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1 How to use this guide

1.1 Purpose

This Client guide is designed to help you understand your post-retirement options and make good decisions about planning for your financial independence.

1.2 Get to the facts fast

This Client guide contains a lot of information. We do not expect you to read the entire guide in one sitting, but dip in and out as necessary. To help you access the facts you need quickly, the sections are colour coded:

1.2.1 Basics

- Simple facts.
- No jargon.
- Read these sections to get the basic information you need.

1.2.2 Options

Each post-retirement contract covered in this guide will have a number of different options.

1.2.3 Advantages

The advantages of each post-retirement contract are highlighted in green.

1.2.4 Disadvantages

The perfect post-retirement pension contract does not exist. You need to be aware of the disadvantages of any contract before you use it.

1.2.5 Detail

To reach a better understanding of your options you need more detail. Any technical terms highlighted in *italics* are explained in the Jargon buster section at the end.

1.2.6 Be aware

We highlight some of the main risks to be aware of – normally within the other sections.

1.3 Not in this guide

1.3.1 Alternatives

This guide does not cover alternative non-pension sources of retirement income such as: *ISAs* and other investments; renting residential property; or *equity release.*

1.3.2 Old rules and benefit protection

There were major changes to pension rules in April 2006 and April 2011. Some pensions, which were disadvantaged by the new rules, were granted transitional relief. To avoid confusion, this guide does not mention any pre-April 2011 or transitional rules in detail.

1.3.3 Information not advice

This Client guide provides information, but does not tell you what to do. It does not recommend you buy, redeem or vary any regulated investment. It is believed to be accurate as at 9th May 2011; however no warranty is given as to its accuracy and no responsibility can be accepted by Page Russell Ltd for any action taken or reliance on its contents.

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2 Check list

This section is a checklist of things you (or your adviser) need to know or consider to make an informed decision about which post-retirement strategy is best for you.

2.1 You and any spouse (or civil partner)

- Your age (date of birth)
- Your sex
- Your health (are you a smoker)?
- Your height and weight
- Your address
- Your state retirement age
- Your tolerance to investment risk

2.2 Your goals and needs

- When do you want or need to stop working?
- Do you need a lump sum?
- What debts, if any, do you have?
- Is any need for cash temporary or permanent?
- How do you expect your income needs will change over time in retirement?
- What is more important: securing a lifetime income or passing on your fund on your death?
- Will any spouse or civil partner be dependent on your pension income?
- Do you have any other financial dependents?

2.3 Your pensions

- Do you have a recent state pension forecast?
- Will you qualify for Pension Credit or any other means tested benefit?
- Do you have up-to-date fund values or benefit statements for your pension benefits?
- What are the normal or selected retirement ages for your pensions?
- What penalties are there if you take your pension benefits before that date?
- Can you delay taking your benefits?
- Does your pension have any *guaranteed annuity rates*?
- Do any of your pension benefits include *protected-rights* funds?
- Do you have any pre-April 2006 protected benefits? (These are called “enhanced” or “primary” protection and should not be confused with protected-rights funds).
- Is your tax-free cash more than 25% of the fund?
- If you stop work early, what associated benefits such as death-in-service will you lose?
- Is the total value of your pension benefits likely to be less than £18,000.
- Is the total value of your pension benefits likely to be close to or more than £1.5million?
- Are any of your pension benefits subject to an Attachment Order as a result of a divorce?

2.4 Other issues

- Do you have other income sources or non-pension assets you can use when you stop work?
- Wider economic factors, such as future prospects for annuity rates and life expectancy.

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3 Saving for a pension

Skip this section if you do not plan to make any more contributions to a pension.

3.1 A tax-efficient way to save

- Any UK taxpayer under the age of 75 can contribute to a pension.
- In any one year you can contribute:
  - Either: £3,600
  - Or: 100% of your earnings up to £50,000.
- You need to be careful not to exceed these limits.
- You, your employer or a third party can make the contributions.
- There are many tax advantages for saving using a pension.
- In return there are restrictions on how you can take the money out.

3.2 Options

3.2.1 You
You can make contributions out of your salary or direct from your own bank account and receive Income Tax relief.

3.2.2 Your employer
Your employer can make a contribution, which should be relieved against their Corporations Tax bill.

3.2.3 Others
Other people can make pension contributions for you. You receive any tax relief due on the contribution, not the person who made the contribution.

3.3 Advantages

The main reason for saving via a pension is the tax advantages over other investments:

- Individual contributions attract Income Tax relief.
- Employer contributions are relieved against Corporation Tax.
- The fund grows faster than it would otherwise do, as it suffers little or no tax.
- On retirement you can take up to 25% of the fund as a *tax-free cash* lump sum.
- If you die before retirement the fund is usually paid out free of Inheritance Tax.

3.4 Disadvantages

HM Revenue & Customs (HMRC) does not give tax-advantages away lightly. In return for saving via a pension, you must accept restrictions on when and how you take the money out:

- (Except in rare circumstances) you cannot touch the money until your age 55.
- Most of the fund must be used to provide taxed pension income.

This Client guide is about finding the method of withdrawing money from your pension that is right for you.

3.5 Who?

Anyone aged less than 75, who is resident in the UK for tax purposes (or who has been in the last five tax-years) can make tax-relieved contributions to a UK pension.

People with current *tax-year* earnings from overseas Crown employment subject to UK tax also qualify.

The rest of this section assumes these criteria are met.

3.6 How much?

3.6.1 The quick answer

In any one tax-year you can contribute up to the following limits into a pension:

- Either: £3,600 a year;
- Or: 100% of earnings up to the Annual Allowance (currently £50,000 a year).

These amounts are BEFORE any Income Tax relief.

There are tax charges for exceeding these allowances.

The basic rate (or 20%) income tax relief is available even if you have no earnings. In this case the actual cost of £3,600 will be £2,880.

3.6.2 What are "*earnings*"?

DOES qualify as earnings	Does NOT qualify as earnings
Salary (as shown on your P60 form)	Dividends (even if it is your own company)
Benefits-in-kind (as shown on your P11D form)	Non-UK earnings (specific advice needed here)
Partnership or trading profits (this excludes property and investment profits)	Income from a pension or annuity in payment
Patent rights	Interest
Earnings from an overseas Crown employment subject to UK tax	Rent or profits from property

3.6.3 But I've heard you can pay up to £200,000 in a year?

It is possible to carry forward unused Annual Allowance (up to £50,000 a year) for the past three years into the current tax-year. In some circumstance it may be possible to make 4 X £50,000 = £200,000 into a pension in one tax-year. Carry forward does not enable personal contributions in excess of 100% of earning in a tax-year.

For example: Mrs Saver has an annual allowance of £170,000 (including carry forward) in the current tax-year but "only" earns £120,000. Her maximum contribution is £120,000 this year.

3.6.4 What about employer contributions?

Employer contributions are included in the Annual Allowance, but not the 100% of earnings.

For example: Mrs Saver has earnings of £30,000 in 2011/12. She can make an individual contribution of £30,000 and her employer could make a contribution up to £20,000.

Controlling shareholders of closely-owned companies need to take specific tax advice, to ensure company contributions are relieved against Corporations Tax.

3.6.5 Final Salary pensions

The calculation method for contributions to final salary pensions is different.

Every £1 increase in your pension income promise (after taking Consumer Prices Index inflation into account) will count as £16 for the Annual Allowance.

