Life
Novartis UK Pension Scheme
August 2015

Guide to retirement options

Since 6 April 2015, Defined Contribution (DC) pension schemes can offer greater flexibility regarding how members may take their retirement savings. This guide describes the retirement options that are legally allowed in the wider pension market at the time of writing. However, **please note that not all of these retirement options are available from the Novartis UK Pension Scheme - Money Purchase Section. A separate communication has been prepared explaining the benefit options that are available directly from the Scheme.**

Having choice is a good thing, but if you make the wrong choice, you could be left without enough money to live on in your retirement. People retiring at age 65 are expected to live, on average, for around 22 years. Many will live longer than that, some into their 90's and a small (but growing) number will live to be over 100. You may be one of those people, and you therefore need to consider how you are going to ensure that you spend your retirement savings wisely, so that they last for your whole retirement and give you the comfortable, secure lifestyle you would ideally like.

This Guide

This guide describes the main options that you will have when you retire in respect of your savings in any UK DC (sometimes called "Money Purchase") pension schemes, including any personal pensions, trustee buyout policies, "cash balance" pensions or DC Additional Voluntary Contribution savings that you may have, including those within any Defined Benefit pension schemes in which you might have benefits.

The options available can be one or a combination of the following:

- **Lifetime Annuity -** providing a guaranteed pension income which is provided by a life insurance company and payable for life.
- **Income Drawdown (called "Flexi-Access Drawdown") -** this involves taking your pension as a regular income in a way that suits you, whilst you remain invested.
- **Cash Withdrawals (called "Uncrystallised Funds Pension Lump Sums") -** this involves taking your pension savings as a single or a series of irregular cash lump sums.
- **Small Lump Sum -** fund values of up to £10,000 may be taken as a single lump sum (and work differently to taking larger fund values as a single Cash Withdrawal).

This guide describes the options that are legally allowed in the wider pension market, but not all of these options will be available from within your current pension scheme. You will need to find out which of these options your scheme offers, and how you can access any options that are not currently available. If you want to use an option that your scheme does not provide, you should be able to transfer your benefits out of that scheme into another scheme that is able to pay your benefits in the form you want.

The options offered by any scheme may change over time as new products come to the market, so please ensure that you have the latest information from each of your schemes before you make any final decisions.

Your benefits from any UK pension scheme are, in most cases, subject to income tax, so we have included a brief description of how income tax is calculated to help you understand the tax you might pay depending on how you take your benefits.

Important: Not all options are available from every pension scheme and, even where an option is available, restrictions may apply to how you can take your benefits. You may wish to contact all of your pension scheme providers and ask for full details of the options they are able to offer before deciding how to take any of your pension benefits.

Guidance and Advice

Pension Wise

The introduction of more flexibility and choice around using retirement savings is good news. However, understanding the options - the advantages and the pitfalls - can be daunting so the Government has introduced a free impartial service, called **"Pension Wise",** to help you understand what your options are and how they work.

Pension Wise will offer guidance about:

- What you can do with your pension pot.
- The different pension types and how they work.
- What is tax-free and what is not.

Visit the Pension Wise website to find out more about this service and access lots of useful information. Telephone guidance will be delivered through The Pension Advisory Service and face to face guidance will be delivered through The Citizens Advice Bureau. You can register your interest in this service on the Pension Wise website.

Please note that this free guidance aims to educate members about the retirement options available to them and the issues they should consider before making a retirement decision. This is not designed to be a substitute for taking regulated financial advice.

You can find out more about Pension Wise by visiting **www.pensionwise.gov.uk** or calling **030 0330 1001.**

You can find more useful information about retirement savings at:

www.moneyadviceservice.org.uk
www.pensionadvisoryservice.org.uk

Regulated financial advice

If you are having trouble deciding how you should take your benefits when you retire, you should speak to a Financial Conduct Authority ("FCA") regulated financial adviser who can talk you through the different options, review your personal circumstances and income tax position, and help you reach a decision.

In the past, many people have been reluctant to take regulated financial advice as it is normally necessary to pay a fee for this service. However, how you use your retirement savings might be one of the largest financial decisions you make in your life, so it is strongly recommended that you take regulated financial advice to ensure you do not make a choice that you may later regret.

You can find details of FCA-regulated financial advisers in your area by visiting **www.unbiased.co.uk.** You should confirm what the charges for the adviser's services will be before engaging them.

Lifetime Annuity

If you wish, at any time at or after age 55, you can use your retirement savings to secure a guaranteed pension income that will last for the rest of your life. After your death, it could also pay an income to your spouse or partner for the rest of their life.

