



# THE ROUGH GUIDE to Retirement

THE PERSONAL FINANCE SERIES



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with:



**Legal &  
General**



## A note from Emma

*"Having written about money issues for almost twenty years, I know that retirement brings many opportunities – along with a number of financial challenges. Saving for retirement can seem a daunting prospect, and the financial jargon, particularly around pensions, can be confusing. But planning for retirement needn't be difficult. New pension rules have given savers far more options about how they can use their retirement savings. These changes are to be welcomed, but they also mean that you now have more decisions to make.*

***The Rough Guide to Retirement*** – the fourth in the ***Rough Guide to Personal Finance*** series – explains the available options clearly and simply for when you eventually stop working. It breaks down the process into manageable steps, so you can understand the key choices you need to make towards ensuring a happy, healthy and financially secure retirement."

### NAVIGATING THIS EBOOK

We've highlighted handy Top Tips, text boxes, infographics and tables so you can pick out useful information that's relevant to you, or delve deeper by reading through each chapter. Any word or phrase that is coloured and underlined has a hyperlink, which connects to other parts of the guide or to external websites (see Colour Key below).

#### COLOUR KEY:

blue hyperlinks: Click to access useful resources for further guidance.

purple hyperlinks: Click to navigate to the Jargon Buster.

orange text underlined: Click to move to other parts of the guide.

Note that words coloured orange but not underlined do not have hyperlinks.

📧 Visit [www.roughguidefinance.com](http://www.roughguidefinance.com) to subscribe to *The Rough Guide to Personal Finance* series.

**THE ROUGH GUIDE  
TO  
RETIREMENT**

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**Dr. Nigel Wilson, CEO, Legal & General**

# Foreword

Legal & General has teamed up with Rough Guides to create this new and much-needed book.

At first glance, travel and personal finance seem worlds apart, as do our two organizations. But dig a little deeper and a common purpose emerges: visiting new countries and sorting out personal finances are both, to a greater or lesser extent, **journeys of discovery**.

Over the past twenty years, Rough Guides has provided independent and reliable guides to countries and regions across the world. I and my family have used them on many occasions and have discovered and learned about new places as a result – they've enabled us do things which we might not otherwise have done, like visiting Myanmar (Burma) and South America.

We want *The Rough Guide to Personal Finance* series to achieve the same result by acting both as a **prompt to get started on the financial planning path** and to serve as a reference throughout the different stages of our lives.

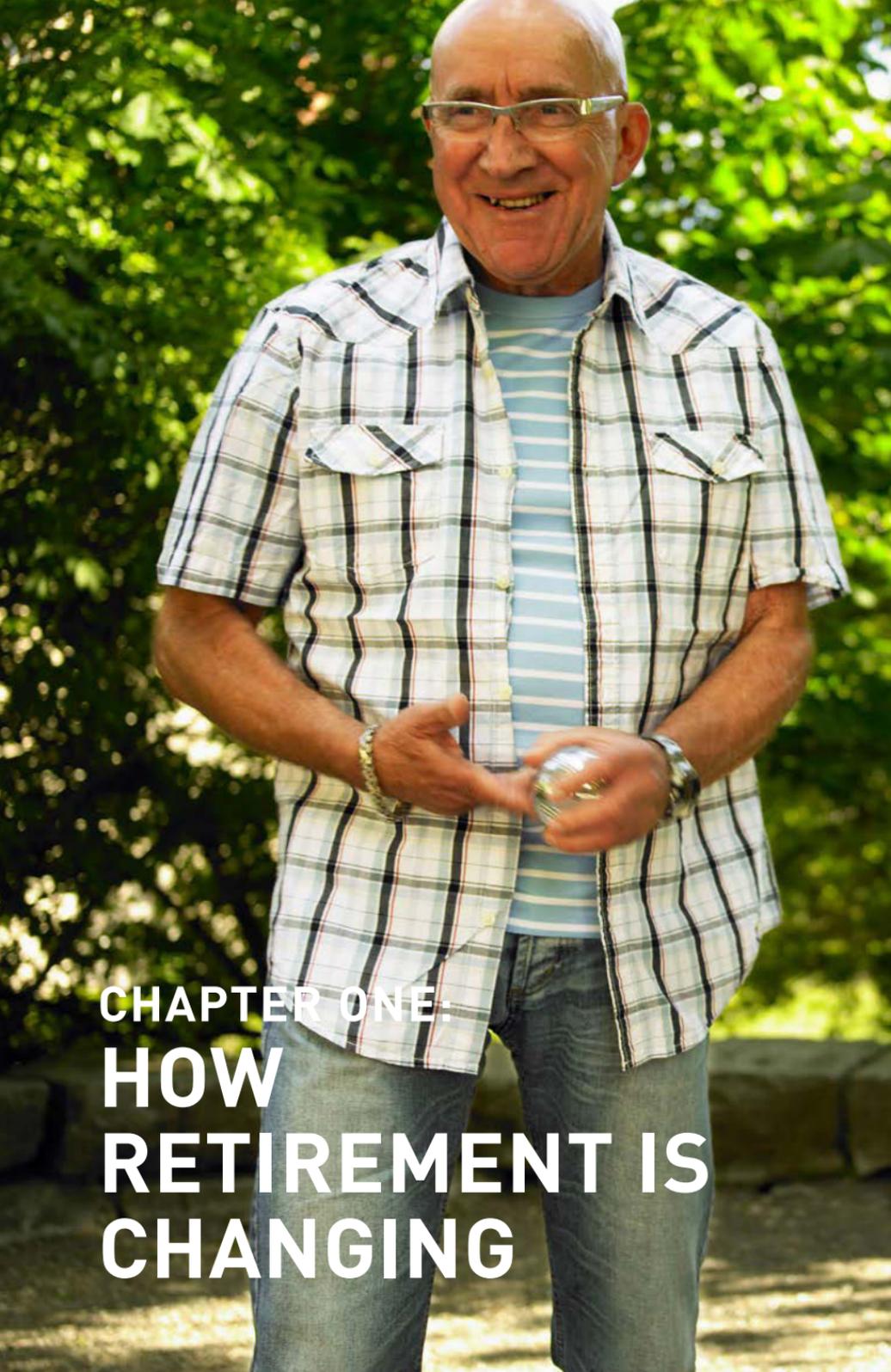
We are ambitious – our intended audience is everyone. A young person's decision on the purchase of a pension plan is as important as how someone nearing retirement should spend and **invest** their pension pot. Too often, these crucial decisions are made with insufficient knowledge, information and guidance. Indeed, we devote more time and energy to planning holidays than our financial future.

*The Rough Guide to Personal Finance* series was commissioned to help fill that gap. The series will cover the key events of life and is firmly independent: the authors of each ebook have been selected by Rough Guides and are **respected personal finance writers**. They have been chosen for their expertise, personal experience and no-nonsense approach to financial planning.

At Legal & General we make a promise that every day we will help make financial security easier to achieve. This Rough Guide is an important new tool to help us fulfil that promise. It is designed to **help you take control of your finances and plan for the future**, whatever financial life stage you are at.



Dr. Nigel Wilson  
CEO, Legal & General

A photograph of an older man with glasses, smiling and standing outdoors in front of green foliage. He is wearing a white and black plaid short-sleeved shirt over a light blue and white striped t-shirt, and blue jeans. He is holding a small, round, metallic object in his hands. The text 'CHAPTER ONE: HOW RETIREMENT IS CHANGING' is overlaid in the bottom left corner.

**CHAPTER ONE:  
HOW  
RETIREMENT IS  
CHANGING**

# A brave new pensions world

What's the first thing that springs to mind when you think about your retirement? The holiday of a lifetime, a chance to pursue your hobbies, more time to see your grandchildren – or panic that you may not be able to afford to retire at all?

Retirement has changed beyond recognition in recent years. The good news is that we are generally living longer and healthier lives so we should be able to enjoy a more active retirement; the bad news is that we need more substantial savings to fund retirement. Pensions are evolving to reflect these changes. Recent rules have transformed the way you can access your private pension savings, allowing you far greater control of your funds, and from April 2016 a new State Pension will be introduced.

 **TOP TIP** When you are young, it's easy to think that planning for the future is something you can put off until you're much older. But the sooner you start, the more money you are likely to finish up with when you retire. So it's well worth saving as soon as you get a regular income, ideally when you are still in your 20s.