For example: Mrs Saver is a member of a 60th scheme, with 15 years of service and earning £50,000. Her pensionable salary increases to £52,000 and CPI is 3.0%. Her contribution for this year is: (16/60 X £52,000 X 16) – (15/60 X £50,000 X 16 X 1.03) = £15,866.

This calculation method affects members coming up to retirement disproportionately.

It can be easy for final salary scheme members who are rapidly promoted to exceed the Annual Allowance and be subject to a tax-charge.

The three-year carry back option might help. Otherwise any tax charge can be paid from the member's own pension benefits.

Any deferred or "frozen" benefits which will receive automatic increases in value are <u>not</u> included in the annual allowance calculation.

3.7 Income tax relief

A big reason people save via a pension is the tax-relief on contributions. For example, additional rate tax payers get £2 invested in a pension for every £1 they pay.

3.7.1 The "net pay" system

This system is used for pension contributions to occupational pensions, such as a Final Salary scheme (but not *Group Personal Pensions* or *Group Stakeholder Pensions*).

The contributions are paid via your employer's payroll. This system ensures you benefit from the tax relief in full because the employee contribution is deducted from your gross salary before any *PAYE* Income Tax.

3.7.2 The "relief at source" system

Most other pension contributions work on a system where the contribution paid is the amount less basic rate tax. The pension scheme then collects 20% tax relief from HMRC.

For example: Mr Saver wants to make a total contribution of £10,000 to his personal pension. He pays £8,000 and the pension company collects the £2,000 from the HMRC. If Mr Saver is a starting or basic rate tax payer nothing else needs to happen.

If Mr Saver is a higher rate tax payer, he is due an additional £2,000 tax-relief, collected by:

- Altering Mr Saver's PAYE coding (which is not a foolproof method).
- Mr Saver's self-assessment tax return when the tax-year is over.
- Making a claim to HMRC now.

Mr Saver (or his tax adviser) must take action or any extra relief will be lost.

3.7.3 Recycling tax-free cash

Be careful when making a contribution in the same tax-year as you receive any tax-free cash from a pension. HMRC will make a tax charge if it thinks you are recycling tax-free cash lump sums to get extra tax-relief on pension contributions.

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4 When can you retire?

4.1 It depends…

To answer the question "When can I retire?" you need to think about:
- When you want to stop work.
- When your state pension will start.
- When your private and work pensions are due to start.
- When you can afford it.

4.2 Default retirement age

Employers can no longer impose a set retirement age (except in special circumstances).

If you wish to continue working and are capable of doing so, your employer cannot stop you.

The days of everyone stopping work and drawing their pension at the same age are long gone. In the UK now 9% of people aged 65 and over are in full- or part-time work.[1]

4.3 State pension age

The age at which your state pension starts is increasing in different stages for men and women:

	Men	Women
From:	**65** for those born on or before 05/12/1953	**60** for those born on or before 05/04/1950
To:	**68** for those born on or after 06/04/1978	

These changes are not yet law, but the provisional state pension ages are available online: http://www.pensionsadvisoryservice.org.uk/state-pensions/state-pension-age-calculator.

4.4 HMRC and scheme retirement ages

Under HMRC rules you can take money from your pension from age 55 onwards.

However there may be a penalty if you take money from your pension early.

For example:
- *Guaranteed Annuity Rate* in a personal pension may currently provide an annuity income substantially higher than that available via the open market. These guarantees may only be available at the selected retirement age.
- Final salary schemes will reduce the tax-free cash and pension income if you take your benefits before the scheme retirement age.
- Many pre-2001 pensions provided by life assurance companies have early exit penalties if you take the cash before the selected retirement age.

None of these penalties will stop you working, but they will reduce the cash you get.

You need to check the terms of your occupational and personal pensions in advance.

[1] Office for National Statistics, 2nd March 2011.

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5 Annuity

In this Client guide we use "annuity" to mean a conventional lifetime annuity.

5.1 Insuring yourself against living too long

- The biggest risk faced by most people when they stop work is that their money will run out before they do.
- An annuity provides guaranteed lifetime income.
- You don't have to accept the annuity offered by your pension fund provider. You should be able to get a better deal on the open market.
- If you smoke or have an illness you may get a higher rate.
- Your annuity provider deducts income tax before paying your income.
- You can buy extra death benefits (at the cost of a lower starting income).
- Once set up an annuity cannot be changed.

5.2 Options

The most basic annuity type will pay out a level income for the rest of your life and then stop.

The cost of buying extra features is a lower starting income paid out by an annuity:

5.2.1 Increases in payment

A level annuity pays the same income each year.

Price inflation reduces the purchasing power of a level income. For example: 5% yearly inflation halves the amount £1 can buy every 14 years.

An escalating annuity increases each year. The higher the escalation rate, the lower the initial income. It is possible to select a fixed rate of increase from 3% to 8.5% a year. You can also choose to link increases to reflect changes in inflation.

Inflation-proofing an annuity typically reduces the starting income by between a third and a half.

5.2.2 Continuing the payments for your spouse or civil partner

A joint life annuity pays an income until both spouses die. It is possible for the annuity to continue at the same level to a survivor (100%), two-thirds or half the original amount.

To qualify for a dependant's pension it is not always necessary for a couple to be husband and wife. Any person of either sex may be eligible, but financial dependence must be proved first.

However, in practice some annuity providers or pension schemes have different rules and restrict joint-life annuities to married couples or civil partners only.

Often providers only make continued payments to the person who was the spouse or civil partner when the annuity started. In this case if you divorce and remarry, neither your new- nor your ex-spouse will receive a pension after you die.

5.2.3 How often the payments are made

You can select how often you want to receive income each year. Most people choose monthly, but you can be paid quarterly, half-yearly or annually.

5.2.4 Income paid in advance or in arrears

Payments can be made either in advance or arrears of the payment period.

For example: If you opt for monthly income and purchase your annuity on 1st January you receive your payment on that day if paid in advance, or on 1st February if paid in arrears.

5.2.5 With or without proportion

When you die, an annuity with proportion will pay an amount proportionate to the time between the last payment and the date of death. This option is most valuable when income payments are made on an annual basis and is only available for payments made in arrears.

5.2.6 Impaired life or enhanced annuities

Some annuity providers offer a higher income if you have any medical conditions which affect your life expectancy. You might obtain a better annuity if you smoke heavily or are overweight and some providers offer improved terms to people who have followed certain occupations or live in certain parts of the country.

5.2.7 Guarantee periods

If you select a guarantee period and you die within the period chosen, the payments will continue for the balance of time remaining. Normally the guarantee period will be either 5 or 10 years. It may be possible for the remaining instalments to be paid as a lump sum.

5.2.8 Capital protection

This option allows for a return of some cash on death equal to the difference between the cost of annuity purchase and the gross income payments received, less a flat 55% tax charge.

5.2.9 Switching to other post-retirement contracts

You cannot vary or transfer out of your annuity once it is set up.

One exception is when a Pension Sharing Order is granted as part of a divorce. But in this case the monies go to your ex-spouse.

5.3 Advantages

- Guaranteed income for at least the rest of your life. (The guarantee is dependent on the solvency of the annuity provider).
- Simple contract with minimal administration required from you.
- No investment risk.
- An efficient way of providing guaranteed lifetime income.

