and to your future money purchase savings. If you exceed this allowance in relation to contribution made to defined contribution (money purchase) pension arrangements, an additional tax charge known as the Annual Allowance charge will apply. This reclaims the tax relief the excess funds would have had automatically applied. You also lose the ability to make contributions mopping up the previous 3 years unused allowances, known as ‘carry forward’.

There are many other rules around this new annual tax allowance and if you are in doubt about their application you should seek specialist advice.

Preventing recycling of income payments

There are also rules in place to prevent tax free lump sum payments being reinvested in a pension so as to secure more tax relief. This practice is known as “pension recycling”. These rules apply to any recycling of a tax free lump sum where the lump sum amount exceeds £7,500. Again, if in doubt seek advice.

Transfers

As mentioned in the introduction, the new freedoms apply only to those with defined contribution pension savings. If you have a defined benefit pension and want to take advantage of the new flexibilities you will need to transfer to a defined contribution pension. In doing so you could lose very valuable benefits and you will have to take appropriate independent advice first if the value is £30,000 or more. It is not possible to transfer out from most public sector pension schemes. Defined benefit transfers are usually only suitable in most cases for individuals with existing sources of suitable retirement income outside their defined benefit pension.

Other tax changes

There are several other aspects of the freedoms which could lead to tax charges. These mainly apply to those with larger pension savings close to the Lifetime Allowance. For further information consult a CBF Wealth Management financial planner.

The investment dilemma

As has been mentioned earlier, the investment strategy that you adopt in the years approaching the point at which you expect to start drawing from your savings should be heavily influenced by the amount and form of benefits that you intend to take. If it is unlikely that you will buy an annuity initially, then the investment strategy to be adopted should reflect this. That is likely to mean greater exposure to investment markets to reflect the extended investment horizon. But it may also incorporate some investment that can deliver relative, or even absolute, certainty that a required minimum level of income, e.g. to meet known living expenses, will be produced.

It all depends on what your needs are at the time "drawdown" commences and what you anticipate those needs to be in the future.

You can then plan a portfolio of investments to reflect those needs and commit to a clear and regular review so that changed circumstances and needs can be reflected, if necessary, in a recalibration or more fundamental change to your investment strategy.

There is no simple or unique formula for most efficiently drawing down money from your savings. And it's perfectly possible to, in effect, segment your overall savings into separate "pots" for different needs and then invest accordingly. As mentioned earlier it will be important, in designing and monitoring your retirement income strategy, to take into account not just your pension savings but all the other investments that you might own.

Even though you may identify separate "investment pots" for different needs and times it is likely, nevertheless, that you should look to establish your personal risk profile based on all your investments and likely needs.

Should you decide not to purchase (or to defer the purchase of) an annuity and instead take income using flexi-access drawdown or UFPLS, then adopting the right investment approach and keeping it regularly under review will be all important. Using flexi-access drawdown or UFPLS is not without risk and it's important that you ensure there is adequate liquidity to meet any short-term cash or income needs. It's also important to appreciate that investment returns in the first two or three years of taking income are especially important. There is inherent risk in setting a strategy of fixed withdrawals from investment. It manifests itself especially if, at the time a fixed withdrawal is made, there is insufficient "natural " income or capital gain to support the withdrawal and capital is eaten into to support the withdrawal. Careful monitoring of investment values at the time a withdrawal is to be made will be essential to avoid the possibly seriously detrimental effect on overall investment wealth that this could have.

As we said above, there is no "one size fits all" solution to investing defined contribution pension savings during the transition into retirement and beyond. Needs change, and there is a lot to be said for looking at "retirement" in three stages. In the first stage it's likely that you will be more active and, as a result, will be looking for more flexibility over drawing of income. In the second stage of retirement, with slightly less activity, required income levels are likely to be more stable. And in the third stage of retirement income levels may need to increase to cover, for example, care fees. Adopting an investment approach that reflects these changing needs with appropriate levels of security and separate "pots" allocated to serve each of these stages would seem to be worth considering.

Balancing the potentially conflicting needs of income production and capital preservation is vital. Equally important is an understanding that personal circumstances change. Income drawdown is not a one-way street and because of changing circumstances you may wish to buy an annuity at an earlier – or later – date than you originally envisaged. You need to feel comfortable that your chosen investment manager understands the need for flexibility. And, in all cases, investing and withdrawing in a way that maximises the tax benefit and minimises tax "leakage" will make your objectives easier to achieve.

The importance of advice

If you have defined contribution pension savings and you are aged over 55 you are entitled to free impartial guidance through the new “Pension Wise” service. Pension Wise is a free government service that helps you understand what you can do with your pension pot money. It offers guidance on the Pension Wise website about the options for taking your pension pot, and can help you understand the tax implications.

It also offers free guidance appointments over the telephone or face-to-face where you can talk through these options, ensuring you have the information you need to make the right decision.

Pension Wise can help you understand the tax implications of each choice, understand the different options for accessing your pension pot(s), and the potential advantages and disadvantages of each.

