Cambridge University Assistants' Contributory Pension Scheme (CPS)

Hybrid Section

Factsheet 7 – Defined contribution (DC) retirement guide

When the time comes for you to retire, you can withdraw the value of your fund in full, take partial withdrawals, draw a regular income from your fund or purchase an annuity – a series of regular payments for the rest of your life. There are a range of annuity options which will be available to you at retirement giving you control over features such as the level of increase you will receive in payment, and whether any dependant's benefits are attached to your pension. The more money you have been able to build up, the larger your income in retirement. You will also have the option to take some of your savings as a tax-free cash lump sum at retirement – subject to limits imposed by Her Majesty's Revenue and Customs.

APPROACHING RETIREMENT

If you are:

- 10 years or more from retirement: Check if you will have enough income to retire on. This information can be found on the annual benefit statement which is sent to you every year. This statement shows the pension you can expect to receive were you to purchase an annuity at your selected retirement date.
- Less than 10 years from retirement: If you are in one of the lifestyle strategies such as the Default Lifestyle Strategy, then your retirement account will start to be de-risked automatically. This means your money will be moved from riskier investments such as stocks and shares to less risky ones such as bonds and cash to protect the benefits you have built up. If you are planning on working beyond your selected retirement date or planning on retiring early then you should inform the SEI Master Trust to ensure you are invested in accordance with your retirement plans.
- From age 55: You can go online and check the amount of pension you will obtain if you were to buy an annuity immediately. You can also see the different types of annuities available and their cost. An annuity is another name for the pension income which you will receive until your death. This is typically paid by an insurance company and different companies will offer different rates.
- 6 months before retirement: You will receive documents to allow you to withdraw the value of your fund in full, take partial withdrawals, draw a regular income from your fund or purchase an annuity. The documents will include details on any fees payable by you, including one off or regular withdrawals, the cost of buying an annuity and of the Annuity Desk which can provide you with advice on the annuity most appropriate for you.
- You should note that you are not obliged to use the Annuity Desk or to use your fund for flexi-access drawdown purposes and that there will be fees payable for these services.

TAKING YOUR PENSION INCOME

Assuming you have decided to stop working and retire, you will need to make a few decisions.

As long as you are at least 55, it is your decision how you take the money. You can:

1. Take full / partial withdrawal(s)
2. Take it as a series of income payments (known as flexi-access drawdown)
3. Buy an annuity

Tax free cash lump sum and taxable income: Most pension schemes, including the SEI Master Trust, typically allow 25% of the pension pot to be taken as a tax free lump sum. You can choose to use it to meet income needs, purchase an additional annuity, save it for a rainy day or spend it.

Whatever of the three options above you choose, you will pay tax at your marginal rate on the remainder. This means that you will need to consider the tax implications when deciding how and when to withdraw your pension funds, especially if this will put you into a higher tax bracket.

Annuity type: An annuity or a pension is the guaranteed income you can buy with your DC account at retirement. More details on the types of annuities available are set out overleaf. If you choose to purchase an annuity this will normally be payable monthly for life and will be taxed as earned income through the PAYE system. Your annuity provider will take responsibility for paying it, and details of the procedure for annuity set-up will be provided closer to the time of your retirement.

Flexi-Access Drawdown: If you prefer, you can take partial withdrawals of your pension savings as a form of income. This option is referred to as flexi access drawdown and may be suitable for those who want to keep their money invested for longer and are comfortable in taking the risk of a fall in value.

This option is available through the SEI Master Trust or alternatively you can transfer your benefits to a personal pension plan such as a Self-Invested Personal Pension (SIPP) plan.

If you are approaching retirement and are interested in finding out more about Flexi-Access drawdown from the SEI Master Trust, please contact seic@capita.co.uk

PENSION WISE – FREE GUIDANCE AT RETIREMENT

The Government introduced 'Pension Wise' with effect from April 2015. Pension Wise is a free and impartial service designed to help you understand what your retirement choices are and how they work. Before making any decision regarding your pension benefits, we recommend that you contact Pension Wise in the first instance. You'll be able to get help on the Pension Wise website, over the telephone or face-to-face about:

- what you can do with your DC pension fund
- the different pension types and how they work
- what is tax-free and what is not

To find out more about Pension Wise, go the following website: www.pensionwise.gov.uk or telephone them on: 0300 330 1001

If after consulting with Pension Wise you are still unsure what to do you should consider taking advice from an independent financial adviser to determine the most appropriate option for you.

MORE THAN ONE PENSION

If you have had more than one job during your working life then you may find you have membership of more than one pension scheme. You can choose to take pensions separately from each of these schemes or combine them together. To transfer your benefits into/out of the SEI Master Trust, you will need to obtain relevant documents from both the SEI Master Trust and the external pension scheme.

Please note that before you transfer you should check if there are any guarantees built into your pension scheme as you may lose them after a transfer.

ANNUITY OPTIONS

If you decide to purchase an annuity, you will have a number of options. It may be appropriate for you to take independent advice before you make your selection.

You can choose to purchase an annuity that increases in payment to provide some degree of protection against inflation, or one that does not increase in payment.

You may also want to purchase an annuity that includes some provision for your dependants following your death, for instance a pension payable to your surviving spouse, registered civil partner or dependent children.

Another way of providing for your dependants is to purchase a pension with a guarantee period of, for example, five years. This guarantee period runs from the date of your retirement and, should you die within the period, the remaining pension payments that would have been payable to you in the period are paid to your spouse, registered civil partner or other dependants.

Insurers may take into account your health status at your retirement date. Therefore, if you have underlying health conditions, some insurers may consider this and provide a higher level of pension.

Remember, buying an annuity is not the only option available to you. If you do decide that purchasing an annuity is the right choice for you, you should get independent financial advice as you need to consider your needs in retirement as well as your other non-pension savings before you buy the annuity.

OTHER CONSIDERATIONS

Before you purchase an annuity and/or make withdrawals from your DC pension, you should be aware of some of the potential issues:

1. Annuity purchases are currently non-reversible, meaning they are usually set in stone once you have purchased them. Ensure that you are comfortable with the choices you make. For example, buying an annuity too early can leave you with a small income for the rest of your life.

2. Unless you have paid for a guarantee or joint annuity, your annuity will stop paying out once you die. You also need to decide what to do with your entitlement to the tax-free lump sum at the same time as you buy your annuity.

3. Annuities are sold by insurance companies and are therefore backed by the Financial Services Compensation Scheme (FSCS) which will ensure you get at least 90% of your money back in case the insurance company was to become insolvent.

4. If considering making full or partial withdrawals you should consider your longer term income needs especially any costs which you may have to incur to meet your health care needs as you grow older

5. If taking a full withdrawal you may have to pay higher tax than if you withdraw your cash gradually

6. Taking a full or partial withdrawal may mean you cannot pay as much as you wish into your pension plans if you are still working. This is particularly relevant if it means that you cannot receive the full pension contribution from the employer

MORE INFORMATION

For further information on your retirement options, please contact an independent financial adviser and/or visit one of the websites listed below.

Pension Wise:
www.pensionwise.gov.uk

Money Advice Service from the FSA:
www.moneyadviceservice.org.uk/

The Pensions Advice Service (TPAS):
www.pensionsadvisoryservice.org.uk/