Expert investment, retirement, and financial planning advice for individuals and families all over the UK

Pension v ISA v Property
Pension Transfer Considerations
Drawdown Income
Annuity Income

RETIREMENT INCOME OPTIONS
YOUR CHOICES EXPLAINED

Pension v ISA v Property

	Personal Pension	ISA	Residential Property
Investment Amounts	Up to 100% of gross salary per annum subject to a maximum of £40,000 (2015/16 tax year). Carry forward rules allow up to £180,000 in 2015/16. Non-earners can pay a maximum of £3,600pa gross.	£15,240 per annum	There is no restriction on the initial investment amount. However getting into property is expensive, as a minimum deposit of several £1,000's could be required in order to secure a buy-to-let mortgage.
Tax treatment of investment	Basic rate tax rebate paid into your pension on initial investment. Higher rate tax payers can claim higher rate relief via their tax return.	No tax incentives on initial investment	The purchase price and costs of purchasing the property such as solicitor and mortgage fees can be taken off the eventual sale proceeds to reduce the amount of capital gains tax payable on gains made.
Investment options	Full access to a wide range of individual shares, collective investment funds or even property within SIPPs.	Full access to a wide range of individual shares or collective investment funds.	The type or number of properties you may own is completely unrestricted although individual lenders may have their own limitations.
Tax Treatment on investments	No income or capital gains tax is payable at any point. However tax credits on dividends cannot be reclaimed.	No income or capital gains tax is payable at any point. However tax credits on dividends cannot be reclaimed.	Annual income earned after accounting for ongoing costs will be taxable under normal income tax rules.
Access to money	No access to the money until your selected retirement age, which can be anytime from age 55.	Full access to the money at any time.	The property would need to be sold in order to realise any equity tied up in the property. Even then it may be a bad or difficult time to sell in uncertain market conditions and so access might be further restricted.

	Personal Pension	ISA	Residential Property
Tax Implications on withdrawal	25% of the value of the fund can be taken as a tax-free cash lump sum. The remainder must be used to purchase an income that would be subject to normal income tax rules.	No tax implications on withdrawal.	On sale, the property will be subject to normal capital gains tax rules.
Options on retirement	Drawdown or Annuity are the main two options although there are others available.	In theory the possibilities are endless as there are no restrictions on when or how much you can withdraw, and what use the money is put to on withdrawal.	Retain the property and continue to receive an income, or sell the property to utilise the capital.
Other Considerations	If you wish to invest for retirement using an ISA then the likelihood of investing more than £1,270 per month or £15,240 per annum is important. If you wish to contribute more than this towards your retirement then a pension or alternative investment product will need to be used as a top-up to the ISA.		
	Buying an investment property is not difficult if you have the funds to make the purchase. Having the means to pay off the mortgage in time for retirement may be more difficult.		
	You would also need to consider who would manage the property, as this is a specialist role. Managing the property through retirement and in to old age may not be so desirable.		
	Having your money in a pension forces you to save for retirement, as you have no access to the money until then. This form of discipline is an important benefit of this type of plan compared to say, an ISA where you may have that permanent temptation to access the money. These can act as both advantages and disadvantages of either type of plan.		

Pension Transfer Considerations

When considering whether to transfer your pension to an alternative provider there are many factors you should take into account. There can be many different reasons for you to transfer your pensions but only an analysis of the pros and cons of each option will highlight which is best for you. Here are some of the factors to consider assuming you are comparing stakeholder, personal or self invested pensions:

1) What is the current fund value of your plan and what is the transfer value? Is there a difference? If the transfer value is lower, why is this?

2) If there are penalties for transferring, will these end any time soon?

3) Do you have certain guarantees or other product features such as waiver of premium on your existing plan?

4) What are the charges associated with the existing plan? These can be difficult to decipher with some older plans so deeper investigation is sometimes required.

5) What are the charges on the new plan you are considering?

6) What are the investment options on your existing plan? Are there any quality funds amongst the range that could perform well in the future?

7) What are the investment options for your potential new plan? Are there quality funds amongst these? Does the new plan offer a wider range of investments such as shares, ETFs, Investment Trusts etc.

8) If you are closer to retirement you may wish to consider what options the new provider can offer for when you wish to take an income from your pension. These are considered further below.

9) Ditto for your current provider. Do they offer a range of retirement income options for you to select?

10) Can you easily move from either your current or potential new pension provider when you come to retire and want to take your income from an alternative annuity or drawdown provider for example?

This is not an exhaustive list but hopefully gives you some idea of the factors to take into account.

The consideration of transferring more complex pensions such as those offered by employers e.g. final salary (defined benefit), or money purchase (defined contribution) should take into account many more factors than those highlighted above.

In any case, independent financial advice should be taken before making a decision on any pension transfers.

Drawdown Income

Flexi Access Drawdown, as of 6 April 2015 is now available to all. Essentially it opens up your Pension to allow you to access any amount from your Pension up to the full value.

However, any money drawn from the Pension after tax free cash has been taken will be taxed as normal income. So, if for example you draw £50,000 from your Pension, and you have earnings of £30,000 in this 2015/16 tax year, your total income for 2015/16 will be £80,000 and you will be taxed accordingly.

So the withdrawal strategy must be carefully thought out. You might also have to pay emergency tax on your Pension withdrawal which will seriously impact the amount you receive immediately. You will be able to claim it back later, although it does still impact on short term cashflow.

Finally, your new Pension contribution allowance will fall from £40,000 per annum to £10,000 per annum if you take your Pension into Flexi Access Drawdown.

Having said all of that, used in the right way, with a planned withdrawal strategy it can be incredibly useful and a welcome alternative to annuities.

Annuity Income

The alternative to income drawdown when looking for ways to make the most of your pension savings to generate an income for you is to buy an annuity. Traditionally this is the more conventional of the two options, however annuity rates i.e. the level of income being offered in exchange for your Pension savings are much lower than they have been in the past.

There are a wide variety of options to choose from when buying an annuity. Indeed buying an annuity is exactly what you do. When you reach the point at which you want to convert your pension savings into an income for life, you essentially take your pension pot and look for an annuity to buy. As with any shopping experience, you will find the best rates only if you shop around. Do not accept your current pension provider's offer of an annuity income in return for your pension savings as the best or only option open to you.

When choosing what type of annuity to buy there are many choices to be made and, again, you should seek independent financial advice before finalising these. Annuities are set in stone once bought. You cannot change them or transfer them. Once you make your choice you are stuck with it for life! Deciding upon a level or increasing income, guaranteed period, spouse's pension, impaired or healthy annuity etc. will all make a significant difference to the income you eventually receive.

Jaskarn Pawar is an Independent Financial Planner, for more information or advice on creating a financial plan, contact:

01604 211234 me@investorprofile.co.uk www.investorprofile.co.uk