

## Magenta's Retirement Toolkit

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### Retirement is Changing

Retirement is no longer an end of anything. Instead, it's the beginning of any number of new chapters and the opening of countless new doors and opportunities.

However, at Magenta, we know that the transition from working full time into retirement is hard. As well as having many financial decisions to make, often people are overwhelmed by a sense of loneliness and lack of purpose. This toolkit aims to give you some tips to help.

### Understand your future

If you are approaching retirement, you will be thinking about what your life after work will look like. Some people will relish the prospect, but some are nervous. Primarily, this is because they don't know whether they can really afford to stop work, or what they will do with their time when they have. The good news is that when you stop working, watching daytime TV or knitting are not your only options! While you may have a desire to do both those things, other possibilities - a career change, new business start up, part time work, volunteering and hobbies are endless.

### Firstly though, how does retirement look financially?

A personal lifetime cashflow forecast can help determine what you need for the future, taking into account your current and future income and expenditure, assets and liabilities.

Magenta specialises in retirement planning and pension options, enabling you to understand when and how you should draw funds from your pensions and how this will impact on your future plans.

### Get a state pension forecast

Do you know how much the state will provide and when?

State retirement age has altered for men and women and more importantly, the amount you will get has changed too.

The state pension is a key element of your retirement income. To fully understand your position and what you are entitled to, visit [www.gov.uk](http://www.gov.uk) to get your up to date figures. It's all available online – once you register.



## Types of pension funds

Throughout our working lives it is not unusual to have many different employments, accumulating different pension funds with a variety of different providers.

This leads to huge amounts of paperwork and often it's hard to see the detail of what you have, what it could give you in retirement and the options available to you.

There are two main types of pension fund:

- **Defined Contribution** - a pension pot based on how much is paid in.
- **Defined Benefit** - a pension pot based on your salary and how long you've worked for your employer.

As you approach a date where you may no longer work, or will need to supplement a reduced income, knowing full details of your pension benefits will be vital.

In some cases it may be worth combining the funds as you near the date when you want to start drawing retirement benefits, to ensure that you have access to all the new flexibility rules.

## Taxation and pension income

When you take money from your pension pot, 25% is tax free. The other 75% is taxable.

Your tax-free amount doesn't use up any of your Personal Allowance (the amount of income you don't have to pay tax on.) The amount of tax you pay depends on your total income for the year and your tax rate.

If you take the tax free lump sum of 25% from the fund at the start of your retirement, you can spend or save it as you wish. With the rest of the fund, you have 3 options for income (listed above), or you can leave the fund completely untouched if you want to.

**Example 1:** Your pot is £100,000 and you take £25,000 – this is your tax-free lump sum. You buy an annuity or take an income from the remaining £75,000 which pays you £3,000 a year. This income is taxable.

**Example 2:** Your pot is £100,000 and you take £1,000 every month – £250 of this is tax free. The remaining £750 is taxable if your personal allowance has been used or tax free if not.

## Defined Contribution plans

With the introduction of pension freedoms in 2015 came a variety of options to draw your defined contribution pension funds from age 55 onwards.

**In principle there are 3 options:**

1. Leave your whole fund untouched.
2. Choose to take a guaranteed income.
3. Take an adjustable income from your pot, leaving it invested (drawdown).

This **FILM** should help you understand the options.

## Defined Benefit plans

These types of plans will guarantee you an income based on your salary.

Your choices about ways to take these pensions will be more limited, typically offering a lump sum plus pension income, however, they offer a very high degree of security.

You should obtain full details of all your benefits and cash equivalent transfer value (CETV) and seek advice if you would like to discuss your options further.

## Tax efficient pension planning

The good news is, that with careful financial planning, it is possible to manage retirement income very efficiently and by combining pension income, with income from investments and other sources, you could be a nil or lower rate tax payer.

As retirement planning can be complex, it is easy to choose pension income options which seem sensible, but result in too much tax being paid when added to other income. Taking advice is vital and this may need to involve both your financial planner and tax adviser/accountant.

Further information about the tax payable on pensions can be found **here**.

If you have a significant amount in pension wrappers, or a large annual income built up within a defined benefit scheme, you may also be impacted by the **Lifetime Allowance (LTA)**. The LTA is a cap on the amount you can tax-efficiently build up in pensions and currently sits at £1.03 million. Further information on the LTA and how it may affect you can be **found here**.