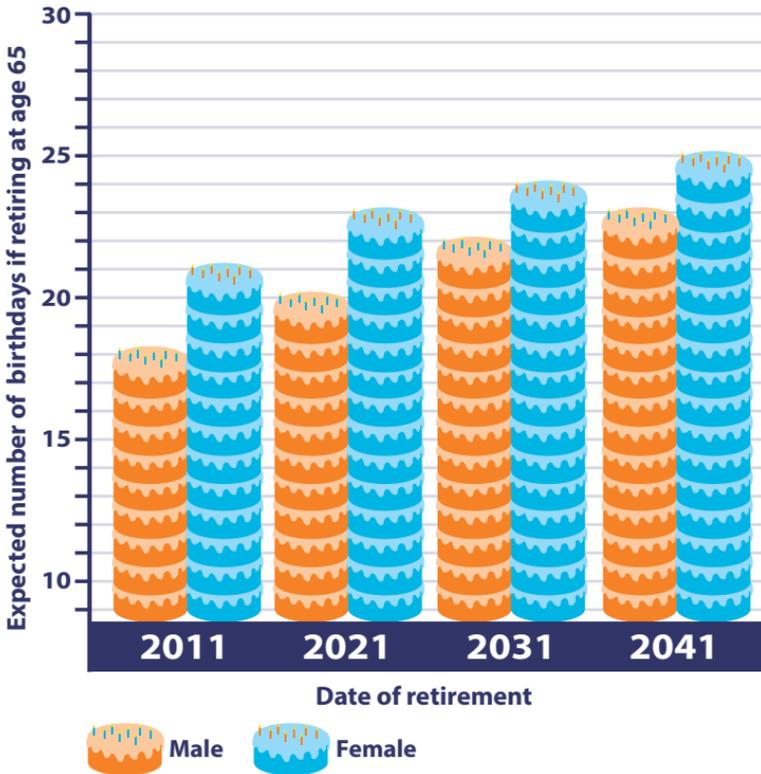
## Living longer

If you need evidence of how we're living longer, consider the number of cards the Queen now sends to those celebrating their 100th birthday. In 2014, a total of 7,517 centenarians received a congratulatory card, compared with around 3,000 in 1980. Of course, not everyone will live to celebrate their 100th birthday. But, on average, you are likely to live far longer than your parents or grandparents.

Many people still underestimate how long they are likely to live. The [How long will your retirement last?](#) chart gives a clearer picture, and shows how many years you may expect to live beyond retirement. This should be a key part of your retirement plans.

 **TOP TIP** [Office for National Statistics \(ONS\)](#) projections suggest that life expectancy will continue to rise, so if you're still many years away from retirement, you will need to take this into account. Not only will it affect how much money you will need for your retirement, but it may affect the age at which you are able to retire – and receive your State Pension.

## HOW LONG WILL YOUR RETIREMENT LAST?



Source: [ONS](#)

## Your income in retirement

Gone are the days when people could simply rely on the state to provide for them in retirement. The State Pension is still a valuable benefit, and for many it will be the bedrock of their finances in retirement, but it's important to recognize that this is a basic safety net. To maintain a similar lifestyle to the one you have now you're going to have to supplement the **State Pension** with your own savings. This can be done via company pensions, private pensions and other savings and **investments** (for more on these, see [Chapter Two](#)).

Before you start looking at other ways of making up the shortfall it's worth knowing exactly what you will get from the state – it may well be more than you think.

### How the State Pension works

The State Pension is a key part of the UK's "cradle to grave" welfare system. But most people have absolutely no idea what it will be worth, or when they will get it. This is probably due to the fact that the State Pension is one of the most complicated parts of the pension system.

Currently, the State Pension is made up of three different payments: the **Basic State Pension**, the **Additional State Pension** and **Pension Credit**. These will be replaced by a new flat-rate pension in April 2016 (see the **Changes to the State Pension** graphic). If you reach state pension age before then you'll stay on the current system; after this date you'll get the new single payment.

#### State Pension changes – who will benefit?

Higher earners may get more under the current system, as they may be entitled to a larger **Additional State Pension**. Low earners and those who work part-time, or have an incomplete **National Insurance (NI)** record, should get more under the new system.

### What will your State Pension be worth?

As the **Changes to the State Pension** graphic shows, how much your pension will be worth depends on the following:

- › Whether you retire under the old or new system
- › What **National Insurance (NI)** contributions you have made during your working life
- › Whether you are entitled to any means-tested "top-up" benefits

You may also get a higher State Pension if you opt to defer claiming until after your normal retirement age; for more on this, see **Chapter Three**. At around £151.25 a week, the new State Pension is likely to be worth almost £7,865 a year.

#### Qualifying for the full State Pension

To receive the full basic State Pension, you need to have paid **National Insurance** for at least thirty years. This will rise to 35 years under the new system. If you are unemployed, unable to work through ill health, or a carer (including those looking after young children) you can get National Insurance credits which count towards your State Pension. For more details, see [GOV.UK](http://GOV.UK).

 **TOP TIP** If you don't qualify for the full State Pension, you may be able to make additional voluntary **National Insurance** payments. Most advisers recommend making these contributions.

### When do you get your state pension?

It used to be simple: women got their State Pension at 60, men at the age of 65. But the age for women is now gradually rising so that by 2018 both men and women will receive their State Pension on their 65th birthday. After this, the retirement age for both men and women will rise – to 66 by 2020, and to 67 by 2026.

There are proposals to link the **State Pension Age** to longevity, so if we continue to live longer, the pension age will continue to rise. This means people now in their 20s may not get their State Pension until their 70s.

To find out exactly when you'll be able to receive your State Pension use the Government's online calculator at [GOV.UK](http://GOV.UK).

### Changes to the State Pension

From 6 April 2016, the current State Pension is changing to a new all-in-one system

The State Pension will be **no less than £151.25 per week for new retirees**. The actual amount will be set in Autumn 2015.

To be ELIGIBLE, you must be at State Pension age and:



- have paid National Insurance (NI) for 10 years while working, or
- received NI credits while unemployed or receiving benefits, or
- received NI credits while a parent or carer, or
- been covered by a spouse's NI contributions

STATE PENSION AGE will reach

**65**

for

by



NOVEMBER  
2018



It's already 65 for **MEN**.

it will increase for



to

**66**

in



OCTOBER  
2020

and beyond in line with life expectancy.

The **AMOUNT** you get depends on how long you have paid NI or accrued NI credits. You'll need **35 years of contributions** and/or credits to get the full amount. If you have less than 35 years you'll receive less, but you can choose voluntary NI payments to boost the amount.

Source: Legal & General

### The new pension rules

It isn't just the State Pension that is changing. This year there have been wide-ranging changes to company and private pensions too.

New "pension freedom" rules give most people the keys to unlock their pension pots earlier – and spend the money as they wish. However, these new rules won't apply to those employees with defined benefit pensions, including many working in the public sector. (If you are unsure what type of pension you have, see [Chapter Two](#)).

There are also changes to the way pensions are taxed when you die that, in some circumstances, will enable you to pass on your savings tax free. The Government hopes that this additional flexibility will make pensions more attractive and encourage more people to save for their retirement.

Of course, just because you can spend your pension, doesn't mean you should. Cashing in your pension could land you with an unexpected tax bill and leave you far worse off in retirement (see [Chapter Three](#), for more information on accessing pension funds).

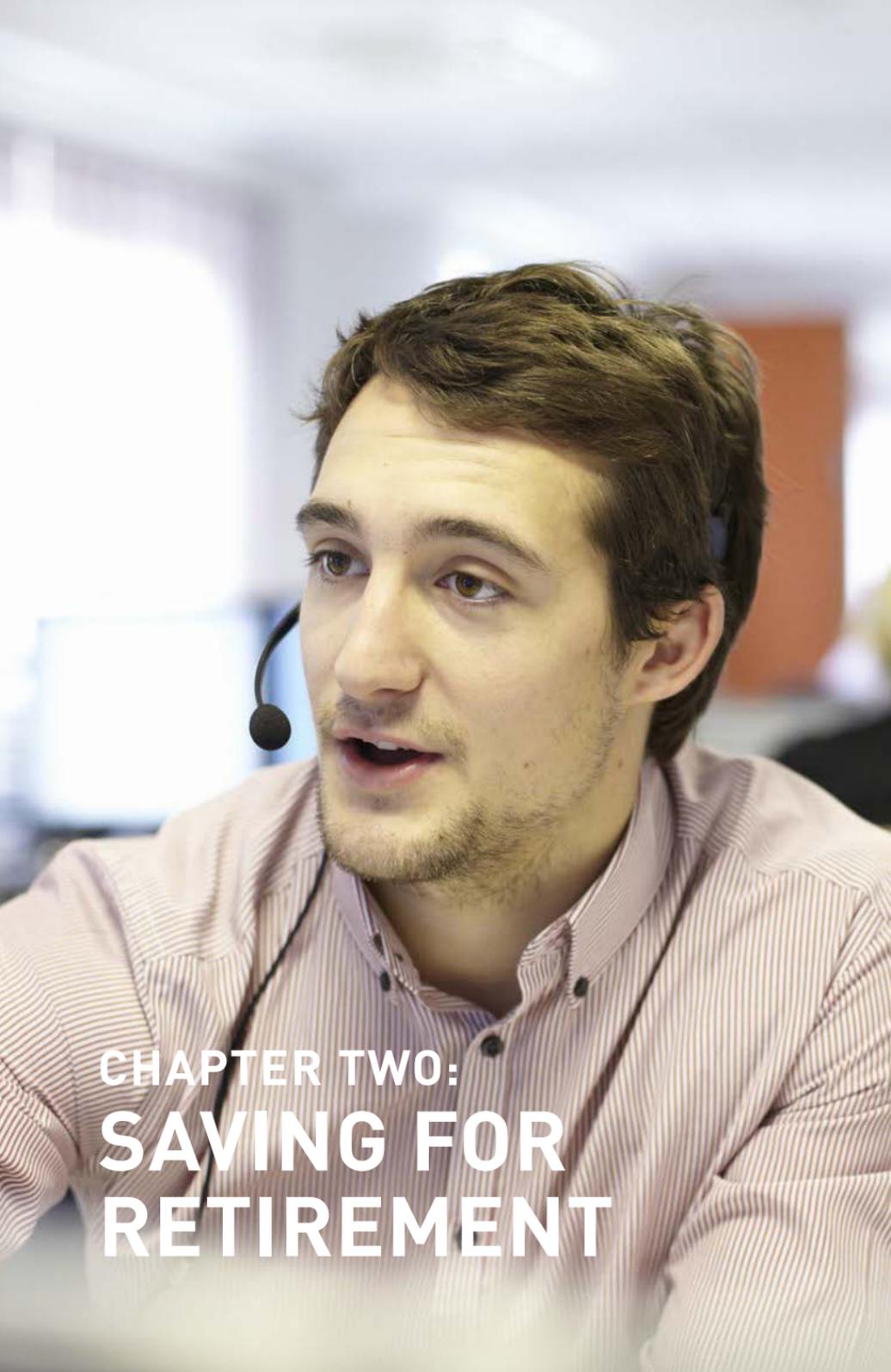
 **TOP TIP** On reaching [State Pension Age](#), make sure you claim any other benefits that you may be eligible for, such as free travel on buses and trains, and winter fuel payments. For some benefits, eligibility varies according to which part of the country you live in. To see what you may be able to claim see Citizens Advice, which has separate websites in [England](#) and [Wales](#), in [Scotland](#) and in [Northern Ireland](#).