You can also take a tax-free cash lump sum from your pension savings when you retire (usually up to 25% of your retirement savings) and use the remainder of your retirement savings to buy a Lifetime Annuity.

What is a Lifetime Annuity?

A Lifetime Annuity is an insurance policy, where you transfer your retirement savings to an insurance company, and in return they guarantee to pay you an income for the rest of your life, however long you live.

You have a lot of flexibility over how the annuity income is paid to you, for example you could choose to buy a pension that increases each year in payment at a specific rate, or you could choose to have a flat-rate pension that never changes, which would pay out more in the early years of your retirement (relative to an increasing pension).

There are "enhanced" annuities for those members who have medical conditions that are likely to mean they die earlier than the average person, and annuities that are linked to investments. The choice is wide and likely to get wider. For example, from 6 April 2015 it is possible to buy annuity payments that start out higher then reduce as the retiree ages and may require less income.

When an annuity policyholder dies, the insurance company keeps any retirement savings that have not yet been paid out as an income and uses this money to keep paying out pensions to other annuity policyholders who live longer than average. In this way, if you live longer than expected, you are always guaranteed to get a pension income for the rest of your life. This is what annuities are designed to do - protect you against the risk that you outlive your retirement savings.

However, this can also be one of the main concerns with annuities, in that if you die shortly after retiring the insurance company keeps all of your remaining savings rather than it being paid to your family. To help with this, you can choose to buy an annuity that has one of the following protection features:

- A pension for your spouse or partner, payable until their death; or
- A guarantee that the pension will pay out a minimum number of years of income, even if you die within that time (usually 5 or 10 years but it could be longer).

The options you choose will affect the amount of the annuity payable to you.

Following the April 2015 changes to pensions in the UK, we expect to see a great deal of change in the annuity market, with providers offering more flexible and attractive annuity products.

Advantages

- Your pension can be established to provide an income that will last for your whole life, no matter how long you live.
- Once you have bought the pension, you never have to worry about how your pension is invested, or what charges you are paying (unless the amount of the pension is linked to investments).
- You can buy financial protection for your spouse or partner.
- If you buy an annuity that increases in payment (for example in line with inflation), your income from the annuity will increase each year of your retirement, helping to protect you against the effect of increasing prices on your standard of living.
- If you suffer from ill health you will often be able to obtain advantageous annuity rates (i.e. a higher pension).

Disadvantages

- Purchasing a lifetime annuity is a one-off decision that you cannot reverse if you later change your mind (although at the time of writing, the Government has announced that it will be consulting on the introduction of a second hand annuities market).
- Your money will be paid to you as a regular income, so you will not be able to withdraw any large amounts in the future, for example to meet unexpected expenses.
- If you die earlier than average, you may not get the full value of your retirement savings back. Although you can buy annuities that pay out guarantees or pensions to your dependants, these protections reduce the amount of income you will initially receive from the annuity.
- In some circumstances you might be subject to the Money Purchase Annual Allowance after you have purchased an annuity.

Income Drawdown (called "Flexi-Access Drawdown")

At any time from age 55, you may designate your retirement savings for "Income Drawdown" or "Flexi-Access Drawdown" as it is officially known from 6 April 2015. You may need to move your funds into a separate pension scheme or policy that offers this facility.

Normally you can take up to 25% of your fund value as a tax-free cash lump sum. Any further withdrawals that you make from your savings will be subject to income tax at your marginal rate.

You leave the remainder of your fund invested within the pension policy and you can withdraw (or "draw down") as much as you wish from your retirement savings each year or, for example, you can use some or all of your fund to purchase a "short-term" annuity (up to five years). Each withdrawal is subject to income tax at your marginal rate and may be subject to an administration charge.

Your remaining pension fund will be subject to investment charges and may be subject to additional administration charges. However, by leaving it in a pension product, you retain the advantage of investment growth being virtually tax-free.

Income Drawdown might mean that you withdraw only as much as you need for day to day expenses, leaving the rest invested hopefully to grow in value.

You might want to use Income Drawdown to minimise the income tax that you pay, by only taking out enough to keep you below a specific income tax band so that, for example, you do not need to pay 40% (or higher) income tax on any of your income.

Alternatively, you could use Income Drawdown to defer buying an annuity until a later date when annuity rates might have improved (perhaps because your health has deteriorated and you qualify for an enhanced annuity), providing you with a higher secure income.

You might also want to leave the money in your pension scheme as a tax-efficient way to leave money to your dependants on your death. This can be a complicated matter and one where you should take regulated financial advice if you contemplate doing it.

