

# THE 2010 Age Change

## The minimum retirement age is increasing to 55.

### What will it mean to you?

On 6 April 2010, the minimum age at which pension scheme members will be able to access their pension benefits will jump from 50 to 55.

From this date it will no longer be possible for you to receive an income or a tax-free lump sum from a private pension before your 55th birthday, except on the grounds of very poor health.

Find out how this could affect you, personally.

**DON'T GET CAUGHT OUT  
BY THE AGE CHANGE**

## How does this affect me?

The minimum retirement age change will have different implications depending on your age:

- **Aged 50 – 54 on 5 April 2010:** If you will be aged between 50 and 54 on 5 April 2010 and wish to access your pension benefits in the near future you must do so before 6 April 2010, otherwise you will lose access to your pension for up to five years.
- **Under 50 on 5 April 2010:** If you won't reach age 50 until after 5 April 2010, but were planning to retire before your 55th birthday you will now have to wait until age 55 to receive an income or take a tax-free lump sum from your pension.

## Other things on your mind? **Make your pension work for you**

In these tough economic times you may feel that there are more pressing issues to be concerned about than thinking about your pension:

### 1. Redundancy and unemployment

You may think this might never happen to you, that you are pretty safe. But if your luck changes, you may need an additional source of income to help you through a difficult period.

### 2. Property slump

The sale of your house might not realise as much money as you hoped, and you may need to raise an additional lump sum to make up the shortfall.

### 3. Saving for a special event

You want to give your daughter the wedding of her dreams, but your savings have fallen short, and the bank won't lend you any money. It would be good to have another way of obtaining the lump sum that you need.

It's important to remember that your pension is a valuable source of funds and can be used to provide a regular income and a lump sum should this be required, based on your personal circumstances and retirement aspirations.

However, you should remember that taking pension benefits early is likely to lead to a reduction in the total benefits you receive in the long term and should only be considered if there is a genuine need to access your pension. Taking a lump sum from your pension will reduce the income you can receive.

For these reasons it's important to receive professional advice from a financial adviser before deciding to access your pension.

## I am going to be between 50 and 54 on 5 April 2010.

### What options do I have?

First of all it's not too late to act. You still have time to seek financial advice and make any necessary changes before 6 April 2010. There are a number of options available to you – three of the most common options are listed below:

#### 1. Buy an annuity

You could choose to buy an annuity before the change in the minimum retirement age takes place. An annuity provides a regular income, usually for the rest of your life, in return for a lump sum payment – typically from a pension plan.

Different types of annuity are available. You can choose to receive an income that increases over time or continues paying an income to your spouse or civil partner should you die. The type of annuity selected will affect the level of income payable.

#### 2. Transfer to an income drawdown plan

If you need to withdraw an income from your pension, an income drawdown plan could achieve this for you. This is an alternative to buying an annuity.

It allows you to take an income from all or part of your pension while leaving the rest invested. You can increase and decrease your income, within set limits, to suit your needs. You can also take up to a quarter of the plan as a tax-free lump sum, in return for a lower income.

If you already have an income drawdown plan, now might be the time to make it work for you.

It is important to remember that there are greater risks involved with income drawdown than annuities, as the income is not guaranteed, and they are not suitable for everyone.

#### 3. Do nothing

You may be sure you won't need to access your money until age 55.

### So what do I need to consider?

## Things to consider

You don't need to retire to take pension benefits. You can take an income or a lump sum from your pension and still continue to work.

However, it is vital that you consider the impact that taking a lump sum from your pension could have on your income later in retirement, when the possibility of earning is no longer an option.

You should only consider taking your pension benefits early if you have a real need to access them – and you should get financial advice before deciding to do anything.

**I will be under age 50 on 5 April 2010.**

### Surely the changes won't affect me?

You may not feel any urgency to act on this change just yet. But your retirement aspirations might not allow you to ignore this. After all, you may now have an additional five years to wait before you can touch your pension.

If you are planning to retire or take a lump sum from your pension plan before age 55 for a specific purpose you will now have to reconsider your long-term planning for your financial future.

Even if you are not age 50 by 5 April 2010 it makes sense to plan your financial future now.

By seeking impartial financial advice, you can help ensure that you are not caught out by this change.

## Case study examples: making the changes a reality

The following case studies examine the impact of the increase in the minimum retirement age in various situations, showing the possible effect on retirement planning. The people in the examples have been made up for the benefit of this leaflet and are fictitious.

Accessing pension benefits early is likely to reduce the overall benefits payable to you. A full assessment of your needs must be performed and key features, including a projection which is personal to your circumstances, must be provided by your financial adviser if a recommendation for an investment product is made.

### Case study 1: Saving for a special event

#### The individual

Andrew is 51 and a self-employed electrician. He has been paying into a personal pension for the last 15 years.

#### The issue

Andrew's daughter is getting married in August 2010. Andrew and his wife Rachel have been saving money in an ISA for the last year, to help pay for their daughter's wedding. Unfortunately they are several thousand pounds short.

#### The options:

- Cut back their expenditure, allowing them to put more in their ISA.
- Ask relatives to help contribute.
- Take out a loan for the amount required.
- Andrew could switch his pension savings to an income drawdown plan – allowing him to withdraw a tax-free lump sum to help towards the cost of the wedding – this would only be possible if Andrew switched to a drawdown plan before 6 April 2010.