#### New pension rules – the main changes

➤ **Access** You now have unrestricted access to your pension pot from the age of 55. Previously you could only cash in your pension pot in limited circumstances. However, pension schemes are not obliged to offer these new pension freedoms, so you may need to transfer funds to take advantage.

➤ **Retirement options** You don't have to use your pension pot to secure a retirement income, instead you can opt to keep it invested, and withdraw capital when you need it.

➤ **Inheritance** If you die before the age of 75, you can leave your pension to your dependents or beneficiaries tax-free. If you die after 75, they pay income tax on funds withdrawn from the pension, rather than a 55% "death tax".



CHAPTER TWO:  
**SAVING FOR  
RETIREMENT**

## Starting to save

There may be any number of reasons why you may not have started saving yet. You might have more immediate demands on your money, such as saving for a house or paying off a [mortgage](#), or you might think you can't save enough to make much of a difference. It could be that you find pensions confusing and a little bit boring! Besides, retirement may be years away – what's the rush? These are common misconceptions, but the fact is delaying starting your pension could affect your potential income at retirement.

## Understanding the basics

Pensions come in various different forms, such as workplace pensions, private pensions, [Self-Invested Personal Pensions \(SIPPs\)](#) or [stakeholder pensions](#). Whatever they're called it's important to remember that at its core a pension is simply a long-term savings plan that offers generous tax breaks.

The government wants to encourage us all to save for our old age, so it offers [tax relief](#) on contributions made into a pension plan. This means that a pension contribution of £100, effectively costs a taxpayer just £80. A higher-rate taxpayer can also benefit from higher-rate tax relief.

The downside is that you have to lock your money away until you are at least 55. If in the interim you lose your job, need to pay for urgent car repairs, or simply fancy a holiday you won't be able to withdraw the money you've paid into your pension pot.

## How tax relief works

If you have a [personal pension](#), your pension provider will automatically add the basic-rate [tax relief](#) to your savings, boosting them by 20% from day one. If you are a higher- or additional-rate taxpayer you have to claim the extra 20% or 25% tax relief through your annual self-assessment form.

The picture is slightly different with some workplace pensions. Here, if you make a £100 contribution this is taken directly from your salary. The tax you pay on the rest of your salary is reduced – by either 20%, 40% or 45% depending on what income tax you pay.

### How much to save

There are restrictions as to how much you can put into a pension. If you exceed these you won't get further [tax relief](#) and could be hit with tax charges. There are two main limits:

› **Annual allowance:** The standard amount you can put into your pension is up to £40,000 a year or your annual salary, whichever is lower. Those earning less than £3,600 – including non-earners – can put £3,600 into a pension each year and get tax relief on this contribution. From April 2016, those earning between £150,000 and £210,000 will see the allowance limit gradually reduce to £10,000 – the more you earn, the lower the allowance. Those who earn more than £210,000 a year, and those who've already accessed their pension savings, will only be able to put £10,000 a year into a pension.

› **Lifetime allowance:** This is £1.25 million (£1 million from April 2016). This is the total value of all your pension pots, not the amount put in. If you exceed this limit you may pay a tax charge of up to 55%. If you have a [defined benefit pension](#) there are complicated rules that calculate the value of your pension against this limit. If you are a higher earner with many years' service, check with your pension scheme trustees to ensure you don't breach this limit. In certain circumstances some people may have a different personal lifetime allowance. For example, people with larger pension pots may have been able to protect these sums, before this allowance was introduced.

Most people aren't going to be able to save anywhere near these limits. Recent research from [GOV.UK](#) indicated that twelve million people weren't saving enough for the future and consequently faced poorer living standards in retirement.

As a guide to what you should be saving, use the following calculation: halve the age you were when you first started saving for a pension. This is the proportion of your salary you should be saving for the rest of your working life to ensure a similar standard of living in retirement to the one you have now. Remember this figure includes both employers' contributions and tax relief. Use the pension calculator on [The Money Advice Service](#) website.

WHEN YOU START SAVING	PERCENTAGE OF SALARY NEEDED
In your 20s	10%
In your 30s	15%
In your 40s	20%

 **TOP TIP** It's important to start paying into your pension pot as soon as you can. You are never too young or too old to start. Putting money away establishes a saving habit; anything saved will boost your income in retirement.

### Workplace pensions

If your employer offers a company pension, you should make the most of this before looking at other savings options. Workplace pensions offer three big advantages:

- › In most cases employers also make contributions on your behalf. Often the more you put in, the more they put in too, up to certain limits. This can significantly boost the value of your pension. Think of these additional contributions as a pay rise – just one you can't collect until you retire.
- › Companies will automatically deduct contributions from your salary. This can be a pain-free way to save, as you don't have the opportunity to spend this money first. These contributions are usually a percentage of your salary, so if your pay goes up, so does the value of your pension contribution.
- › Thanks to “auto-enrolment” most employers will automatically enrol staff into a pension, unless they state otherwise.

#### Auto-Enrolment – what is it?

Between 2012 and 2018 all companies are obliged to enrol their staff into a pension scheme.

This process started with the UK's biggest companies but will eventually include all firms, even those that employ just one or two people.

As part of this scheme a company has to set up a pension plan, automatically deduct a contribution from their staff's wages, and pay into the pension itself. Rather than relying on employees to actively join the scheme, this works on the opposite principle – employees have to actively opt-out.

### Types of workplace pension

There are basically two main types. These are:

- › **Defined benefit pension:** The income you get in retirement depends on your final salary (or average earnings) and the length of time you've been a member of the pension scheme. This gives a degree of certainty. Typically, these schemes have paid out more generous pensions, particularly to those who've worked for the same organization for many years. They are now mostly available only to those working in the public sector, as most companies have found them too expensive to run.

## THE ROUGH GUIDE TO RETIREMENT

› **Defined contribution pension:** If you work for a private company you're likely to have a **defined contribution pension**. Your contributions and those made by your employer are **invested**. This can be a more flexible option for those who change jobs frequently. However, it is you not your employer who is taking on the **investment** risk. If **returns** are poor, this means a smaller pension pot as a result.

## Private pensions

If you are self-employed, don't work, or work for a company that doesn't yet offer a workplace pension you might need to look at private pensions. Those who have a company pension can also **invest** in these as well, though they should be careful that their total contributions don't breach **annual** or **lifetime limits**. There are several different types of private pension:

- › **Self-Invested Personal Pension (SIPP):** You have more choice how your money is **invested**. Most SIPPs offer the choice of over two thousand investment **funds**, plus the opportunity to invest in individual shares or commercial property. The latter, however, are generally suited to more experienced investors.
- › **Personal pension:** A pension fund run by insurers. Most modern versions also give investors the option to invest in a number of funds.
- › **Stakeholder pension:** This is a type of personal pension where annual charges were capped at 1.5%. Most pensions now have charges below this limit.

## How is your pension fund invested?

Whether you have a workplace or private pension, your money is typically **invested** in a broad spread of assets. This will include company shares, fixed interest securities – such as **bonds** and **gilts** – commercial property and cash.