Advantages

- You can withdraw as much or as little as you like each year. For example, you might want to:
  - withdraw as much money as you can each year while minimising the amount of income tax you pay
  - withdraw as much money as you need each year to live on
  - withdraw just enough to try and make your pension last for your entire retirement
  - leave some money in your pension scheme, to go to your family after your death
  - leave as much as you can invested in your pension scheme so that it might grow in value, giving you more money to spend later in retirement.
- Any investment growth will be free from capital gains tax that might apply if you were to withdraw the money and invest it outside of a drawdown arrangement.
- If, at a later date, you would prefer to have a guaranteed income for the rest of your life, you can use your remaining fund to purchase a pension annuity at any time. If annuity rates have improved, your fund has grown or your health has deteriorated, your annuity might be higher than if you had bought it when you retired.
- If you die before age 75, your remaining fund can usually be paid out tax-free to your family, without inheritance tax being deducted or income tax being payable, but the beneficiaries may need to pay income tax (at their marginal rate) on what they receive.
- If you die from age 75, your remaining fund can be used to provide an income to nominated beneficiaries, with payments being taxed at their marginal rate of income tax. Your remaining fund can also be paid as a lump sum to nominated beneficiaries, net of a 45% tax charge, which will change to the recipient's marginal rate of income tax from 6 April 2016.

Disadvantages

- If you withdraw a lot of money in one instalment you might end up paying a higher rate of income tax than if you withdraw the money more gradually.
- Administration charges may be payable each time you withdraw money. You will also have to pay continuing investment management charges and administration expenses for running the Income Drawdown policy.
- If your fund value in a scheme is worth more than £10,000 when you start Income Drawdown any future savings you make to any DC pension schemes will be subject to the “Money Purchase Annual Allowance” (see separate section on this).
- You will need to continue to carefully manage your pension investments into your retirement. Poor investment returns could result in your retirement savings falling in value, significantly reducing your income in the later years of your retirement.
- If you withdraw a large amount of money in one instalment (including any tax-free lump sum amounts), you need to consider what you are going to do with that money. Unless you are planning to spend it immediately, you might be better off leaving it invested within a tax-efficient pension policy, if the alternative is to leave it in a low-interest bank account.
- If you spend your money too quickly after you have retired, or if you live longer than you expect, you could run out of savings before you die. You may have to spend your older years surviving on a state pension paid by the Government, possibly when you need the money the most.
- If your intention is to eventually purchase a lifetime pension annuity with your remaining funds, you might find that annuity rates are worse than when you originally retired, reducing the amount of pension income you receive. Similarly, if your fund has reduced too much through overspending or poor investment returns, your eventual annuity might be lower than it would have been when you first retired.

Cash Withdrawals (called "Uncrystallised Funds Pension Lump Sums")

If you wish, you can take some or all of your retirement savings without designating any funds for Income Drawdown by taking one or more irregular cash withdrawals (officially called an "Uncrystallised Funds Pension Lump Sum"). In this case you do not have to take one tax-free cash lump sum amount. Instead, at any time after reaching age 55:

- You choose when and how much money you want to take out of your pension as a lump sum payment.
- 25% of each withdrawal you make is tax-free. You will pay income tax at your marginal rate on the remaining 75%.
- The rest of your savings remain invested within a pension scheme (called "uncrystallised funds").
- You can withdraw lump sum payments in this way as often as you want, possibly even while you are still working (subject to the rules of each pension scheme).
- You can transfer out any remaining retirement savings to another pension scheme.

Irregular cash lump sums are similar in many ways to Income Drawdown: you take some of your retirement savings out as cash while leaving the remainder invested in a pension until you are ready to take it. The main difference is that you can take all your retirement savings as one lump sum or irregular cash lump sum payments from your retirement savings rather than the regular income that Income Drawdown is designed to provide.

The other key difference is the tax treatment. Under this option, 25% of each payment is tax-free, but under Income Drawdown you can take the full tax-free cash sum as a one-off payment when you retire, with all future payments subject to income tax at your marginal rate.

After you have taken an irregular cash lump sum payment, all of the other options remain available for your remaining retirement savings. For example, you could withdraw 25% of the remaining fund as a single tax-free cash sum at any time and then use the rest of your savings to buy an annuity, start Income Drawdown or take it as a taxed cash lump sum.