5.4 Disadvantages

- Current low annuity rates mean you could end up locking yourself into a permanently low income.
- Once set up you cannot switch to drawdown or scheme pension.
- Once set up you have to receive the income whether you need it our not: you cannot turn the income off once it has started.
- Depending on the type of annuity, there can be little or no money paid from the annuity on death.

5.5 Tax

The regular payments from an annuity are taxed as pension income. Income Tax is deducted at source by the insurance company via the PAYE system.

The PAYE system is not fool proof. If you have several sources of pension income (especially if some of them increase every year), we recommend you complete a *self-assessment* form to ensure you are not paying too much tax.

Pension income is not liable for National Insurance Contributions (NICs).

Pension income does not count towards your annual pension contribution allowance.

Annuities do not form part of your estate for Inheritance Tax purposes. However any capital protection or guaranteed payments may form part of your estate.

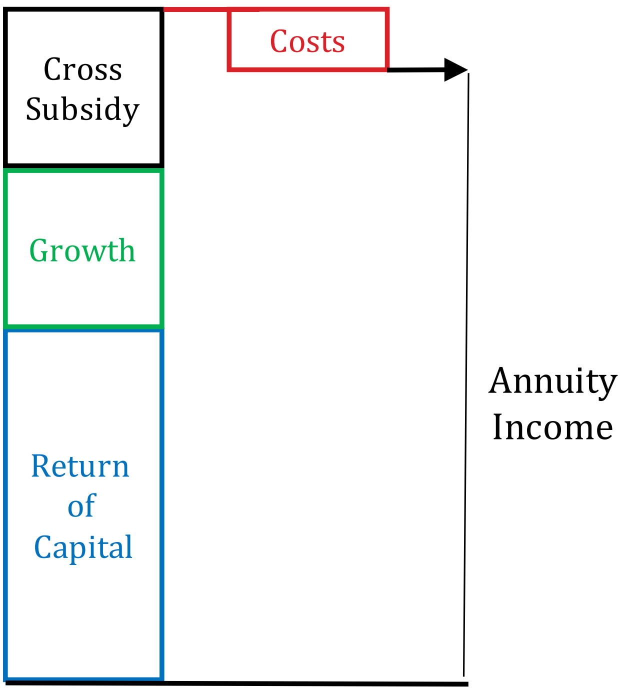
5.6 The open market option

You do not have to buy your annuity with the same pension provider you built up your pension fund with. There is a competitive market for annuities. You should get a better retirement income by shopping around, especially if you smoke or have health problems.

5.7 How the income is set

An annuity is an insurance contract. The starting income level is set based on the following formula:

Income = Return of capital + Growth + Cross-subsidy – Costs



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5.7.1 Return of capital

The biggest factors deciding the amount of capital returned to you as annuity income are your life expectancy and the annuity income options you choose.

The annuity provider makes its judgement on your life expectancy based on:

- your age,
- your health and other lifestyle factors such as whether or not you smoke,
- and where you live.

5.7.2 Underlying investment growth

To back up its promise to provide lifetime income, the insurance company has to invest in low risk investments, such as UK government debt (also called gilts). Therefore the investment growth part of an annuity income is relatively small.

5.7.3 Mortality cross-subsidy

The people in the "pool" of annuity contracts who die early subsidise the people who die last. This subsidy exists because there is no remaining fund to return to the annuitant on death. The estimated size of the cross subsidy is used by the insurance company to increase the income paid out by the annuity.

5.7.4 Administration costs

Because an annuity is a simple contract to administer the insurance company's cost are low and do not reduce the income paid out by much.

5.8 Future prospects

An annuity will continue to be the way most people receive their post-retirement income because it is the most cost-effective method of providing a guaranteed lifetime income.

5.8.1 European Court of Justice ruling on sex and insurance

Traditionally men have received higher incomes from annuities because on average they die earlier than women. Following a ruling in the European Court of Justice, from December 2012 insurance companies will have to offer unisex rates for annuities.

This change is not a simple "good" for women and "bad" for men. It is likely to accelerate the trend towards more sophisticated annuity underwriting techniques which take into account your health, smoking status, height, weight and address.

5.8.2 Solvency II

"Solvency II" is shorthand for an EU directive that will require insurance companies to hold more assets to back up their promises from January 2013. The price for this extra security will be a small but noticeable drop in annuity rates.

5.8.3 The canary in the mine shaft

Guarantees are never cheap. But the true cost of buying a guaranteed lifetime income can come as a big shock for people when they stop working and want to draw an income from their pension. This nasty surprise can give annuities and the insurance companies a bad name.

But the cost of an annuity is just the "canary in the mineshaft" telling us that we can expect to live much longer and healthier lives than we might expect. That long life comes at a cost…

6 Drawdown

6.1 A flexible option

- With a drawdown pension your fund remains invested.
- There is no guarantee of lifetime income.
- Drawdown pensions are more flexible than an annuity, but you have to accept investment risk if you wish to take the same level of income.
- You can vary the income taken between a maximum limit and zero.
- Your drawdown provider deducts income tax before paying your income.
- On death, you can pass your fund on as a taxed cash lump sum.
- You can switch from drawdown to all the main types of post-retirement contract.
- There are two types of drawdown: capped and flexible.
- You are no longer forced to purchase an annuity by your 75th birthday.

6.2 Options

6.2.1 Income

6.2.1.1 Minimum: £nil

You can reduce the income you draw down to £nil.

6.2.1.2 Maximum:

The maximum income you can draw depends on the type of drawdown pension:

- **Capped**: At an amount roughly equivalent to a similar annuity.
- **Flexible:** Unlimited – provided you pass a minimum income test.

6.2.2 Investments

Drawdown pensions are allowed to make the same wide range of investments as pension funds which have not had money withdrawn from them.

6.2.3 Death benefits

On death the remaining drawdown funds can be used to:

6.2.3.1 Buy a lifetime annuity

A surviving spouse, civil partner or financial dependent can use the drawdown fund to purchase an annuity for themselves (which is taxed at their marginal rate).

6.2.3.2 Continue in drawdown

A surviving spouse, civil partner or financial dependent can continue to drawdown from the fund, using the income limits that would apply to them. If they pass a minimum income test they can also opt for flexible drawdown.

6.2.3.3 Take a taxed cash lump sum

Any nominated beneficiary can receive the remaining fund – less a tax charge of 55%.

6.2.3.4 Gift to charity

If the nominated beneficiary is a registered charity there is no tax charge on the lump sum.

6.2.4 Switching to other post-retirement contracts

You can switch from a drawdown pension to all the other main post-retirement contacts, (although there is no point switching from flexible back to capped drawdown).

6.3 Advantages

- Control of investments retained.
- Flexible income levels: Useful if you have intermittent income sources. You are not forced to receive an income and pay tax on it.
- Unlimited income possible if pass Minimum Income Requirement test.
- Choice of death benefits including a taxed cash lump sum on death.
- Can switch to scheme pension or annuity at any time.
- If annuity rates are low you can use drawdown to delay annuity purchase.