Historically **shares** (also known as **equities**) have produced higher **returns** over the longer periods of time – typically ten years or more. As such they give you the best chance of growing your pension fund over your working life. But share prices can be volatile in the short-term, with prices going up and down on a daily basis.

 **TOP TIP** When you get within five years of retirement, it's worth considering switching from higher risk shares to less volatile ones, such as **bonds** and cash. These are likely to produce lower **investments** but steadier **returns**.

## ISAs and other savings

Many people also **invest** in a broad spread of other savings and **investments**. **Individual Savings Accounts (ISAs)** are particularly popular as they can be cashed in at any time, which makes them useful for saving towards a deposit on a home, as a contribution towards a child's education costs, or simply as a way of saving for the future.

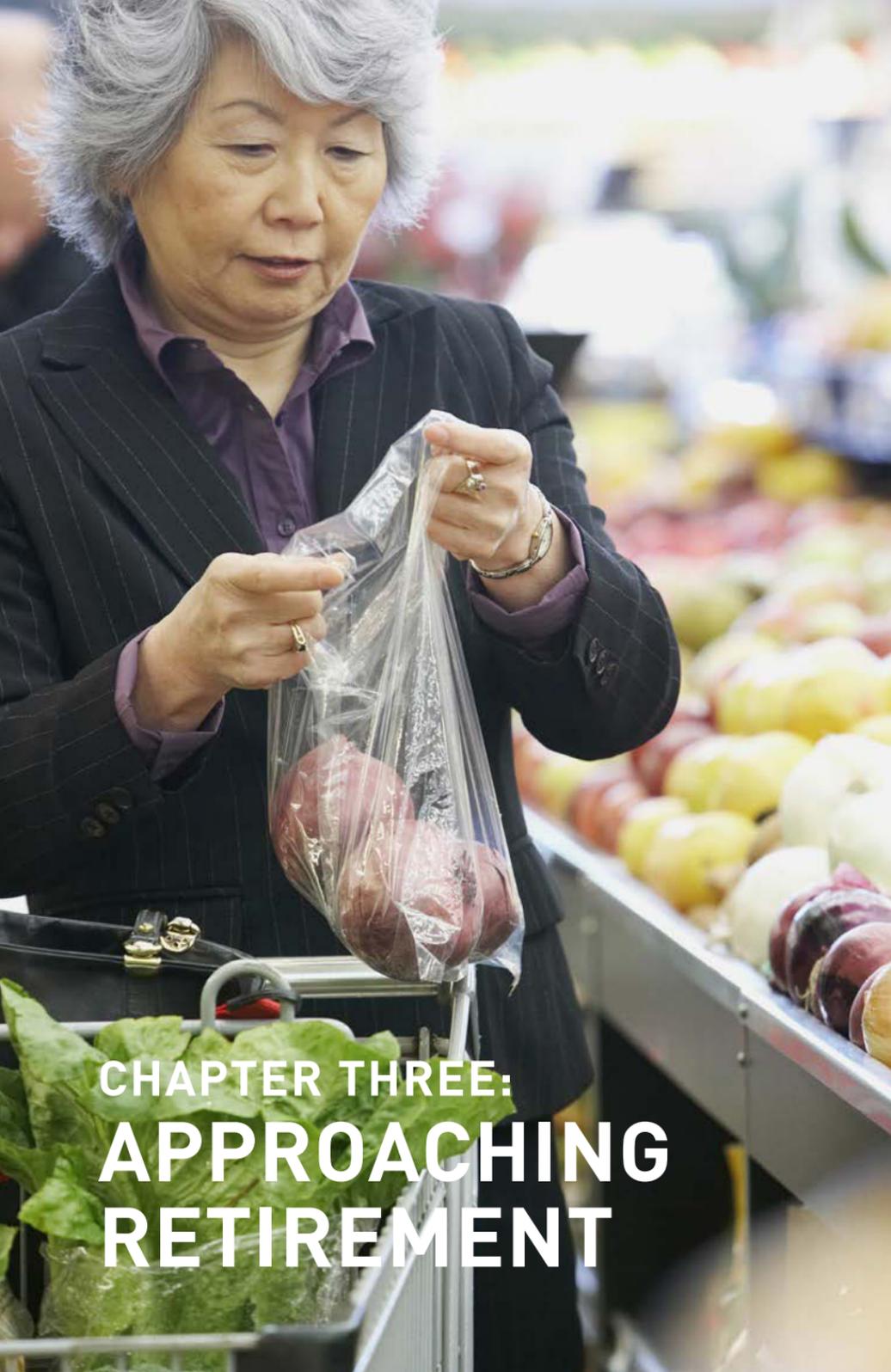
Like a pension, an ISA is simply a tax-wrapper – an investment that offers you protection from tax – allowing you to invest in cash savings accounts, **investment** funds, or a combination of both. ISAs don't offer the same upfront tax advantages as pensions, but you don't get taxed when you take money out of an ISA.

## The value of your home

House prices have risen strongly in recent decades, so it's not hard to see why some people are hoping the money they've made on their home will support them in retirement.

You certainly shouldn't discount the **equity** in your home, but it is unlikely to be a "get out of jail free" card when it comes to pension planning. It is often harder – and more expensive – to turn the notional "value" tied up in your home into a regular retirement income (see **Chapter Five**, for more information). Like other assets, property prices can be volatile. If housing prices fall shortly before you stop work, this could have a detrimental impact on your retirement. And you still need somewhere to live. If you are downsizing you may need to live in a substantially smaller home, or move to a different part of the country.

 **TOP TIP** Don't rely solely on the financial value of your home as your retirement plan. Think instead about building a diversified portfolio by also investing in pensions, ISAs and ordinary savings accounts.



CHAPTER THREE:  
**APPROACHING  
RETIREMENT**

## Are you ready to retire?

Many people worry that they won't be able to afford to retire when they'd like to, so it makes sense to take a look at your finances a few years before retirement. This is not just a chance to see what you've saved so far, but also an opportunity to think about how much money you're going to need and the best way to transform your savings into a regular income. Remember, you don't have to be retired to take money from your pension pot.

## Setting a retirement budget

To draw up a realistic budget, think about your current spending habits.

- › **Essential spending:** What you spend on housing, food, household bills and transport. Will these increase or decrease after retirement? Your commuting costs should fall, but heating bills can rise if you are at home in the day.
- › **Optional extras:** Holidays, entertaining, hobbies, eating out.
- › **Plan for the unexpected:** Those unexpected one-off costs, such as car repairs or a new boiler.

This will give you a clearer idea of the minimum you will need to cover essential bills, and what you'd ideally have for a more comfortable retirement. There's a useful budget planner tool on [The Money Advice Service](#) website.

### Pension forecasts

Once you've a good idea of what you'll need, it's important to have up-to-date forecasts of what your pensions and savings will be worth.

- › **State Pension:** This is still the bedrock of most people's retirement, but many don't know what they'll get, or when. To get a personalized forecast go to [GOV.UK](#).
- › **Company & private pensions:** List all the pension schemes you've contributed to. If you don't have a recent statement, contact the trustees of your company scheme or the provider running your **SIPP** or personal pension arrangement.

## PENSIONER BENEFITS



CHRISTMAS  
BONUS  
**£10**  
Paid with  
State Pension.



WINTER  
FUEL PAYMENT  
**£100-300**  
per winter.  
Paid from State  
Pension Age.



COLD  
WEATHER  
PAYMENT  
**£25**  
Paid if temperature  
drops to zero degrees  
for 7 days. Means tested.



FREE PRESCRIPTIONS  
worth  
**£8.20**  
per prescription.  
From age 60.



FREE TV LICENCE  
worth  
**£145.50**  
a year. From age 75.

PENSION CREDIT  
Can boost  
income up to  
**£151.20**  
for a single person  
per week.



TRAVEL CONCESSIONS  
Free or reduced bus and  
train travel in the UK.

Sources – click the links for details about eligibility: [Citizens Advice England](#), [Citizens Advice Wales](#), [Citizens Advice Scotland](#), [Citizens Advice Northern Ireland](#), [TV Licensing](#), [GOV.UK](#)

### Tracking down “lost” pensions

It's easy to lose track of older pensions if you've moved house, moved jobs, got married or divorced. Your old company or pension provider may have been taken over by another firm, changed its name or gone out of business. The following organizations can help you track down old **investments**:

- › [The Pension Tracing Service](#)
- › [The Unclaimed Assets Register](#) for private pensions, insurance policies and other investments.
- › [Companies House](#)
- › [National Insurance Contracted Out Pensions Helpline](#)
- › [Pension Protection Fund](#)

### Understanding your pension statement

Pension statements aren't always the easiest documents to understand. Most show you, in pounds and pence, what your fund is currently worth. A statement should include a projection, showing what your pension pot is likely to be worth at retirement. In addition, it may show what annual income this should produce if you bought an **annuity** with your pension pot. This will give you a good guide to what kind of income you can expect this pot to produce in retirement. It is also worth asking your pension provider for a “transfer value”, as this will take into account any exit penalties or fees that may be due if you were to transfer to another pension scheme.