#### Consequences

If Andrew opts to take out a lump sum, he needs to be aware that the value of his pension savings will be reduced, meaning that he will receive a lower income in the future, whether through the drawdown plan or by purchasing an annuity. Money saved on not taking out a loan could be reinvested in his plan to boost his pension savings back up.

Investment returns may fluctuate and are not guaranteed. The price of units can go down as well as up.

## Case study 2: Under 50 on 5 April 2010

### The individual

Laura is 48 and a senior partner in a law firm, with two self invested personal pensions (SIPPs).

### The issue

Laura would like to retire in a few years – both of her SIPPs currently have a selected retirement age of 52. Laura anticipates doing some consultancy work once she has retired but would also like to draw an income from her pension plans in order to maintain the lifestyle she is accustomed to.

### The options:

Unfortunately Laura is too young to access her pensions at age 52, as she won't reach 50 until after 6 April 2010. Laura will now have to wait until her 55th birthday, which is three years later than planned.

### Consequences

By being made aware of the changes Laura knows she is likely to have to defer her retirement by a few years, unless she has non-pension assets that can provide an income and so still make her goal of retiring at 52 possible.

- Alternatively Tony could consolidate all his pension plans into a single income drawdown plan, allowing him to receive an additional lump sum and an income. He would be able to vary his income over time to reflect changes to his circumstances. He could also pay all or some of his redundancy pay into the plan, get immediate tax relief on it, and so receive a bigger lump sum and income.

### Consequences

Tony is unaware that from 6 April 2010 the minimum age to access pension savings will increase to age 55, and could miss the short window of opportunity to sort out his pension arrangements and either buy an annuity or transfer to a drawdown plan.

He could end up accepting redundancy, and then find that he can't touch his pension for several more years. If he can't find part-time work he could face financial difficulties.

While these case studies highlight some of the situations people may find themselves in, they are not a complete or exhaustive list. It is important that you seek individual financial advice to find out the best possible solution to your financial objectives.

A full assessment of your needs must be performed, to make sure that you are on track to get the most out of your pension. It is important to remember that financial advisers may charge for their services, and should confirm any costs at the outset.

## Case study 3: Redundancy

### The individual

Tony is 52, and works for a small manufacturing firm, Engineering Precision (EP) Ltd. He is considering moving to work part-time or retiring next year. Tony is a member of his employer's group personal pension scheme, and has two personal pensions from a period of self-employment.

### The issue

EP has seen its order book dry-up as a consequence of the recession and is looking to downsize its workforce. Tony has been offered a generous voluntary redundancy package, and is considering taking it. He then plans to look for a part-time job and use his accumulated pension savings to top up his income.

### The options:

- Tony can use his accumulated pension savings to buy an annuity – giving him a regular income, and a tax-free lump sum if required, but he would not have the flexibility to vary his income if circumstances changed.

## What do you want from your pension benefits?

No matter your age, there are a number of things that you need to think about when deciding what you want from your pension benefits:

### When do you want to retire?

Depending on your **age** and **when you want to retire**, you will have to shape your retirement planning around this.

- If you are 50–54 on or before 5 April 2010 you will have to act quickly if you want to access your pension in the near future.
- If you will be younger than 50 on 5 April 2010 but are hoping to retire at 50, you will have to reconsider your plans as you will now have an additional five years to wait.

## How much will you need in retirement?

It is important to maintain your current standard of living throughout your retirement.

However, did you know that one in three pensioners in the UK currently live in poverty, with the UK having the fourth highest level of poverty amongst over 65's in Europe.<sup>1</sup>

The cost of living for retired people is also increasing at a higher rate than the national average. This is because older households spend a greater percentage of their expenditure on housing costs, fuel and goods and services.<sup>2</sup>

Another worrying fact in a recent survey from JPMorgan revealed that almost 20% of those surveyed thought that a lump sum of £50,000 would be enough to provide a pension of £25,000 a year. And almost 60% said they had no idea how much they would need. In fact, the lump sum that you would actually need to achieve this sum is in the region of £375,000!<sup>3</sup>

So don't underestimate what you need for your retirement, taking time out now to plan ahead will save you from disappointment and unnecessary worry in the future.

## Be prepared – don't miss out.

## What to do next...

If you are concerned by anything that you have read, you should contact your financial adviser straight away to discuss your financial future, and review your existing pension plans to make sure that you are on track to get the most out of your pension.

- If you are 50 on or before 5 April 2010, it is important to remember that you still have time to take financial advice, and make any changes to your pension plans before 6 April 2010.
- If you are not going to be 50 until after 5 April 2010, remember that your retirement planning could be affected by this change, and now is the time to plan long term for your financial future.

**Impartial advice can help ensure that you're not caught out by this change.**

<sup>1</sup> Figures from the European Commission's statistical agency Eurostat: EUROPA – Joint Report on Social Protection and Social Inclusion 2009.

<sup>2</sup> Money Marketing. Cost of living rising faster for retirees. By Samantha Cossick. 8 July 2009.

<sup>3</sup> JPMorgan Asset Management. May 2008 – Changing Fortunes: Setting guidelines for financial well being in the UK.