6.4 Disadvantages

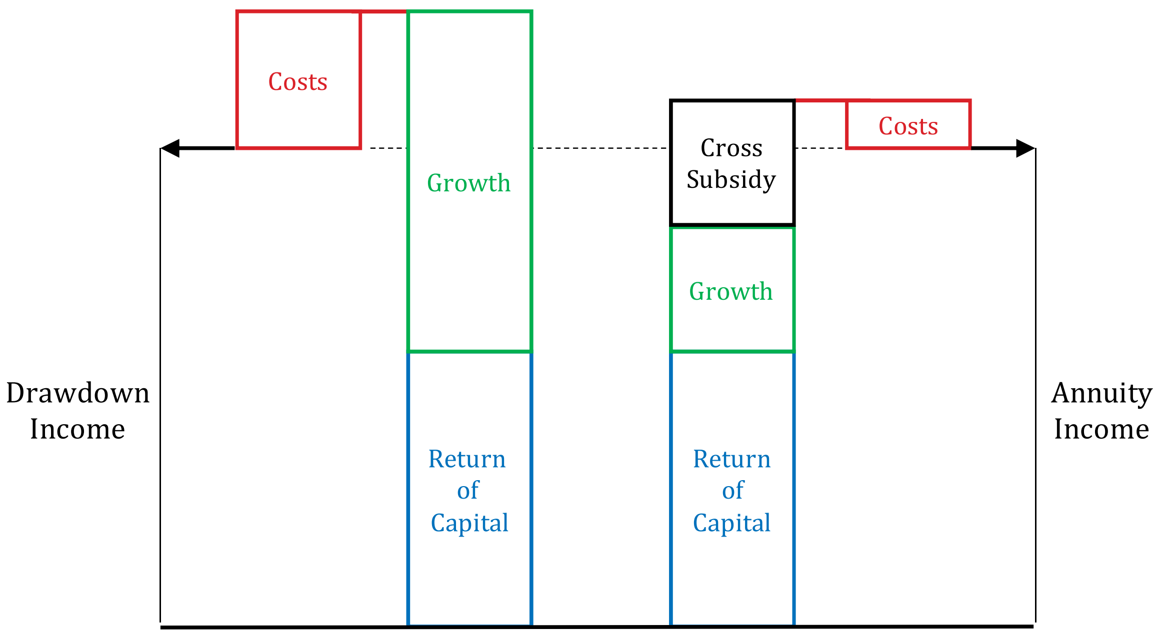
- No guarantee of lifetime income (as with annuity).
- Must accept significant investment risk to fund high income levels.
- If drawings are too high and investment growth poor, the maximum income allowed will reduce at each review.
- Higher costs than an annuity.
- Needs regular reviews (ideally every year).

6.5 How it works

6.5.1 Flexibility versus investment risk

The chief attraction of drawdown is its flexibility (compared with an annuity). The price of that flexibility is the increased investment risk it is necessary to take, **if** you wish to take the same income as that available from an annuity.

The loss of the mortality cross-subsidy available from an annuity and the increased costs of drawdown mean you need a higher investment growth rate to get the same income.



Not to scale

If you need to draw the maximum income, you will need to accept a high proportion of the fund invested in growth assets (such as listed company shares and commercial property) and the increased risk associated with those investments. You may not be comfortable with that risk.

6.5.2 Critical yield

This trade-off is condensed into a useful number: the critical yield (type-B). This is the growth rate you need your fund to achieve every year to be equivalent an annuity with the same income level as you draw from the income drawdown contract.

The critical yield depends on the rate at which you draw the funds down. The more income you draw down from your fund now, the higher the critical yield.

6.5.3 Variables affecting the final outcome

The eventual income from an annuity (if you buy one) depends on:

- Annuity rates; which depend on mortality expectations and the long-term interest rates on UK government debt.

- The residual drawdown fund value; which in turn depends on:
  - The growth of the underlying funds.
  - The amount of income drawn down from the fund in the meantime.
  - The costs of the drawdown contract.

6.6 Tax

6.6.1 On the drawdown fund

A drawdown fund has the same tax advantages as a normal pension fund:

- Any interest received is not taxable.
- Any capital gains are not taxed.
- The 10% tax credit on dividends cannot be reclaimed.

6.6.2 On the income taken

The regular payments from a drawdown pension are taxed as pension income. Income Tax is deducted at source by the pension provider via the PAYE system.

6.6.3 On death

6.6.3.1 Annuity purchased or continued drawdown

The pension income received by a surviving spouse, civil partner or financial dependent is taxed at source by the provider via PAYE at the recipient's marginal Income Tax rate.

6.6.3.2 Drawdown pension lump sum

The remaining fund suffers 55% tax, which is deducted at source by the provider.

6.6.3.3 Charity lump sum

There is no tax charge if the remaining fund is passed to a registered charity.

6.6.3.4 Inheritance tax

A drawdown pension will not usually form part of your estate and is therefore not liable for Inheritance Tax. However, Inheritance Tax should be taken into account when a surviving spouse or civil partner is deciding what option to exercise.

Inheritance Tax is charged at a rate of 40% on the value of estates over the Nil Rate Band (currently £325,000). For married couples and civil partners the threshold is £650,000.

If a surviving spouse takes a drawdown pension lump sum (less the 55% tax) and does nothing with the cash, their estate could be liable for Inheritance Tax on the sum at 40% on their death.

6.7 Maximum income limits

6.7.1 "Could" does not mean "should"

Just because HMRC rules means you could draw a maximum amount from a drawdown pension, it does not mean this is the amount you should draw down. Drawing down the maximum allowed income each year is likely to reduce your fund in an unsustainable way and result in a lower drawdown income in later years.

6.7.2 Capped drawdown

6.7.2.1 Maximum: 100% GAD

"100% GAD" is technical shorthand for the maximum capped drawdown income limit calculation.

The maximum income limit for capped drawdown is approximately equal to an equivalent annuity and depends on:

- The value of your capped drawdown fund.
- Your age and sex.
- Long-term interest rates.

For example:

1) Long-term interest rate: Gross redemption yield on 15-year gilts on 15th of month before drawdown starts, rounded down to the nearest quarter of a percent.	4.00%
2) 4.0% applied to the 2011 GAD tables published by HMRC for a 62 year old man gives the 100% GAD rate.	£62 for every £1,000 of fund
3) The value of the capped drawdown fund:	£200,000
4) Maximum income <u>before</u> income tax = £62/£1,000 X £200,000:	£12,400 a year

6.7.2.2 Review period: 3 years

The maximum limit is reviewed every 3 years, but can be reviewed annually if you wish. If factors are not favourable you can sit tight for a few years, but if they have moved in your favour you can take advantage of them.

From age 75 it is reviewed annually in any case.

If the value of your capped drawdown fund value drops too much or 15-year gilt yields fall too far, the maximum income allowed will be reduced at the next review.

6.7.3 Flexible drawdown

6.7.3.1 Maximum: Unlimited

Provided you have enough income so that you will not claim state benefits (a Minimum Income Requirement) HMRC will let you take as much income via flexible drawdown as you want.

HMRC is not being entirely philanthropic. The income drawn is taxed as pension income, so the HMRC will get more tax quicker with flexible drawdown.

In practice the amount of fund you draw down will be limited by the level of Income Tax you are prepared to pay.

6.7.3.2 The Minimum Income Requirement (MIR): £20,000 a year

The Minimum Income Requirement has to be satisfied for each individual at outset. It is not reviewed and is not aggregated for married couples. The flexible drawdown provider is responsible for the Minimum Income Requirement test.