If you have a **defined benefit pension**, the statement should show what annual income you will get at your normal retirement date. If you retire earlier, or later, you may get less or more.

Unless you have a defined benefit pension your statements generally show projections, not guaranteed sums. Poor investment conditions, or falling annuity rates, will mean lower **returns**. The closer you are to retirement the more accurate your statements are likely to be.

### Topping up any shortfall

If your pension and savings aren't on track to generate the income you'll need, there are a number of steps you can take:

- › **Save more:** Pensions may be the most cost-effective way to do this, as you qualify for **tax relief**.
- › **Top-up your State Pension:** If you don't qualify for a full State Pension you may be able to get a bigger pension by making additional **National Insurance (NI)** payments.

## THE ROUGH GUIDE TO RETIREMENT

- › **Work for longer:** You can either save more, or delay taking your company or private pension. This effectively shortens the number of years this fund will have to support you. You can also defer taking your State Pension.
- › **Scale back your plans:** You may have to adjust your retirement plans to meet a more realistic budget.

### Deferring your State Pension

Currently, for every year you defer your State Pension (at the current basic rate of £115.95 a week) it is increased by 10.4%. This means that if you defer taking it for a year, you will be able to claim £127.54 a week when you do retire; if you defer it for three years you'll receive a 30% uplift, bringing your weekly pension up to £150.73. It sounds a great deal, but you need to think about how you will cover living costs in the interim.

Also, you should bear in mind the amount of time it will take for this higher payment to be worth more than the pension you haven't taken – by not claiming for a year, for example, you've effectively not claimed £6,029.40 from the government, and it will take you nine years to recoup this money in your weekly pension. If you die in the interim you don't get these lost payments back. However, the longer you live beyond this, the better value this will be.

This option is far less attractive for those retiring after April 2016. The new flat-rate State Pension will only pay an extra 5.8% for each year you defer. This means you have to live a further nineteen years to be better off overall.

## Using your pension pot as an income

As you near retirement you need to think about how you will use your pension pot to support you once you stop working. Rather than paying money into your pension, you'll now start drawing money from it. New rules have given people far more flexibility as to how and when they do this. Most people face three main choices: an [annuity](#), a [drawdown plan](#) or simply cashing in their pension.

### Annuities

Until the new “pension freedom” rules, most people bought an [annuity](#) with their pension fund. This is an insurance product that pays a secure monthly income for life. The income received depends on your age and health; the younger you are the lower the income will be, as, statistically, it will pay out for longer. Annuities are generally “lifetime contracts” but there are some fixed-term plans available.

## APPROACHING RETIREMENT

With a lifetime contract, you can't switch providers so it's vital that you shop around for the most suitable product and best rate. Proposals to allow people to sell their annuity are expected in 2017.

### Types of annuity

Aside from a standard **annuity** you can opt for:

- › **Joint life annuity:** This continues to pay a pension to a spouse or registered civil partner after you die. The starting income is lower when compared to a standard annuity.
- › **Inflation-linked annuity:** The income rises each year – helping your money keep pace with inflation. Again, starting income is lower.
- › **Enhanced life annuity:** This pays a higher income to those in poor health or with some lifestyle conditions where your life expectancy is affected.
- › **Investment-linked annuity:** A base income is guaranteed, but this could rise if linked **investments** perform well.

It is possible to **combine** these types of annuity, for example an inflation-linked joint life annuity. It's also always worth telling the annuity provider about any medical conditions that you have or have had in the past.

### Drawdown plan

With a **drawdown plan** your pension pot remains **invested** and you simply draw an income from it. You can live off the **investment returns**, or – if this is insufficient – take part of the capital as well. You are now free to take as much, or as little, income as you want. You can also take lump sums as and when you need to.

This option may appeal if you have a larger pension pot and don't want to hand your savings to an **annuity** provider. If you die before spending your pension pot, surplus funds can be left to your dependents or beneficiaries.

Drawdown is the riskier option. You have to decide how to invest your pension or pay someone to make these decisions for you. If these investments perform badly, the value of your pension will fall. You'll then either have to take less income, or spend more of your capital. Even if investments perform well, there is the risk that you live longer than expected and outlive your pension pot.

## THE ROUGH GUIDE TO RETIREMENT

DRAWDOWN PLAN:	
ADVANTAGES	DISADVANTAGES
Can increase or decrease income as you need to.	Higher investment and advice fees.
Retain control of your pension pot.	You run the risk of using up all of your pot.
Can leave surplus funds to dependents/beneficiaries.	The value of your investments might fall.
	Income is not guaranteed.

### Spending your pension

You can now take your pension as a cash payment once you reach 55. You can either take this money in one lump sum, or draw it down over a number of years. But just because you *can* take the money, doesn't mean you *should*. Before cashing in your pension think about the following:

- › How else you will fund your retirement?
- › Do you have other pensions or **investments** that will provide a decent standard of living after you stop work?
- › How much tax will you pay?

You can withdraw a quarter of your pension pot **tax-free**. The rest is subject to income tax. Remember these withdrawals will be added to any other income to determine the tax rate paid. Taking too much from your pension pot could push you into the next tax bracket, meaning you have to pay 40% or 45% tax on these withdrawals.

### Getting help

Pension decisions can have far-reaching implications for your retirement. If you are unsure you should seek further help. The government has set up [Pension Wise](#), a free and impartial service that offers guidance on your options at retirement. You can contact them by phone, or arrange a face-to-face meeting. **Pension Wise** advisers will be able to discuss your options but won't recommend individual products. If you want further help you can pay for independent financial advice. To find a local financial adviser, visit [unbiased.co.uk](http://unbiased.co.uk).

 **TOP TIP:** Beware of pension scams. Fraudsters are posing as **investment** professionals and trying to persuade people to transfer their money into unauthorised schemes. These are likely to be high-risk investments, which may even be fake accounts so you could lose your money. Check any company you deal with is registered with the [Financial Conduct Authority](#).





CHAPTER FOUR:  
**WORKING &  
RETIREMENT**

## Working beyond retirement

It may seem odd to have a chapter about work in a guide to retirement, but in the past three years alone the number of men working beyond retirement age has risen by 22% and the number of women working has risen by almost a third.

This doesn't mean that these older workers are simply continuing in their current roles; many are starting new jobs, switching to more flexible hours or starting their own businesses.

Whether you plan to change career, extend your career or even retire early there are a number of financial and legal issues you should consider.

## An ageing workforce

There are now more than one million people aged 65 or over in work and this number is rising. There are three main reasons why you might choose to continue working:

- › **Financial necessity:** You may not be able to afford to retire
- › **Improved health:** You might not feel ready to “slow down” just yet
- › **Desire:** You may wish to do more fulfilling work

The good news is that there are now more employment opportunities for the over 65s and, what's more, you'll get to keep more of the money you earn. Once you reach [State Pension Age](#) you no longer pay [National Insurance \(NI\)](#) on any earnings. So those who choose to continue working will see their take-home pay increase.



## PENSIONERS IN PAID EMPLOYMENT

Since the abolition of the default retirement age in the UK in **2011**, more people are working beyond **65** than ever before



More than **400,000** people aged over 65 are self-employed

The Southeast has the highest employment rates for over 65s  at **12.5%**

Source: [GOV.UK](http://GOV.UK)

## Your employment options

If you choose to work beyond your **State Pension Age** you need to think about what type of work you'd like to do, and, ideally, the hours you'd like to work. There are a number of different options, the main advantages of which are explained below.

### Continue in your job

- ✓ In the vast majority of cases your employer can't stop you doing this
- ✓ This may be best option if you are looking to maximize your salary
- ✓ Familiar with current role and working environment

### Switch to part-time/flexible hours

- ✓ Familiar with working environment but on reduced hours
- ✓ Offers more phased approach to retirement
- ✓ May be able to defer taking pension

### Find a new job

- ✓ May be an opportunity to take on a less demanding role
- ✓ Opportunity to retrain or work in a different field
- ✓ Opportunity to work part-time

### Self-employment

- ✓ Flexible – can work hours to suit you
- ✓ May have skills or expertise to work as a consultant
- ✓ Opportunity to pursue fresh challenge

## What are your rights?

Gone are the days when your employer could pension you off once you reached a certain age. In 2011 the law changed to outlaw **enforced retirement**. Since then the number of older people in the workplace has grown steadily.

However, while employers can't impose a default retirement age, they can set a retirement age for specific jobs in certain circumstances. These restrictions usually apply to more physical occupations and workers retain the right to challenge them legally.

 **TOP TIP** If you intend to work beyond your normal pension age you should inform your employer at the earliest opportunity. You may also need to inform the trustees of your company pension, if you want to delay taking this benefit.

### Flexible working

Many people may want to continue working beyond 65, but on a part-time or more flexible basis.

In most cases, you have the right to request more flexible working conditions, but your employer is not obliged to comply. However, provided you meet the conditions below, your employer must consider your request seriously, and can only reject it if there's a good business reason for doing so.

