MONEY GUIDE

# Retirement

A guide to how your finances might change when you retire

ROYAL LONDON

When you retire your main source of income is likely to switch from a salary to your pensions. You may have several pensions such as a company pension, a private pension and a State Pension. If you have savings or investments, you may want to take an income from these too. And you may also be entitled to certain state benefits such as a free bus pass, free NHS prescriptions and the Winter Fuel Payment.

## Your pension income

It's important to work out what income you might have in retirement and how your spending might change. This way you can ensure you have enough money to live on and be as financially comfortable as possible.

## State Pension

Most people are entitled to at least some State Pension when they reach their State Pension age. You can find out what your State Pension age is at:
**gov.uk/state-pension-age**
and how much State Pension you might be entitled at:
**gov.uk/check-state-pension**

Before you reach age 55, it is a good idea to check the amount of pension you may get at retirement.

## Pension from an employer

There are different types of workplace pensions.

You may be entitled to an income in retirement from your current or previous employers which is based on your earnings and the length of time you are/were in the scheme. The types of pension schemes that offer this are known as defined benefit pensions otherwise known as final salary or career average schemes. You should ask your current or previous employers for details of how much this might be.

Nowadays, most employers offer a defined contribution workplace pension scheme. With these schemes both you and/or your employer contribute to your pension pot. The benefits you receive at retirement depend on how much you and your employer have paid in to your pension pot, how long this money has been invested and how your investments have performed over this period. There is however no promise from your employer to provide you with an income in retirement. Instead, once you reach age 55 you can decide what you want to do with your pension pot and how/if this will provide you with an income in retirement.


## Private Pension

You may have set up a private pension yourself with a pension provider. With this type of scheme you build up your own pension pot and once you reach age 55 (earlier if you are in very poor health) you have various options.

## Lost pensions

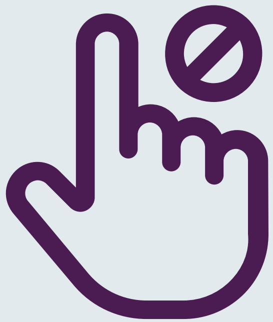
Most people have several jobs throughout their working lives. You may have joined a pension scheme many years ago and either forgotten about it or lost touch with the scheme (perhaps you moved and forgot to tell them your new address). If you think you may have lost track of a personal or workplace pension the Pension Tracing Service can help. You can find out about this free service at **gov.uk/find-pension-contact-details**.

If you're wondering what your likely retirement income might be, the Money and Pension Service has a Pension calculator which can help at **moneyadviceservice.org.uk/en/tools/pension-calculator**.

## Pension pot options

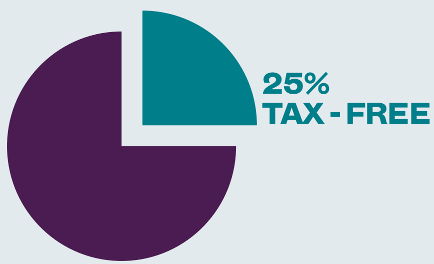
You can do the following although not all pension providers will offer all these choices:

- Leave your pension pot untouched until you need to access the money at a later date. This way your pot has the potential to continue growing tax-free, potentially providing you with more income when you need it later on, such as when you stop working. Of course there is a risk that if stock markets fall the value of your pot could fall too.



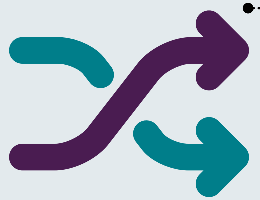
- Use some or all of your pot to buy a guaranteed income for life known as an annuity (you can normally take up to 25% of your pot first as a one-off tax-free sum). Once you stop working you may want this type of guaranteed income to replace your salary.

- Use your pot to provide a flexible retirement income, this is called pension drawdown. With this option you can normally take up to 25% of your pension pot tax-free and use the rest of your money to provide you with a regular taxable income. The value of your pot can go down as well as up so you'll have to be careful to ensure your money lasts as long as you want it to.




- Take small cash sums from your pot. You can use your pension pot to take cash as and when you need it and leave the rest untouched where it can continue to grow tax-free. For each cash withdrawal, normally the first 25% is tax-free and the rest counts as taxable income. If you have other income in retirement you may only need this money for extras rather than everyday living expenses.

- Take your whole pot as cash. Normally, the first 25% will be tax-free and the rest will be added to the rest of your income for the year and taxed accordingly. This could result in you ending up with a very large tax bill. The other risk to consider is that this option will not provide you with a regular income and, without very careful planning, you could run out of money and have nothing to live on in retirement. The Money and Pensions Service recommends getting financial advice if you are thinking of cashing in your whole pot.



- Mix your options. You don't have to choose one option when deciding how to access your pension – you can mix and match as you like, and take cash and income at different times to suit your needs. You can also keep saving into a pension if you wish and get tax relief up to age 75.

## State benefits and other help in retirement

You may be entitled to age-related state benefits when you retire. If you are on a low income you may be eligible for Pension Credit, help with your housing costs and heating bills, or Council Tax support. If you have special health needs, help is also available. You can find out about all the benefits available on the Age UK website which also includes a benefits checker at ageuk.org.uk/information-advice/money-legal/benefits-entitlements/.

## Your spending

Your spending habits are likely to change in retirement. For example, you will no longer have work-related expenses and you may now be living on your savings rather than putting money away for the future. You're likely to have more time for leisure and you may be at home more which means your fuel bills might go up. If you had a company car, you may need to replace this and if you used to pay for help around the home you may now have time to do these chores or maintenance jobs yourself.

Drawing up a budget of what you think your spending will be like in retirement can help you work out how much money you need to get by. You could start with your current spending and then think about how this might change.

You may spot savings in your current budget straight away and with more time on your hands you may be able to find better deals on your regular bills.

### Where to find out more

**You can find out about different types of pensions at:**

gov.uk/pension-types

pensionwise.gov.uk/en/pension-pot-options

moneyadviceservice.org.uk/en/articles/options-for-using-your-pension-pot

**For information on state benefits and other age-related help:**

ageuk.org.uk/information-advice/money-legal/benefits-entitlements/

nhs.uk/conditions/social-care-and-support-guide/money-work-and-benefits/benefits-for-over-65s/

turn2us.org.uk/Benefit-guides/State-Pension-age-changes/State-Pension-age-and-other-benefits

### Your notes