The types of income that do or don't count towards the MIR are:

DOES count towards the MIR	Does NOT count towards the MIR
• State pensions • Pension annuities, including dependent's pensions • Scheme pensions (where there are 20 or more members in a scheme) • Certain overseas pensions • Financial Assistance Scheme payments	• Salary or other employment earnings • Share dividends or interest from long-term gilt-edge UK government loan stock • Scheme pensions (where there are less than 20 members in a scheme) • Purchased life annuities (PLAs)[2] • Drawdown pensions or dependents' drawdown pensions • Means-tested benefits, such as Pension Credit. • Interest on cash savings

You can use part of your pension fund to purchase an annuity with sufficient income to meet the MIR and then put the remaining pension fund into flexible drawdown. If you adopt this tactic, be aware that all the annual pension income from the new annuity must be received before you can commence flexible drawdown.

6.7.3.3 Review period: Not applicable

6.7.3.4 Check before you "burn your bridges"

Once you start flexible drawdown you cannot make any more pension contributions or be an active member of a final salary scheme.

This applies to the whole of the tax-year in which you start flexible drawdown. So if you made a contribution on 6th April 2012, you will have to wait until 6th April 2013 (the start of the next tax-year) before you can start flexible drawdown.

[2] Purchased life annuities are different to the conventional pension annuities covered in this guide. They are bought using non-pension funds and have a different taxation regime.

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7 Scheme pension

7.1 A niche solution

- Your pension fund stays invested - there is no guarantee of lifetime income.
- It may be possible to take a higher income than an annuity or capped drawdown.
- Once set up, limited scope for changing income and no ability to change the death benefits.
- On death you can pass on a taxed-lump sum (provided you choose this option at outset).
- You can switch from scheme pension to an annuity only.
- A scheme pension will have higher cost than a drawdown pension and be suitable only for people with large pension funds (£250,000 or more).

7.2 Options

7.2.1 Income

- Like an annuity, the basis of the income is set up at the start and depends on the escalation and death benefit options chosen.
- The income can be changed if justified by the scheme's *actuary*, but cannot reduce to nil.

7.2.2 Investments

Scheme pensions are allowed to make the same wide range of investments as pension funds which have not had money withdrawn from them.

7.2.3 Death benefits

The choice of death benefits has to be made before you start the scheme pension.

7.2.3.1 Survivor's scheme pension or annuity

A surviving spouse, civil partner or financial dependent can be paid a dependant's pension from the remaining fund. Alternatively the scheme trustees can purchase a lifetime annuity.

7.2.3.2 Guaranteed payment period

Payments can be guaranteed for up to 10 years. If you die within the guarantee period the payments continue until the end of the guarantee period, but are paid to another person. The payments cannot be swapped for a lump sum on death. However, they can be paid to any nominated beneficiary and can be split between differing recipients.

7.2.3.3 Annuity protection lump sum

The maximum paid out as a lump sum is the fund value when the scheme pension started less the amount of scheme pension payments paid up to the point you die, less a 55% tax charge. Any fund remaining after the payment of the annuity protection lump sum (and any guaranteed payments), can be used to pay other death benefits, such as a dependent's pension.

7.2.4 Switching to other post-retirement contracts

You can switch from a scheme pension to an annuity only.

7.3 Advantages

- Potentially higher income allowed than drawdown or lifetime annuity.
- Income not tied to market annuity rates.
- Control of investments retained.
- Death benefits available if a guarantee period and capital protection chosen at outset.

7.4 Disadvantages

- Income amounts less flexible than drawdown.
- Cannot increase income by more than RPI or 5% without triggering lifetime allowance test (see section 12.2.5).
- Can only reduce income payments where the reduction is on scheme-wide basis.
- Lifetime income not guaranteed.
- Ongoing cost of regular reviews.
- Must accept significant invest risk to fund high income levels.
- Cannot switch to a drawdown pension.

7.5 How it works

7.5.1 Big scheme rules for individuals

Most recipients of a scheme pension are members of large final salary scheme who have little or no say over how their scheme pension is structured. However, members of a *SSAS* or a *SIPP* set up under a separate *trust deed* can use the same HMRC rules to their advantage.

7.5.2 Less flexibility than drawdown, but more than an annuity

Like drawdown, you keep your pension fund invested and there is no guarantee of lifetime income. A scheme pension has only a limited ability to change the income levels and death benefits.

7.5.3 Your income is set by an actuary

The income is set by the scheme's actuary, who takes into account:

- The return on capital – which in turn depends on your age, your health, any escalation in payments, and the death benefits chosen.
- Underlying investment returns – which should be higher than for an annuity.
- The scheme expenses.

In many circumstances the income set by the actuary for a scheme pension will be more than the maximum income limit for capped drawdown and that available from an annuity.

7.5.4 Varying the income

Scheme pensions must be payable at least annually and you cannot normally reduce income payments, unless the same proportional reduction applies to all scheme members. In practice this is not a problem if you are:

- the only member of a SIPP set up under its own separate trust;
- or the only member of a SSAS taking a scheme pension.

You cannot reduce payments down to zero.

Payments can be increased if justified by the actuarial calculation. However, if the annual increase is greater than RPI or 5% (whichever is highest) this will trigger a check against the lifetime allowance (see section 12.2.5).

7.5.5 Review period: 3 years

The income limit is reviewed by the scheme actuary every 3 years.

If the value of your scheme pension fund grows faster than expected your income can go up. But if fund value fails to grow fast enough (or falls) the income allowed will be reduced at the next review.

7.6 Tax

7.6.1 On the scheme pension fund

A scheme pension fund has the same tax advantages as a normal pension fund:

- Any interest received is not taxable.
- Any capital gains are not taxed.
- The 10% tax credit on dividends cannot be reclaimed.

7.6.2 On the income taken

The regular payments from a scheme pension are taxed as pension income. Income Tax is deducted at source by the pension provider via the PAYE system.

7.6.3 On death

7.6.3.1 Survivor's scheme pension or annuity

The dependent's scheme pension or annuity is taxed as pension income at the rate applicable to the survivor.

7.6.3.2 Guaranteed payment period

Guaranteed payments are taxed as pension income at the recipient's marginal rate of income tax (which may be much lower than the 55% lump sum tax charge).

7.6.3.3 Annuity protection lump sum

A 55% tax charge is deducted at source by the scheme on any annuity protection lump sum paid out.

7.6.3.4 Inheritance tax

A scheme pension will not usually form part of your estate and is therefore not liable for Inheritance Tax. However, Inheritance Tax should be taken into account when deciding what option to exercise at the outset.

7.7 Limited appeal

A scheme pension needs regular input from an actuary and the administration costs will be high. Therefore this niche contract is likely to be suitable only for people with a large pension fund (greater than £250,000) who:

- Need to take a higher income than available in capped drawdown.
- Do not qualify for flexible drawdown.
- Do not need the full flexibility of drawdown.

For example someone in poor health may prefer a scheme pension to an enhanced annuity because they wish to keep their funds invested.

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8 Hybrid pension contracts

8.1 Neither one thing, nor the other

- It would be ideal if a pension had guaranteed lifetime income and complete flexibility.
- This is the idea behind the marketing of hybrid pensions.
- Unfortunately, all hybrid pensions give up some flexibility as the price for the limited guarantees they offer.
- Hybrid pensions come in two forms:
  - An annuity with investment flexibility
  - A drawdown pension with either a short-term annuity or guarantees.