Advantages

- Subject to your scheme's rules, you can withdraw as much as you want each time and 25% will be free of any tax. For example you might want to:
  - withdraw as much money as you can each tax year while minimising the amount of income tax you pay - for example, you might want only to withdraw enough each year to keep you below the 40% tax band
  - withdraw as much money as you need each year to live
  - withdraw just enough to try and make your pension last for your entire retirement
  - leave some money in your pension, to go to your family after your death
  - leave as much as you can invested in a pension scheme so that it might continue to grow in value.
- By continuing to invest your money while you are retired, your savings might grow, giving you more money to spend later in retirement. As 25% of each withdrawal will be tax-free, you might eventually get more tax-free cash from your pension than if you had immediately taken a tax-free lump sum when you originally retired.
- Investment growth will be free from any capital gains tax that might apply if you were to withdraw the money and invest it outside of a pension arrangement.
- If, at a later date, you would prefer to have a guaranteed income for the rest of your life, you can use your remaining fund to purchase a pension annuity at any time. If annuity rates have improved or your fund has grown or your health deteriorated, your annuity might be higher than if you had bought it when you retired.
- If you die before age 75, your remaining fund can usually be paid out tax-free to your family, without inheritance tax being deducted or Income Tax being payable. If you die after age 75, inheritance tax is not payable, but the beneficiaries may need to pay income tax (at their marginal rate) on what they receive.

Disadvantages

- 25% of each withdrawal from your savings will be tax-free, but you will need to pay income tax at your marginal rate on the remaining 75%. If you withdraw a lot of money in one instalment you might end up paying a higher rate of income tax than if you withdraw the money more gradually, over a number of tax years.
- You may find that "emergency" rate income tax has been deducted from the taxable element of your cash payment, and you will need to complete a self-assessment tax return to reclaim any overpayment from the Government, which may not be possible until several months into the next tax year.
- You may have to pay administration charges each time you withdraw money in this way. You will also continue to pay investment management charges and may have to pay additional administration expenses for running your remaining pension policy.
- If you spend your money too quickly after you have retired, or if you live longer than you expect, you could run out of savings before you die. You may have to spend your older years surviving on a small state pension paid by the Government, possibly when you need the money the most.
- If your fund value in a scheme is worth more than £10,000 when you retire and you take an irregular cash lump sum, any future savings you make to any DC pension schemes will be subject to the "Money Purchase Annual Allowance" (see separate section on this).
- You will need to continue to carefully manage the investment of the retirement savings that you have not yet taken. Poor investment returns could result in your retirement savings falling in value, significantly reducing your income in the later years of your retirement.
- If your intention is to eventually purchase a lifetime pension annuity with your remaining funds, you might find that annuity rates are worse than when you originally retired, reducing the amount of pension income you receive. Similarly, if your fund has reduced too much through overspending or poor investment returns, your eventual annuity might be lower than it would have been when you first retired.

Small Lump Sum

Subject to the pension scheme's rules, on or after age 55 you can withdraw all of your savings as a single cash lump sum. If this amount is up to a maximum of £10,000 it will be classed as a 'Small Lump Sum'. Larger fund values may also be taken as a single cash lump sum (see section on "Cash Withdrawals").

Normally 25% of the Small Lump Sum payment will be tax-free, with the rest subject to income tax at your marginal rate.

Advantages

- The money is yours to spend, invest or give away as you wish, outside of any restrictions traditionally associated with holding money in a pension.
- You will no longer have to make any decisions about how you invest your savings within a pension scheme, although you do need to think about what you do with the money if you are not going to spend it immediately, as leaving it in a low interest bank account for a long time may not be sensible.
- Once you have taken benefits as a Small Lump Sum, future savings you make to any DC pension schemes will not become subject to the "Money Purchase Annual Allowance" (which would apply to larger lump sums).

Disadvantages

- Withdrawing a lump sum in a single tax year (particularly if you also have earnings from your job during the same tax year) may push you into a higher tax bracket. This could mean that you pay more tax on your cash sum and receive less than you might be expecting.
- You may find that 'emergency' rate income tax has been deducted from your cash payment, and you will need to complete a self-assessment tax return to reclaim this from the Government, which may not be possible until several months into the next tax year.
- Unless you are planning on spending your savings immediately, you might be better off leaving your retirement savings invested within a tax-efficient pension policy, rather than withdrawing it as a cash sum and then leaving it in a low-interest bank account.
- If you spend your money too quickly, or if you live longer than you expect, you could run out of savings before you die. You may have to spend your older years surviving on a small state pension paid by the Government.
- When you die, any cash savings or investments you have outside of a pension will form part of your estate and may be subject to inheritance tax.