You have the right to request flexible working if you meet the following conditions:

- You're an employee not an agency worker
- You have worked for your employer for 26 continuous weeks
- You haven't made a similar application in the past twelve months.

# Setting up your own business

If you are one of the many over 65-year-olds planning to go it alone, you are in good company. According to the [Office for National Statistics](#) there are now over 400,000 people aged 65-plus that are self-employed or running their own businesses. All manner of businesses are now run by the over 65s, from dressmakers and photographers to IT consultancies.

It may be that you are using the skills and expertise that you gained during your working life to now work as a consultant or trainer, or perhaps you're embarking on a project you've always wanted to pursue but felt was too risky while you were providing for a family. Or it could be that you are simply generating an income from a hobby or interest. This may not be a main source of income, but can provide a useful supplement to a pension, while enabling you to keep busy and productive in retirement.

## How to start a start-up

The first two things you have to do are: register your business with [HM Revenue & Customs](#) (HMRC) within three months, and decide on one of three business structures. These are:

› **Sole Trader:** You pay income tax through the Self-Assessment system, and two types of [National Insurance \(NI\)](#).

› **Business Partnership:** As the name suggests, this is when you form a business with one or more partners. Here you share responsibilities for the business: this will include any losses you make and the bills you need to pay to run the business. Profits are split between partners and each will pay tax on their own share. You can set up a business partnership with a spouse, or one or more friends or colleagues.

You must register the name of the partnership with HMRC. As with a limited company you have to register for VAT if you expect takings to be more than £82,000 a year.

› **Limited Company:** You pay corporation tax on profits, and owners will pay tax on salary and dividends they draw from the business. If you are a limited company you have to file audited accounts with Companies House each year.

- › Set up a business bank account – you will usually have to pay for this.
- › If your business turnover is more than £82,000 you must be VAT-registered.

 **TOP TIP** If you need funding, you may be able to apply for a bank loan, or get help through [crowdfunding](#) websites (for more information see [nesta.org.uk](#)) or via “business angels”. These are private investors who may want a share of future profits in return for their investment.

- › Keep proper records. Even if you are a sole trader you need receipts and invoices to complete an annual tax return.

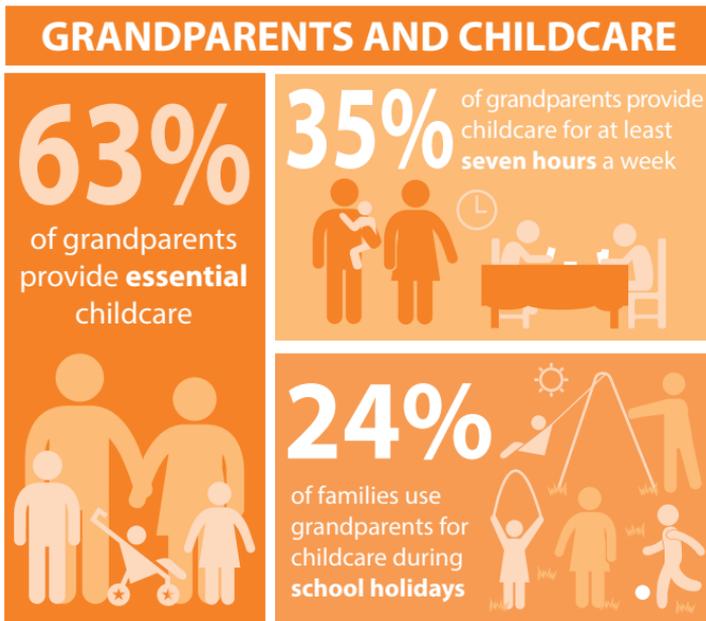
## Helping with childcare

Today's young families face the prospect of longer working hours, and rising childcare costs. A recent survey by the [Family and Childcare Trust](#) found that the cost of sending a toddler to nursery part-time has risen by a third in just five years.

It is perhaps unsurprising then that many families are turning to the grandparents to help them out. An increased number of newly retired people now work as unofficial childminders for their grandchildren, although few get paid for it.

A [report](#) by charities [Grandparents Plus](#) and [Age UK](#) estimated that the value of this unpaid childcare now stands at £7.3 billion, almost double what it was in 2004.

It is typically younger grandmothers (those aged 50 to 64) who are most likely to provide this help. Taking on this childcare role can affect their own ability to find other part-time paid work which, in turn, could limit their pension prospects.



Source: [TUC](#)

### Childcare checklist

Many grandparents are clearly happy to spend time with their grandchildren, and help out with childcare on a daily or weekly basis. You might not want to put this arrangement on a formal footing, but if this is to work – for both you and your family – it's good to discuss a few practical issues before you start. Make sure you consider the following points:

- › **Be clear on the hours you can commit to:** If you need to work, or want time to pursue your own interests, make this clear at the outset. If not you may find more of your time taken up, which can cause resentment.
- › **Don't be out of pocket:** You might not be being paid, but are you expected to pay for day-trips, food etc?
- › **Routine and discipline:** To avoid argument and anxiety it's best to discuss these in advance. If your views differ you may need to reach some compromise.
- › **Should you charge?:** Some families may be happy to pay; this could still mean substantial savings for them, and an income for you. This subject may need to be approached delicately. Remember if you do get paid this must be declared for tax purposes.
- › **Can your family claim childcare tax credit?:** This is only possible if you become a registered childminder.

## Retiring early – a realistic dream?

Many of us still aspire to retire early, but in practical terms this can be difficult to achieve. If you retire in your mid-50s and live to your mid-80s, you're likely to be retired for as long as you have worked.

Some companies will offer enhanced terms to those taking early retirement, which can make it easier. "Early retirement" doesn't necessarily mean stopping work completely. Many people will leave one career early to pursue another – even if this is only on a part-time basis.

If you are planning to retire early, it goes without saying that you need to maximize pension contributions during your working life. You need to think carefully about how you take your pension when you do retire.

- › Many **defined benefit pensions** will offer a lower income if you take them early
- › **Annuity** rates may be poor value for those under 65
- › Taking too much out of your pension means you risk outliving these savings

Some people don't plan to retire early, but are forced to leave work for medical reasons. In some circumstances, you may be able to access your pension funds before the age of 55.





CHAPTER FIVE:  
**BEYOND  
RETIREMENT**

## Looking to the future

You don't stop planning for the future once you have retired. A 40-year-old usually has very different priorities to a 60-year-old. In the same way, you're likely to find your concerns, aspirations and financial situation change as you move from your 60s to your 80s.

This chapter looks in more detail at these issues – from adjusting to a life after work to housing and financial issues.

## Adjusting to retirement

The focus of many people's retirement planning is on their **finances**, but it's equally important to think about the day-to-day realities of life after work. Retirement may conjure up images of relaxation, travel and spending more time with friends and family, but the reality can be quite different.

Some people find that their **identity** is tied up with their old job or career. This can be felt as a "loss" even if you were looking forward to retirement. It can be more even significant if retirement has been forced on you through ill health or redundancy. There's a chance you may feel isolated without the daily contact with colleagues, and you may struggle to fill your new-found free time. This can be a particular problem if finances are stretched.

By **planning ahead** and thinking about the specific challenges you'll face, you will be in a better position to manage this transition.

## Structure versus freedom

No early morning alarm call and no working late or at weekends – many people relish the fact that retirement gives them time to pursue interests and hobbies. However, many find the move from a structured working day to unfettered free time difficult to manage. The key is to plan an effective routine. Here are some things you could do:

- **Set activities for each day:** These should include regular "chores" as well as hobbies and interests
- **Keep your body and brain active:** Learn a new skill, join a sports club or sign up for evening or day classes. The [University of the Third Age](#) (U3A) runs a wide range of courses for retired and semi-retired people throughout the UK.
- **Set weekly and monthly goals.**
- **Differentiate between weekdays and weekends.**

## THE ROUGH GUIDE TO RETIREMENT

- › **Share your knowledge:** There may be opportunities to share the skills and expertise you've gained through your working life.
- › **Continue working:** Consider a part-time or volunteer position.

 **TOP TIP** If you have a specific skill or interest, think about approaching an organization – such as a charity, a museum or a school – as a volunteer. Your local library or Citizens Advice should have information opportunities, or you can investigate the [Royal Voluntary Service](#) website.

### Keeping fit and healthy

Many people move into a more sedentary lifestyle once they retire. This can affect their health as they age.

If you want to make the most of your retirement, it is important to stay fit and healthy. This doesn't have to mean training for a marathon or taking part in weekly aerobic sessions. Most local councils run a number of sports clubs and exercise classes for those retired or semi-retired, many at concessionary rates. This is likely to include weekly walks, ballroom dancing, bowls, swimming, zumba, tennis and so on.

 **TOP TIP** It's important to keep your brain active as well as your body. Learning a language, taking up a new skill or even joining a local committee have all been proven to keep people healthier – and happier – in retirement.

If you don't want to join an organized group, then taking daily walks or gardening on a regular basis can make a significant difference to overall fitness.