8.2 Investment-linked annuities

8.2.1 Basics

- An annuity where you keep control over which funds your money is invested in.

8.2.2 Options

- You get all the options and restrictions of a conventional lifetime annuity (see section 5.2).
- In addition you have a choice of investment funds provided by your annuity provider.

8.2.3 Advantages

- Guaranteed lifetime income (although the amount of income is NOT guaranteed).
- You get an increased starting income as a result of the mortality cross-subsidy.
- If your investment funds grow faster than expected your income can increase.
- You can switch between the investment funds offered by the provider.

8.2.4 Disadvantages

- If your investment funds grow slower than expected, or fall in value, your income will drop.
- Once set up you cannot switch to a drawdown or scheme pension.
- Once set up you have to receive the income whether you need it or not. You cannot turn the income off once it has started.
- Depending on annuity type, there can be little or no money paid from the annuity on death.

8.2.5 How it works

An investment-linked annuity works like a conventional lifetime annuity; except you continue to accept investment risk in hope your money will grow enough to provide a higher income.

Like an annuity you benefit from mortality cross-subsidy. Also, like an annuity, the basis of the income shape and any death benefits are chosen at the outset and cannot be changed.

The initial income is partly based on an assumed growth rate for the investment funds you have chosen. If the investments grow faster than expected your income can increase. But if the investment funds grow slower than expected, or fall in value, your income will drop.

8.3 Drawdown pension hybrids

8.3.1 Basics

- There is no generic name for the range of contracts that fall under this heading, each provider uses their own name.
- However they are all capped drawdown pensions which also contain:
  - A fixed-term annuity.
  - Or, a unit-linked guarantee.

This section highlights the main differences between traditional drawdown and the hybrid versions. You should read section 6 to find out about capped drawdown pensions first.

8.3.2 Fixed-term annuities

8.3.2.1 Options

- **Fixed-term annuity**
  The contract is split in two parts: a fixed-term annuity and the remaining fund.

  The annuity term is set at outset and is usually between 5 and 10 years. During this time the annuity provides the income, which is fixed at outset. The income cannot be more than the maximum capped drawdown limit.

  You can get all the options available with a conventional lifetime annuity (see section 5.2), EXCEPT that the income stops at the end of the term.

- **Remaining fund**
  During the fixed-term no income is paid from the remaining fund. Otherwise the options available for the remaining fund are the same as for a capped drawdown pension.

  Alternatively, some providers promise a guaranteed fund value remaining at the end of the fixed term annuity. In this version there is no investment risk.

- **Switching options**
  During the period of the fixed-term annuity the contract cannot be switched. At the end of the annuity term there will normally be an option to switch to any other applicable post-retirement contract.

8.3.2.2 Advantages

- You are not committed to one annuity option for life.
- The remaining fund can be invested more aggressively than a traditional drawdown pension, because it is not funding the income during the annuity term.
- (Outside of any lock-in periods) you can transfer to other contracts.
- You can change the type of income at the end of the fixed term to suit your circumstances.

8.3.2.3 Disadvantages

- There is the risk that annuity rates will be lower at the end of the fixed term.
- If the remaining fund does not grow as expected, the income provided at the end of the fixed term will be lower.
- The range of investment funds offered by the providers of these contracts is limited.
- You are locked into the contract during the term of the fixed-term annuity.
- Opaque charges make it difficult to judge the true value of the contract.

8.3.3 Unit-linked guarantees

8.3.3.1 Basics

- Similar to a traditional capped drawdown pension.
- You have a choice of investment funds offered by the providers.
- In return for an additional guarantee charge, the pension provider provides an insurance against the worst investment outcomes damaging the growth of the fund.

8.3.3.2 Options

Just like capped drawdown, EXCEPT the provider will lock you into the contract for a set period in return for the investment guarantees.

8.3.3.3 Advantages

The same as capped drawdown, PLUS:

- Your investment fund is fully or partially protected from investment risk.

8.3.3.4 Disadvantages

The same as capped drawdown, PLUS:

- The cost of the guarantees can be high.
- The range of funds offered by providers is limited compared with most traditional drawdown contracts.
- The overall costs of the contract are quite high.
- The guarantees normally work over a fixed period and you are locked into the contract for that period.

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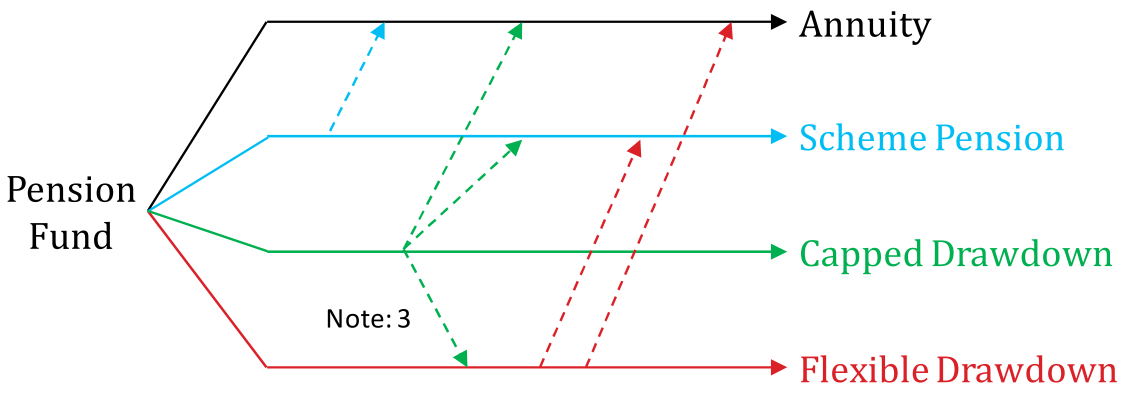
9 Switching

9.1 Stuff happens

- Your income needs can change dramatically throughout retirement.
- Fortunately the ability to switch between most post-retirement pension contracts means you can adapt.
- You can switch between all the main post-retirement income options, except an annuity.

9.2 Options

The diagram shows which of the main post-retirement contracts you can switch between:



You can see that, whilst it is possible in theory to switch between capped drawdown and all the other types, you cannot switch out of a conventional lifetime annuity.

9.3 Notes

1. Hybrid pension contracts are not shown separately because they are special types of either an annuity or capped drawdown.
2. The scheme pension option is only available to members of an occupational pension (such as a SSAS) or certain SIPPs set up under a separate trust deed.
3. You must satisfy the Minimum Income Requirement to switch to flexible drawdown.
4. The ordering of the dashed arrows from left to right is not significant.

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10 Tax-free cash

10.1 A lump sum if you need it

- You can take tax-free cash from virtually all pension types.
- The amount of tax-free cash is 25% of your pension fund (some pre-2006 pension funds may pay more than 25%).
- The cash doesn't come from thin air. If you take the cash, the amount of pension income paid out is proportionately less.

10.2 Options

- Take the tax-free cash to spend as you wish.
- Or take a higher taxed pension income.

10.3 Advantages

- The convenience of having a significant chunk of your pension to spend up front. For example you may need to pay off a mortgage.
- It can be more tax-efficient: If you use your entire pension fund to purchase an annuity, 100% of that income is liable for income tax. Whereas you can invest the tax-free cash in tax-efficient investments, such as ISAs or National Savings Certificates to increase the income available to you after tax.