Income Tax - how it works

Income Tax

Under any of the options described, you can normally take up to 25% of your retirement savings as tax-free cash, either as a single lump sum or as 25% of each payment that you take (in some cases the tax-free element may be higher).

The income tax that you pay will depend on your total income in each tax year. The higher your income, the greater the amount of income tax you pay.

For this reason, you should think carefully about the timing of how you take your benefits from your retirement savings, if you wish to avoid paying the higher rate of tax that can apply.

Please note that the figures below have been simplified to make it easier to demonstrate how income tax rates vary depending on your income in each tax year. In reality, income tax calculations can be complicated and it is strongly recommended that you consider taking regulated financial advice, including in relation to tax, before taking your benefits out of any pension scheme.

In the UK, tax years run from 6 April of each year to the following 5 April. For example, the 2015/2016 tax year runs from 6 April 2015 to 5 April 2016. The figures below are for the April 2015/2016 tax year.

For up to date income tax rates please go to: **https://www.gov.uk/income-tax-rates**

The rate of income tax you pay is calculated in a number of bands:

- You do not normally pay income tax on the first £10,600 of your income. This is called your Personal Allowance. For a number of reasons, your Personal Allowance may vary throughout your working life.
- The next £31,785 of your income would be taxed at 20%.
- The next £118,215 of your income would (subject to the next bullet point) be taxed at 40%, and any income above that would be taxed at 45%.
- If your income in any tax year goes above £100,000 (excluding any gift aid payments and registered pension scheme contributions) each £2 of additional income reduces your Personal Tax Allowance by £1, so if you earn more than £121,200 your Personal Tax Allowance is zero. This effectively means that you would pay income tax equal to 60% on all income between £100,001 and £121,200, because you pay 40% tax on £3 for every additional £2 of income you receive.

This means that the income tax on your earnings, excluding any tax-free cash sum amounts you take out of your pension, might typically be calculated as follows:

Earnings Bands	Effective Income Tax Rate
Earnings between £0 and £10,600	**0%**
Earnings between £10,601 and £42,385	**20%**
Earnings between £42,386 and £100,000	**40%**
Earnings between £100,001 and £121,200	**60%**
Earnings between £121,201 and £150,000	**40%**
Earnings above £150,000	**45%**

Remember that income tax is payable on all of your income in any tax year, including any State Pension, earnings from employment and any income you take from any pension schemes.

As you can see, the more you earn in any tax year, the higher the rate of tax you pay.

So, for example, if you normally received an annual income of £30,000 in total, either from your job, the State Pension or your other pension arrangements, then you would normally pay 20% income tax on the amount over the Personal Allowance.

However, if you also take taxable cash payments from your retirement savings totalling £60,000 in the same tax year, your total income would be £90,000. You would normally not pay any income tax on your Personal Allowance (£10,600), but you would pay 20% income tax on £31,785 and 40% income tax on the remaining £47,615, higher than your normal rate of income tax.

You could minimise the income tax that you pay from your retirement savings by:

- Only drawing money from your pension after you have stopped working.
- Waiting until the end of the tax year to stop working, so that you retire and draw your pension in a new tax year.
- Take your retirement savings in smaller lump sums, spread over a number of years, to make sure that you always stay in as low a tax band as possible.

Important: "Emergency Tax"

When a cash sum payment is made to you, including any Cash Withdrawals, your pension scheme will not know the correct rate of income tax to deduct for you, if they do not have details of all of your other earnings. As a result, they will be obliged to deduct "Emergency" rate income tax, which could be at a higher rate than you actually need to pay. In these cases you will need to complete a self-assessment tax return and submit it to HM Revenue and Customs to reclaim the overpaid income tax.

In some cases you may find that you have not paid enough income tax, meaning that you may have a tax bill to pay in the future. You should take great care to ensure that you clearly understand the tax payable on your benefits before you spend the money you receive.

Other Tax issues

As well as income tax, there are also some other tax issues that you might need to take into account when deciding how you will take your retirement benefits, including inheritance tax, capital gains tax and income tax on investments outside of a pension scheme and income tax on any savings interest.

These tax issues are beyond the scope of this communication. It is strongly recommended that you speak to a regulated financial adviser in relation to these potential tax issues before you make any decisions.

Money Purchase Annual Allowance

Once you have accessed any of your pension savings flexibly you can continue to pay further pension contributions, but you will only receive tax relief on contributions to DC pension schemes up to the new Money Purchase Annual Allowance of £10,000. Any contributions made by you or on your behalf by a company that exceed this amount will be subject to a charge to tax and will reduce the annual allowance in respect of any other pension savings you might make.