### Making the most of your property

You may find that you are “asset-rich but cash-poor” in retirement; living in a mortgage-free home, which could have increased significantly in value, but having a modest pension to live on. This may lead you to reassess your housing needs so you can “unlock” the value of your property.

This isn't simply a financial decision: you need to consider where you want to live, and how your housing needs will change as you age. And then there are the practical questions about stairs and bathrooms, and how close you want to be to relatives, local amenities and other support services.

### Downsizing

On paper the most cost-effective way to unlock the value tied up in your home is to downsize. In other words, sell the family home and move somewhere smaller or relocate to a part of the country where property prices are cheaper. But there are many other reasons people also choose to downsize in retirement, such as:

- › **Want a change of location:** You're no longer tied to the job market so have the freedom to live where you want. Many people choose to move overseas – Spain and France are popular choices – or relocate to the country, the seaside, or to be nearer friends and family.
- › **Need a smaller home:** Once your children have left home, you may not need such a large house. A smaller house and garden can be easier and cheaper to maintain.
- › **Practicality:** As you get older, you are more likely to suffer mobility problems. Steep stairs, upstairs bathrooms, baths (rather than showers) can all present problems. There are other aspects to consider. If you couldn't drive, how easy is it to access local shops and services? Is the property isolated from neighbours, or do you feel part of a wider community?
- › **Makes financial sense:** If you sell your home and move somewhere cheaper, you can use the money you've released to subsidize your pension. Don't forget to factor in the various costs of moving, such as **stamp duty**, estate agents' fees etc.

### Potential drawbacks of downsizing

- › **Your circumstances can change:** Will the dream home by the sea still be suitable if you or your partner's health deteriorates, or if one of you dies? If you've "spent" all the money released by downsizing this may give you less flexibility in later years.
- › **Does the reality match the ideal?:** Holidaying somewhere is very different to living there permanently. Make sure you know the area out of season too.
- › **Access to healthcare:** France or Spain may enjoy a warmer climate but you need to think about healthcare costs as you age. You will be entitled to some care in local hospitals, but this may not be as extensive as in the UK. There are also additional language factors to consider.
- › **How much will you make?:** The financial advantages may not be as much as you think. There is often a premium for properties in locations that are popular with retirees, as well as retirement homes and bungalows. If you are downsizing for financial reasons you may have to move further away or opt for a smaller property than you'd ideally like.

### When to downsize

Much will depend on your reasons. If you are moving for financial reasons you may want to do this sooner, to maximize the benefit. If you are moving for more practical reasons you could wait until later in your retirement, as your health needs become clearer.

You should also think about whether you will move once, or whether two moves may be more realistic – perhaps with a move into sheltered accommodation later in life. If this is the case, you need to ensure there is sufficient **equity** after downsizing to facilitate this.

### Equity release – can you turn your property into a pension?

You may not want to sell the family home and move to a different area, even if the calculator tells you this is the most cost-effective way to boost your finances. One alternative is **equity release**. This is a way of raising money against your home, without having to move. The most common type of equity release scheme is a **lifetime mortgage**, although it's also possible to get a **home reversion** plan where you sell off part of your home to an equity release provider.

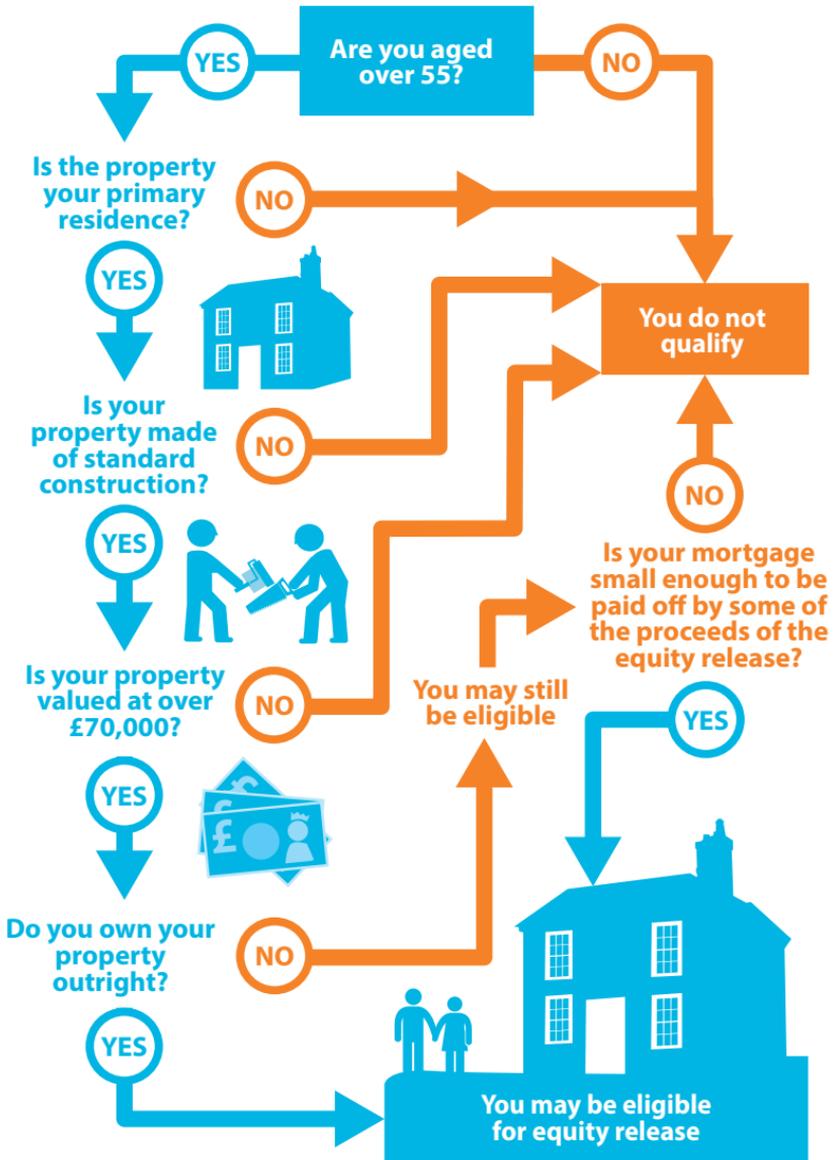
### Lifetime mortgage

As with a conventional **mortgage** you are borrowing a sum of money against the value of your property. The key difference is that you don't have to make monthly repayments on this loan. You get a **tax-free lump sum**, and the money you've borrowed – plus the interest owed on it – is repaid when your property is sold, usually when you die or move into a care home.

Most of these mortgages have a fixed-rate of interest. If this is around 6%, it means the size of your loan roughly doubles every 10 years, which will eat into the **equity** on your home, if **house prices** rise at a slower rate.

All lifetime mortgages now have a **“no negative equity”** guarantee. This means you can continue to live in the property, even if the size of the loan exceeds the value of your home. Neither your children – nor your estate – will be left with debt to pay after the property is sold. You can move house at a later date, and **“port”**, or transfer, this lifetime mortgage to the new property, provided the new property meets the lending criteria of the loan.

# DO YOU QUALIFY FOR EQUITY RELEASE?



Source: [Equity Release Council](#)

### Home reversion plan

With a home reversion plan you sell off a portion of your home in return for a **cash lump sum** or **regular income**. You retain the right to continue living in your home for the rest of your life; in most cases this will be rent free, but with some schemes you may pay a nominal rent each month.

The cash sum the reversion company offers is usually less than the market value of your home. The exact **discount** depends on your age and your health, but you can expect to get between 30% and 50% of the market value. The older you are the better the rate will be. For this reason they are better suited to those aged over 70 – and can be seen as more risky than a lifetime mortgage.

The reversion company cannot sell your home until you die or go into care. When the property is sold the revision company is entitled to its share of the proceeds – so if you sold 50% of your property, 50% of the sale price will revert to the **equity release** provider.

### Equity release pros and cons

#### PROS

- ✓ No need to sell or move house.
- ✓ It can be an effective way to cash in on house price gains.
- ✓ Good for those with no dependents who aren't worried about leaving an inheritance.
- ✓ Your family won't be left with debts to pay after you die. Lifetime mortgages have a “no negative **equity**” guarantee and with a home reversion plan you aren't borrowing against your property.
- ✓ No tax liability on the equity released.

 **TOP TIP** These are just some of the pros and cons of equity release. Find out more from the [Equity Release Council](#) website.

#### CONS

- ✗ You will have a smaller inheritance to leave to children.
- ✗ Taking out an **equity release** deal can affect eligibility for state benefits.
- ✗ If house price growth is slow or falls, it can have a detrimental effect on the **equity** in your home, e.g. lifetime mortgages have “compound interest” charges (interest on the interest) that can eat into the equity or you may receive less than you expected on home reversion.
- ✗ There may be penalties if you want to repay the loan early, such as early repayment charges on lifetime mortgages or you may have to pay more to buy back your share on Home Reversion if house prices increase significantly. This may restrict your ability to move home at a later date.
- ✗ Your home could be at risk if you fail to comply with the terms and conditions of the equity release product.