10.4 Disadvantages

- Once the tax-free cash is spent it's gone. It may be more prudent to withdraw the money as a lifetime income.

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11 Phased retirement

11.1 You don't have to take all the cash at once

- There are good reasons for withdrawing your money from a pension in stages.
- Phased retirement can be used with the main post-retirement contracts covered in this guide; but only a few final salary schemes (and then only with the scheme pension).
- The untouched part of your pension remains invested.
- The portion of your pension that you take the tax-free cash and income from is transferred to an annuity, drawdown pension or scheme pension.
- You can phase your retirement in one packaged plan, or transfer to a separate contract for each phase.

11.2 Advantages

- Tax-free cash can be used as income to reduce tax in the early years of retirement.
- As a higher proportion of your fund is untouched (at least in the early years), there is more flexibility and less tax to pay on death.
- You have more flexibility to change your post-retirement contract to meet your needs.
- As more of your fund stays invested it has a chance to keep growing and provide you with a larger retirement income.
- If annuity rates are low you can delay annuity purchase until rates are higher.

11.3 Disadvantages

- Tax-free cash is not available for large capital expenses.
- There is no guarantee that your eventual retirement income will be higher. If annuity rates stay low or investment returns are poor your eventual income could be lower.

11.4 Details

11.4.1 Lower income tax in the early years

You can use the tax-free cash to provide a tax-free income in the early years of retirement. This is particularly useful if you have other income sources, which together with a pension income, would take you into the additional or higher rate tax bands.

For example: You may have a large Capital Gains Tax bill from the sale of a business or buy-to-let property, which is taxed as income. Taking tax-free cash instead of a pension income will mean you don't have to pay more tax than you need to.

11.4.2 Less tax on death

There is no tax charge on untouched pension funds if you die. However, if you have taken the tax-free cash from your fund and want to pass on a lump sum, there is a 55% tax charge.

11.4.3 Flexibility

You do not have to treat all the phases of retirement the same. For example you can use one phase as a drawdown pension, the next as a joint life lifetime annuity and another as a single life annuity. You can adapt to your changing circumstances in retirement.

Most final salary schemes do not allow phased retirement.

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12 Special cases

12.1 More information or advice needed

This section flags some special circumstances you need to be aware of. You should seek extra information or independent financial advice if any of the following apply to you:

- Protected rights
- The state pension
- Pensions with transitional protection
- Small pension funds (less than £18,000)
- Large pension funds (over £1.5 million)
- If you are in serious ill health
- Final salary pensions
- If you are resident for tax overseas or have non-UK earnings

12.2 Be aware

12.2.1 Protected-rights

Protected-rights are not separate types of pension. They are the part of a pension governed by extra rules from the Department for Work and Pensions (DWP). If you have ever contracted-out of the State Second Pension (S2P) or SERPs you have a protected-rights pension fund.

There are a number of annoying quirks associated with protected rights. Fortunately, all the rules for protected-rights will be abolished on 6th April 2012.

12.2.2 The state pension

UK state pensions and social security benefits are complex. The Coalition government is attempting more reform which should reduce the complexity. As the latest changes have not been passed into law by Parliament we have not included them in this guide.

You can get information at: www.direct.gov.uk/en/Pensionsandretirementplanning/index.htm
The Pensions Service will provide a forecast of your state pension.

12.2.3 Transitional protection

There were major changes to pension rules in April 2006 and April 2011. Some pensions, which were disadvantaged by the new rules, were granted transitional relief.

For example: If you have a pre-2006 pension with a tax-free cash lump sum entitlement of more than 25% of fund, this should be protected.

12.2.4 Small funds: Less than £18,000

If the total value of all your pension benefits is less than £18,000 you are not forced to buy an income with your pension funds. You can take the usual 25% of the fund as a tax-free lump sum. The remaining benefits are paid out as a lump sum less any income tax via the PAYE system.

If you have different pension funds they must all be taken with 12 months of each other.

The £18,000 limit includes any pension funds already *crystallised*.

For example: Mr Retiree has a fund worth £4,000. Unfortunately Mr Retiree cannot take this as a taxed lump sum because he has already crystallised another pension fund worth £15,000.

12.2.5 Large funds: £1.5 million or more

If the total value of all your pensions is, or is likely to be, more than the Lifetime Allowance, you need to take specialist independent financial advice. There are extra tax charges to pay if you crystallise your pensions and you are over the Lifetime Allowance.

The Lifetime Allowance is currently £1.8 million, but will drop to £1.5 million on 6th April 2012. There is protection available if you act in time to protect your benefits from the drop in the Lifetime Allowance in April 2012.

Most pensions are easy to value, as you take the fund value provided by the pension provider. You exclude any state pension benefits but include:

- Protected-rights funds.
- All pensions already in payment are valued at 25 X the annual income.

Final salary benefits are valued as follows:

- Before retirement: 20 X annual pension built up to date before tax-free cash is taken.
- When in payment: 25 X annual pension

There are a few quirky rules about tax-free cash, which is why we recommend you seek extra information or advice.

12.2.6 Serious ill health

If you have been diagnosed with a terminal illness, any un-crystallised pension funds can be paid out as a lump sum; provided the following conditions are met:

- The pension scheme receives written confirmation from a registered medical practitioner that you are expected to live for less than one year.
- You have not used up all your Lifetime Allowance (see the section on large funds below).
- All of your rights in the pension scheme are paid out as part of the lump sum.
- All your rights in the pension scheme are non-protected rights.

Before the age of 75 there is no tax charge on the lump sum. If the serious ill-health lump sum is paid after your 75th birthday there is a tax-charge equal to 55% of the lump sum. This is deducted from the payment and paid direct to HMRC by the pension scheme.

12.2.7 Final salary schemes

In a final salary pension the income is paid according to the scheme rules. The member has few, if any, decisions to make if they take the pension at the scheme's normal retirement age.

Different schemes have their own rules (within the limits set by the HMRC) on matters such as:

- When and how the pension income is paid.
- The amount of tax-free cash paid.
- Spouse's and dependent's pensions
- Early or late retirement adjustments to your benefits.

Therefore it is a good idea to have an up-to-date copy of the scheme's rules before you make any retirement decisions.

12.2.8 Resident for tax overseas or non-UK earnings

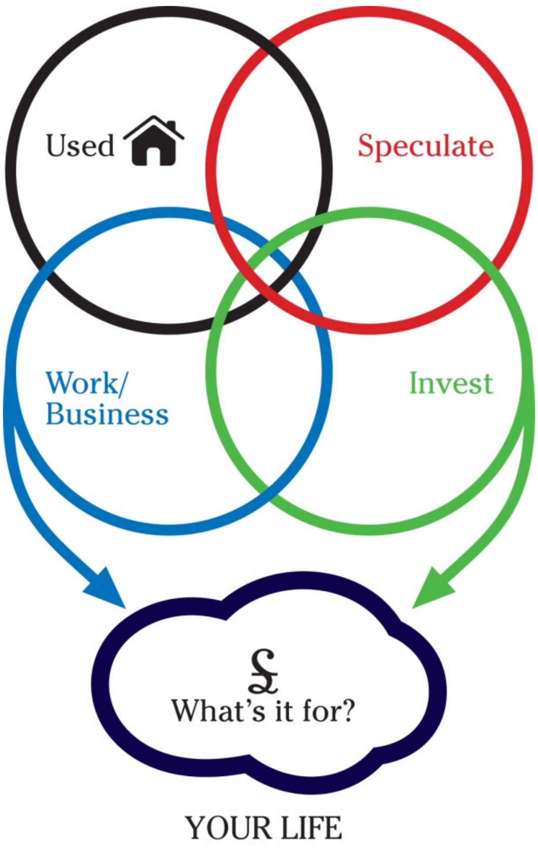
It is possible to make contributions to a UK pension (up to the £3,600 a year limit) for five tax-years after you cease being resident for UK tax purposes.

