Retirement Options Procedure

The Markets in Financial Instruments Directive (MiFID) applied in the UK from November 2007, and was revised by MiFID II, which took effect in January 2018, to improve the functioning of financial markets in light of the financial crisis and to **strengthen investor protection.**

What this means for you is that the FCA now expects us to show you in writing what will happen to your pension fund should you start taking benefits from the plan (this normally means taking your 25% tax free cash (PCLS) and / or starting to take an income from your pension).

In the event of you wishing to take any monies from your pension, the following procedure would need to be followed.

Stage One - Initial Conversation with your Consultant

Before we start putting together the Retirement Options Report, your Financial Consultant needs to complete a Retirement Options factfind with you. This includes but is not limited to the following questions:

This stage may be done at a face to face meeting, or it may be done over the phone.

- Change in personal/financial circumstances (i.e. why are you now taking the income)
- Your heath (Good/Fair/Poor) – this may have an impact on the annuity rates we can obtain for you
- How much income do you anticipate needing from your pension to provide you with an income (this is so we can run a cashflow forecast so we can check the feasibility of this).
- Do you expect any changes in your income in the future – this could include any windfalls you expect
- You MUST also complete a new risk questionnaire before we can proceed any further. Bear in mind you are now considering taking money out of your pension fund and investments, rather than paying money in.

Stage Two - The Retirement Options Report

From this initial conversation with your Consultant, we will be in a position to put together the Retirement Options Report for you. This does not detail any personalised recommendations for you, it is a factual, thought provoking document to assist you in making the decision regarding taking money out of your pension fund.

Your current situation – including your objectives and details of your existing pensions

Your attitude to risk and capacity for loss – this section of the report will detail the outcome of the new risk questionnaire which you have completed, and your Capacity for Loss in line with the risk questionnaire outcome.

Pension information – this covers off generic details about pensions and how they work

Income Dangers – This section of the report is crucial to understand the risks associated with taking money out of your pension or investments. The main risks to consider in this regard are summarised as below:

- Sequencing Risk (also known as pound cost ravaging) – Pound cost averaging can apply when you are in the accumulation phase of your investment, by paying in monthly and benefiting from dips in the markets where you are able to purchase units at a lower cost to when the market is higher. Pound cost ravaging is effectively the opposite of this – instead of paying money in, you are taking money out on a monthly basis. In an ideal world you want to sell these units when the market is relatively high to result in the sale of less units, rather than selling when the market is low and having to sell more units to fund the withdrawal.
- Longevity Risk – this is the risk of running out of money with several years of income still required.
- Inflation Risk – High inflation can damage the buying power of your fund. Think about your weekly food shop. If your bill comes to £100 today, like for like 20 years ago the bill wouldn't have been so high – this is the effect of inflation reducing the buying power of your money.

Options – this details the solutions available for you to consider. With the introduction of the Pensions Freedoms Reforms in 2016, you are now able to take virtually whatever money you would like out of your pension fund whereas pre-2016 there were restrictions in place to prevent investors from doing so.

How could these work for you? – Here we provide you with examples of the incomes you could expect to receive if you opted for these options. This is where the details provided in the 'Factfind' conversation really come into play so we can make these illustrations as personalised as possible for you.

Investment Options – these next pages detail the variety of investment options that may be available to you. These are summarised as follows:

- Smoothing funds, which are designed to reduce the impact of volatility on your portfolio
- Passive funds, are the least expensive investment choice that we offer at Face to Face Finance. As a rule, these are reviewed on a quarterly basis by the fund manager and any changes are made accordingly at this time.
- Active funds, are similar to passive funds, apart from the fund manager/s can change the underlying holdings whenever they feel fit. Because of this, the fund charges are higher.
- Our portfolios at Face to Face Finance, these are put together in house by our investment committee and are reviewed on a quarterly basis.

Charges – For our existing customers, this service falls into part of our ongoing service agreement with you.

For new customers to Face to Face Finance, to provide the Retirement Options process up to this stage, we charge £750.00. If you proceed with your Financial Consultants recommendation, our implementation cost is 3% of the amount invested initially, subject to a minimum charge of £750.00.

We would waive the £750.00 Report fee in this instance and only receive the implementation fee. The payment could either be taken directly from you, or taken directly from your investment upon receipt by the policy provider.

Our ongoing management charge is 1% of the fund value, payable on a monthly basis. This would be if you elected for a ‘smoothing solution, an active fund solution, or our own portfolio’.

If you were to opt for a passive solution, we would charge 0.8% of the fund value, payable on a monthly basis.

Reviews – this is probably the most crucial stage. Not only will your Financial Consultant review the performance of your investment with you, you will review the income you are taking from your policy and assess the sustainability of this. You will be provided with an updated Cash-Flow forecast at each meeting.

Stage Three - Retirement Options Meeting

You may decide you would like a meeting with your Financial Consultant to go through the options detailed in the report with you. This can be arranged via the office. Alternatively, you may decide that you would prefer a telephone call to go through the report, and any questions you may have.

Once you are happy you understand the contents of the report, it can then be signed and the ‘black and white’ copy returned to our office.

During this conversation, you will reach a conclusion as to what income you require from your fund, be it a one-off lump sum or regular payments.

Stage Four - Retirement Options Confirmation Letter

Once we receive the signed Retirement Options Report back from you, your Financial Consultant will put together a Retirement Options Confirmation letter for you.

This will summarise and confirm the actions to be taken moving forwards.

Upon receipt, please read through this letter carefully to ensure the instructions documented are as you wish. Only upon receipt of this signed confirmation letter back from you will we proceed to action the income payment/s from your Pension policy.

If you are looking to take just the tax-free cash element of your pension or a regular income from your policy, we would be able to produce the Retirement Options Report and Confirmation Letter as part of Stage Two. For any additional taxable payments, these stages must be broken down and treated separately.

Anticipated Timescale

Please allow a minimum of least 15 working days **FROM** the date the life office has received your request / paperwork (if required), for the payment to be made into your bank account or for income to start to avoid disappointment.

How will I be taxed?

You are entitled to 25% of your pension fund value as tax free cash. For example, on a fund of £100,000, you can take £25,000 completely tax free. (A small number of pensions allow more than 25% tax free cash to be taken, your Face to Face Consultant would make you aware if this was the case).

The remaining fund is taxable as earned income, at your marginal rate of income tax which would be 20%, 40% or even possibly 45% if an emergency tax code was used.

If you are taking a lump sum that will be subject to tax, this will be added to your current income and be taxed at source (before being paid to you) at your marginal rate of income tax. Although not guaranteed, if your Pension provider does not hold a tax code on file for you, you are likely to pay 45% (emergency rate) tax on the payment.

You would then have to claim back the difference in tax that you have paid and the amount you should have paid (if any). To reclaim the tax deducted you will need to complete a HM Revenue & Customs form called a P53Z. This form is available from, and should be submitted to HMRC.

When setting up monthly income, the first few payments may be inconsistent with your expectation. This is whilst the provider obtains the correct tax code from HMRC.

Summary

Should you wish to commence the process or have any questions, please contact the office on 01603 625100 or email info@ftof-finance.co.uk