## Shop around, get advice, avoid mistakes

Just before your normal retirement age (the one chosen when you started your private pension) you will receive a letter, detailing the options available to you. **You don't have to take your pension benefits from your current provider.**

Whether your choice is to purchase a guaranteed income, opt for flexible income or even defer your choice, make sure you shop around and take advice or guidance.

Research shows that 8 out of 10 people would have benefited from switching providers (Financial Conduct Authority, Thematic Review of Annuities) giving them greater income or cash to spend in their retirement.

Typically, shopping around benefits those looking to purchase an annuity – in particular if you have any health problems or take medication, you may qualify for an enhanced annuity rate and therefore more income. The Pensions Advisory Service have some really good free guidance [here](#).

## Pensions and Inheritance Tax

Funds held in personal pensions and drawdown plans are free from Inheritance Tax.

This means that for some people with large value assets, it may be better to spend other, taxable funds first and leave the pension funds until last. **Proper pension planning is key to reducing tax!**

## Preparing emotionally for retirement

The majority of people look forward to retirement and welcome it as a chance to do the things they have been dreaming about. For many there's also the opportunity to enjoy life at a more leisurely pace after a long, arduous career. However, for some it may have come earlier than they thought due to physical limitations of their work or ill health.

For everyone there's likely to be a mixture of feelings and thoughts as they start this new chapter in their lives. **As well as doing financial planning, undertaking some life planning is also vitally important.**

## Tips for the big day and how to avoid depression

For many people, work brings a sense of usefulness and purpose. There is a lifelong desire to be a good provider for one's family, an achiever and a useful part of society.

Often, our sense of self is tied up very strongly in what we do for a living; and with retirement, a sense of loss can occur. Make sure that you:

- **Stay active.** Do things to keep both mind and body active such taking a class, participating in sports, doing volunteer work or even taking a part-time job.
- **Strengthen social and family ties.** Visit your children or offer to babysit your grandchildren. Make time to participate in activities with friends. Visit your local community centre and seek out activities that you enjoy so you can make new friends.
- **Find a new sense of purpose.** Maybe you can do volunteer work related to your former career? Or maybe you've always cared deeply about a particular cause? Finding a new way to provide meaning for your life will restore the sense of purpose that you once found through work.
- **Fulfil your dreams.** Maybe you've always wanted to learn to play a musical instrument or perhaps to travel? Now is the perfect time. You have the freedom and you are still young enough to enjoy it. Go for it!
- **Develop a schedule.** When you are used to planning your entire day around your job, it can be quite disconcerting to go to having a totally unstructured day. Instead, set up a schedule for yourself, creating set times when you will do work around the house, exercise or do volunteer work.
- **Focus on your wellbeing.** Don't be negative, look for the positive things in life. Learn to meditate and every night before you go to bed try and think of 10 good things that have happened to you.
- **Try to grasp technology.** It's not the easiest of things but technology can really allow you to do a lot of things – it allows you to keep in touch with family all over the world and learn so many different things.

## Here's a few things to think about:

1. What does your social network look like? Could it be broader and is it enough? Entering retirement with only your family and your work network is a frequent cause of retirement depression.
2. How will you challenge yourself and keep your mind active? Will you still do some work – paid or unpaid? Could you get involved in a club and offer to help in your local community?
3. Still keen to learn? Does being a mature student or doing night classes seem attractive? There has been a boom in retirement learning and development services, such as University of the Third Age and Men's Sheds.
4. Have fun! We could all be retired now for several decades and this is a long time to be unhappy. Think about what you enjoy and plan to do it regularly.



# Talk to Magenta

We are happy to provide guidance over the telephone and offer a 20-30 minute free chat to help you understand more about your next steps.

When you are starting to think about retirement and your pension choices, it can be very easy to get bamboozled by the paperwork and make hasty decisions when under pressure from deadlines. These may not be the best for you in the long term.

**Once you have worked out what you need to live on, our retirement advice can help you identify a sustainable level of withdrawals from your pension (assuming you want to take any money out at all) and suggest ways to invest for the long term in retirement.**

Magenta can help you make sense of the huge decisions you will be facing at this time, so give us a call for a confidential chat and see how we can help.

### **Technical and coaching support when you need it**

You can be reassured that at Magenta we have all the technical experience and relevant specialist qualifications to help you with the maze of pension options you will face. But we won't just help with the finances, we can help you with the transition to your retirement years and allay and worries you may have. You can trust us to understand.

So get in touch and we can start to discuss your options and what's best for you.