There are other rules for non-residents and those with non-UK earnings who wish to make pension contributions. You should seek specialist tax advice if this applies to you.

13 Life is for living: How financial planning can help

With so many different factors to think about, you need a sure way of navigating through all the options. A sure-footed financial planning philosophy helps you do this.

At PageRussell we see your money as part of four interlocking spheres:



Work and business: Your employment, business or a final salary pension scheme would fall into this sphere.

Used: This sphere contains assets which do not provide an income and you do not want to sell to fund your lifestyle. Your home would normally sit in this sphere.

Investment and savings: A true investment is one where there is a direct link between the volatility risk taken and the long-term return you receive. This linkage is important as it is a crucial lever in your financial planning.

Speculation: This is an "investment" with no link between risk and reward. Some people call this a "fun fund" or "racing money". We believe it is OK to speculate, provided you know you are doing so and have the resources to bear a 100% loss. Many unwitting speculators think they are investing.

Our job is to create or preserve enough wealth in your investments to replace any shortfalls when your work or business life stops, without drawing down on used assets or speculating.

The three "Ts" – target, time, tolerance
We create your financial plan by quantifying your lifestyle goals into a target amount of cash over a time scale. We then work out how much money you have now. Then, based on how much money you plan to save and your tolerance to investment risk, we determine whether or not you are on track to meet your goals. We make recommendations to minimise your investment costs and tax.

This means the main levers you can use to achieve your lifestyle targets are:

- Change how much you save: that's changing your earnings/spending or both.
- Change the mix (or asset allocation) of your investments.
- Change your target amount.
- Change your time scale.
- Protect yourself.

These are all levers that <u>you</u> control, not us, which is why financial planning has to be a collaborative process.

To find out more call us on 0845 345 6282 or go to: www.pagerussell.co.uk.

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14 Jargon buster

Actuary	A person who calculates the answers to problems, such as "What return do I need to replace the benefits in my final salary scheme?"
Asset class	A broad type of investment (such as UK company shares).
Asset allocation (or investment mix)	The mix of different investment types in your portfolio. PageRussell believes that identifying and then maintaining the correct asset allocation is the key to a successful investment experience.
Cash Equivalent Transfer Value (CETV)	The lump sum value in today's terms of the member's benefits in a pension scheme. It assumes the member is leaving service and makes a transfer of the fund to an alternative pension. CETV are commonly used for valuing final salary pensions on transfer or divorce.
Crystallisation	When you start to take money from a pension you crystallise the benefits. There are important differences in how crystallised and un-crystallised pension funds are treated for tax.
Deferred benefits (also called frozen benefits)	When you leave a *final salary* pension scheme after more than 2 years membership, your benefits are preserved in the scheme. Many people call these "frozen" benefits, but this is inaccurate now schemes have to increase the benefits in line with inflation (CPI) up to 5% max.
Defined benefit pension	See Final Salary pension
Defined contribution pension	An occupational (work-based) pension where only the amount contributed by the employer is defined. The benefits received by the employee will depend on how the fund grows and annuity rates when the employees decides to start taking their benefits.
Earnings	"UK relevant earnings" as defined by the HM Revenue & Customs.
Equity release	An arrangement where a homeowner can take cash from the value of their home without having to move. This can be done either by a loan or by selling all or part of the house.
Financial year	1st April to 31st March (do not confuse with the tax-year)
Final salary pension	The employee's eventual benefits are defined and usually dependent on the length of service with the employer and the final salary. The risk of providing the benefits falls with sponsoring employer. As the cost of providing these benefits has increased in recent years, so the number of employers offering these schemes has reduced.
Group Personal Pension (GPP) or Group Stakeholder Pension	A type of defined contribution pension based on the personal pension rules. The "group" terms means that most contributions will be paid from payroll by the employer to the pension provider. A stakeholder is a simple form of personal pension with a maximum charge.
Guarantee annuity rates (GAR)	Some pension plans (usually started before 1990) include a guarantee that the annuity offered by the pension company at the retirement age for the plan, will not fall below a guaranteed rate. As inflation and annuity rates have fallen the rates offered on the open market have fallen below the guaranteed rates so GARs are now valuable benefits.
HM Revenue & Customs (HMRC)	This arm of the UK government is part of HM Treasury. It was known as the Inland Revenue before it was merged with HM Customs & Excise.

Independent Financial Adviser (IFA)	Independent Financial Advisers advise on investment products from the whole market and are unrestricted in the advice they give.
Individual Savings Account (ISA)	A tax-efficient savings and investment contract for the medium and long term. Stocks & Shares ISAs are available to anyone aged 18 or over. Cash ISAs are available to anyone aged 16 or over
Liquidity	The term used to describe how easy it is to buy or sell an investment. Liquidity is important because you'll need to be able to sell the underlying investment to pay out your pension cash or income.
Non-protected rights	The portion of a pension that is not subject to the extra rules from the Department for Work and Pensions that covers protected right.
Open market option annuity	At retirement, your current pension provider will normally offer you the chance to buy a regular pension income with them. You have the right to take your pension fund and buy an annuity on the open market.
Pay As You Earn (PAYE)	The most common way of paying income tax. Your employer or pension provider deducts the income tax at source and pays it direct to HMRC based on a tax code provided by them.
Pension	In this guide "pensions" means the accumulated benefits in a UK-based scheme subject to HMRC rules defined in the Registered Pension Schemes Manual. Any income paid out is called "pension income".
Product provider	The bank, insurance company or investment fund manager, or other firm, which provides the financial product we advise on or arrange.
Protected-rights	Pension benefits governed by an extra layer of rules from the Department for Work and Pensions. Usually protected rights funds have come from the National Insurance Contributions rebates resulting from contracting-out of the State Second Pension (was SERPS). The rules surrounding protected rights will be abolished in April 2012.
Scheme pension	(In this Client guide) a scheme pension paid to a member of a *defined contribution pension* with less than 20 members.
Self-Assessment	As an alternative to PAYE, you account for your tax after the end of the tax-year and pay any extra tax due by 31st January after the tax-year.
Small Self-Administered Scheme (SSAS)	A pension scheme where a group of people can pool their pension funds to make their own investments in shares, commercial property or make loans to third parties, such as their company.
Self-Invested Pension (SIPP)	A personal pension fund which an individual can use to make their own investments in shares, commercial property.
Tax-free cash or Pension Commencement Lump Sum (PCLS)	When you crystallise a pension it is usually possible to take a cash lump sum (this does not apply to the state pension). HMRC call this payment a Pension Commencement Lump Sum (PCLS). In this guide we stick to the more traditional name of tax-free cash.
Tax-year	6th April to 5th April (do not confuse with the financial year dates)
Trust deed	The legal documents which sets out how the pension scheme is run. The trust deed must meet various HMRC rules to become a Registered Pension Scheme and benefit from the tax-advantages of a pension.