It is important to appreciate that this is guidance, not advice. It may point you in a certain direction but it is unlikely to provide you with all the answers that you need. As you may have gathered, the issues associated with the new pension freedoms and flexibility are complex.

What’s more, unless you choose to convert all of your defined contribution pensions savings it will be important to regularly review your situation and plans in the light of changing personal circumstances, investment market movements and performance and pensions tax and legislative changes.

A wrong decision taken at this point in your life may be irreversible and could certainly seriously impair your future income and capital preservation requirements. That’s why, even if you use the “Pension Wise” service, we believe that you are likely to benefit from further advice on your specific circumstances – perhaps on a regular basis. This is particularly so if you are already using income drawdown – either “flexi access drawdown” or “capped drawdown”. There are some additional rules governing these situations which are outside the scope of this guide.

Regardless of whether you are currently taking income from your pension or other investments, or are investing with a view to doing so in the future, we hope that this guide has helped you to understand the choices, opportunities and risks.

In relation to pensions, the greater choice brought about by the new legislation is welcome, but it brings with it the need for greater awareness of the risks. The rules are complicated and it’s important that, as far as possible, you avoid mistakes. Seeking advice from a financial adviser should ensure you avoid the traps and pitfalls that lie in wait for the ill-informed.

This guide is based on our understanding of the relevant law as at the time of print. It has been produced for information only and should not be construed as investment advice. No action must be taken or refrained from being taken based on this Guide alone. It is essential that professional financial advice is taken in relation to any of the areas of planning referenced in this Guide. Tax rates and reliefs depend on an investor’s individual circumstances and are subject to change.

For further information or to book a consultation with a CBF Wealth Management financial planner, please call 0207 874 1190 or 0207 874 1194.

Retirement planning is invaluable and, as pension specialists, we can help explain the options you will have and advise which of those is most appropriate to achieve the lifestyle you want at retirement. We will work with you to identify your current situation and goals; creating a personal plan that has the flexibility to adapt to changes in the future.

Please remember the value of investments can fall as well as rise and that you could get back less than invested. Telephone calls made to any member of CBF Wealth Managementt may be recorded and recordings may be used for training purposes or to meet our regulatory requirements. Any data provided during the call will be used and held in accordance with relevant data protection law.

Understanding some of the more important pensions jargon

Additional State Pension: The earnings-related element of the state pension scheme which has replaced the State Earnings Related Pension Scheme to enhance the basic state pension. Also known as the State Second Pension.

Annuity: A product that allows you to convert your pension savings into a regular guaranteed income.

New State Pension: A regular income paid by the Government to individuals who have reached State Pension Age.

Capped drawdown: A form of income drawdown under which there are defined age related limits on the amount of income you can take each year. No new capped drawdown arrangements can be set up.

Defined benefit pension: A pension in which your benefits are normally are related to your earnings when leaving the scheme or retiring, and the length of your service. Also known as 'final salary' or 'salary-related' pension.

Defined contribution pension: A pension in which your benefits are determined by the value of the pension savings at retirement. The value of the savings, in turn, is determined by the contributions paid and any investment returns. Also known as Money purchase pensions.

Enhanced annuity: An annuity under which the income payments are increased if you are suffering from certain medical conditions.

Fixed term annuity: IIn this case, part or all of your pension savings are converted into a guaranteed income for a limited period.

Flexi access drawdown: A type of income drawdown introduced from April 2015 under which there is total flexibility over the timing and amounts of income taken.

Flexible drawdown: A former system of drawdown under which there was considerable income flexibility – but only if you could satisfy a minimum level of other income. Flexible drawdown automatically converted to flexi-access drawdown in April 2015.

Guidance guarantee: The Government service that provides everyone who has defined contribution pension savings access to a free and impartial pension guidance service. Called "Pension Wise".

Income drawdown: A way in which you can take an income from your pension savings whilst they remain invested. Also known as income or pension fund withdrawal, and available through flexi-access drawdown or capped drawdown established before 6 April 2015.

Lifetime Annuity: In return for your pension savings you are provided with a secure annual income for life. You can choose to buy a joint life annuity which means that on your death the income will continue to be paid out to your spouse or partner.

Money purchase pension: An alternative name for a "defined contribution pension".

Open market option (OMO): The open market option allows you to shop around for an annuity so that you do not need to secure your retirement income from your existing pension provider if there is a better option elsewhere.

Personal pension: A pension under which you make regular or lump sum payments to your chosen pension provider. If you have an employer they may choose to contribute.

Private pension: A pension that is arranged privately between you and your pension provider with no employer involvement.

State Earnings Related Pension Scheme (SERPS): A Government arranged pension dependent on the amount an individual was paid whilst he/she was working. SERPS pensions were replaced in 2002 by the State Second Pension.

State Pension Age: The earliest age at which someone can draw their basic state pension.

Value protected annuity: An annuity which returns a lump sum to your beneficiaries if you die without having received the full value of your pension savings.

Workplace pension: A way of saving for your retirement that's arranged by your employer. Some workplace pensions are called 'occupational', 'works', 'company' or 'work-based' pensions.

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