Affinity Water

Pension freedoms

In April 2015 the Government introduced its Pension Freedoms legislation. Overnight, this gave pension scheme members a huge range of options regarding what they could do with their pension pot from age 55. The new freedoms apply to DC and DB pensions.

Before pension freedoms, people couldn't access their funds under the age of 65 and could only take a tax-free lump sum and/or purchase an insurance product to guarantee an income for life, known as an annuity.

What can I do now?

You can't do anything with your pension fund before you get to 55. Once you reach 55, you can continue contributing to your pension funds but if you choose to access all or part of your fund, you can:

- **buy an annuity** – this is where you use your pot to buy a guaranteed income for the rest of your life. It's essentially an insurance product and, like life insurance, the cost depends on your age and state of health. The cost of the annuity would increase if you want payments to continue to a partner in the event of your death or if you want payments to rise with inflation, for example.

  Buying an annuity gives you peace of mind that you will receive a pension regardless of how long you live. However, if you use these funds to purchase an annuity but die early, you would not receive any refund of the purchase cost to pass on to your family via inheritance

- **withdraw cash** – you can take some or all of your pension pot as cash, but the law allows only 25% of this to be tax-free. If you withdraw more than 25% of your pot, the money will be deemed to be income and you may be liable to pay income tax

- **move to an income drawdown scheme** – this is a product whereby you transfer your pot out of the Affinity Water Pension Plan but continue to invest it via another provider. You can draw from the pot to generate a regular income, with the expectation that your investments will continue to grow over time.

  As it is likely that you will withdraw more income from the pot than is replaced by investment returns, the pot would 'draw down' over time. The rate of this drawdown will depend on how much you take out and how much your investments increase/decrease. The fund is an asset that can be passed to others on your death, but the risk is that the drawdown occurs too quickly and the funds run out before you die.

It's possible to do a mix of these things. For example, you could withdraw 25% as tax free cash, move 50% to an income drawdown product and use the remaining 25% to buy an annuity.

Should I obtain financial advice?

Accessing your pension funds is a life-changing decision and it is strongly recommended that you obtain good independent financial advice before you do so. The decisions that you make at this time may be irreversible and may have significant tax and/or inheritance implications, so you should be absolutely sure that they're right for you in your particular circumstances.

Where can I find more information?

All information about the Plan and your Personal Account can be found at
www.affinitywaterpensions.co.uk