 **TOP TIP** You are required to get independent financial and legal advice before entering into one of these agreements. Make sure you speak to a specialist who can give advice about these products. Make sure any provider or adviser you talk to is regulated.

## Planning for later life

There are a number of financial and legal issues that come to the fore as you age. These can be complex issues, so if necessary seek further advice. [The Society of Late Life Advisers](#) is a non-profit organization that can put you in touch with local advisers who specialize in will writing, inheritance issues or care fees.

### Writing a will

Even if your financial affairs are straightforward it is still important to have a will. This legal document helps your family avoid future conflict, as well as reducing **inheritance tax (IHT)**.

If you die without a will, known as dying “**intestate**”, it may take far longer for your family to inherit your money. There are strict rules as to who gets what in such circumstances. This will mean that unmarried partners, former spouses, friends and carers won't receive a penny. Depending on the size of your estate, even close relatives like children or grandchildren may miss out.

A will should set out how you want to divide your assets and money. It can also include details of **charitable donations** and personal wishes, such as what sort of funeral you'd like. Couples can write “mirror wills” which are near-identical wills leaving assets to each other or to the same people.

You should also appoint one or more **executors**, the people charged with sorting out your finances immediately after your death. Executors can be relatives or friends, or you can appoint professionals, such as a family solicitor or bank manager. Both of these will charge your estate for their service.

 **TOP TIP** A will is an important legal document, so it's recommended that you see a solicitor or seek specialist advice. You can legally write your own will, but if it is deemed invalid, it could be challenged or ignored after your death.

### Power of Attorney

Who would you want to make decisions about your health and finances if you were no longer able to do it? If you want to ensure that a trusted friend or relative is in charge, then you can appoint them as your “attorney” using a legal document known as a **Lasting Power of Attorney (LPA)**.

Appointing one or more attorneys doesn't give them the right to access your bank account or your medical records immediately. But it does mean that if your mental capacity fails, they will be in place to take over. If you don't have an LPA, this can be a more time consuming and expensive process for relatives.

In England and Wales you need to register the LPA with the **Office of the Public Guardian** for a fee of £110. There are separate documents covering health and financial issues.

A slightly different system operates in Scotland and Northern Ireland but the principle remains the same. For more information, see the [Office of the Public Guardian](#) and [nidirect](#) websites respectively.

### Reducing inheritance tax

If your estate is worth more than £325,000 you may have to pay **inheritance tax (IHT)** when you die. This is charged at 40% on amounts above this £325,000 threshold, known as the “nil-rate band”. However, the Summer Budget 2015 introduced an additional “housing allowance”, which from April 2017 will effectively allow families to pass on a £1-million family home, tax-free.

If you think you're likely to pay this tax, it's worth seeking financial advice at the earliest opportunity. There are steps you can take to reduce this tax bill, but ideally these should be taken in advance; the tax rules are far less flexible to those already on their deathbed.

### Five Ways to reduce Inheritance Tax

**Get married:** No **inheritance tax (IHT)** at all is charged on assets left to a spouse or civil partner, regardless of the size of the estate.

**Make the most of both spouses' tax-free allowance:** Each individual can leave up to £325,000 tax-free. This "nil-rate band" and the new IHT housing allowance are transferable between spouses or civil partners. This means couples don't have to set up complicated trusts. The first to die leaves everything to their spouse or partner. On the death of the second spouse or partner, up to £650,000 (or from April 2017, up to £1 million if this includes a property) can be passed onto the children, tax-free.

**Give money to charity:** If you leave 10% of your estate to charity, then you'll be charged IHT at 36% rather than 40%. This means your children will get slightly less, but charities benefit, rather than the taxman.

**Give with "warm hands":** If you give away money or assets to your children it won't be counted as part of your estate provided you live for a further seven years. However, you have to derive "no benefit" from this gift for it to be valid, so you can't simply put the house in their name, and continue to live in it rent-free.

**Set up a trust:** You can put property, money or other assets into a trust. In some cases this means these assets aren't counted as part of your estate for IHT purposes. But the rules are complex, and depend on the type of trust used. For more information, see [The Money Advice Service](#) website.

## Next steps

Whether retirement is fast approaching or still some years away, you'll hopefully feel more confident about the decisions you need to make after reading this guide. The next step is to consider your own **circumstances**. Do you have a date in mind when you plan to stop working? If so, you should be looking in detail at your pensions and savings. Are they enough to provide a **financially secure future** from this date? Or will you need to save more – or work longer – to bridge any gaps?

Your retirement plans needn't be set in stone. **Investment returns**, your health, your employment prospects – even the pension rules – could change between now and then, so it can help to build some flexibility into your plans. One of the biggest decisions you'll make is how to use your **pension fund** to provide a retirement income. This decision may be irreversible, so it is essential you research the options carefully. If you are unsure, get additional help, either from the government helpline or from an independent adviser.

Think carefully about the **challenges** ahead – they're not all financial. By planning for the future you'll be in a much better place to enjoy your retirement when it finally comes.

📧 Visit [www.roughguidefinance.com](http://www.roughguidefinance.com) to subscribe to *The Rough Guide to Personal Finance* series.

## Useful links

### ADVICE & CHARITIES

- › Age UK: [ageuk.org.uk](http://ageuk.org.uk)
- › Citizens Advice:
  - England/Wales: [citizensadvice.org.uk](http://citizensadvice.org.uk)
  - Scotland: [cas.org.uk](http://cas.org.uk)
  - Northern Ireland: [citizensadvice.co.uk](http://citizensadvice.co.uk)
- › Family and Childcare Trust: [familyandchildcaretrust.org](http://familyandchildcaretrust.org)
- › Grandparents Trust: [grandparentsplus.org.uk](http://grandparentsplus.org.uk)
- › The Money Advice Service: [moneyadviceservice.org.uk](http://moneyadviceservice.org.uk)
- › Nesta: [nesta.org.uk](http://nesta.org.uk)
- › Royal Voluntary Service: [royalvoluntaryservice.org.uk](http://royalvoluntaryservice.org.uk)
- › Society of Later Life Advisers: [societyoflaterlifeadvisers.co.uk](http://societyoflaterlifeadvisers.co.uk)

### FINANCE AND FINANCIAL ADVISERS

- › Financial Conduct Authority: [fca.org.uk](http://fca.org.uk)
- › Legal & General: [legalandgeneral.com](http://legalandgeneral.com)
- › Legal & General Money Hangouts: [youtube.com](http://youtube.com)
- › Moneyfacts.co.uk: [moneyfacts.co.uk](http://moneyfacts.co.uk)
- › MoneySavingExpert.com: [moneysavingexpert.com](http://moneysavingexpert.com)
- › Unbiased.co.uk: [unbiased.co.uk](http://unbiased.co.uk)

### GOVERNMENT & PUBLIC BODIES

- › Electoral Office for Northern Ireland: [nidirect.gov.uk](http://nidirect.gov.uk)
- › Equity Release Council: [equityreleasecouncil.com](http://equityreleasecouncil.com)
- › GOV.UK: [gov.uk](http://gov.uk)
- › HM Revenue & Customs: [hmrc.gov.uk](http://hmrc.gov.uk)
- › Office for National Statistics: [ons.gov.uk](http://ons.gov.uk)
- › Office of the Public Guardian: [publicguardian-scotland.gov.uk](http://publicguardian-scotland.gov.uk)
- › Pension Wise: [pensionwise.gov.uk](http://pensionwise.gov.uk)
- › Trade Union Congress: [tuc.org.uk](http://tuc.org.uk)

### LOST PENSIONS

- › Companies House: [companieshouse.gov.uk](http://companieshouse.gov.uk)
- › GOV.UK Contracted Out Pension Schemes: [gov.uk](http://gov.uk)
- › Pension Protection Fund: [pensionprotectionfund.org.uk](http://pensionprotectionfund.org.uk)
- › Pension Tracing Service: [gov.uk/find-lost-pension-pension-tracing-service-uk.co.uk](http://gov.uk/find-lost-pension-pension-tracing-service-uk.co.uk)
- › Unclaimed Assets Register (Experian): [uar.co.uk](http://uar.co.uk)

### OTHER

- › Rough Guides: [roughguides.com](http://roughguides.com)
- › Rough Guide Finance: [roughguidefinance.com](http://roughguidefinance.com)
- › TV Licensing: [tvlicensing.co.uk](http://tvlicensing.co.uk)
- › The University of the Third Age (U3A): [u3a.org.uk](http://u3a.org.uk)

# Jargon buster

**Active funds:** A pooled fund where a manager chooses which stocks and shares to buy and sell, with a view to outperforming the market. These are typically more expensive than passive funds.

**Additional State Pension:** Previously known as Serps/State Second Pension. This earnings-related “top-up” pension is paid with the basic State Pension. The exact value will depend on the National Insurance contributions made.

**Annual Allowance:** The maximum an individual can save into a tax-efficient savings plan each year to benefit from tax savings. For ISAs it is £15,240 and for pensions it's £40,000.

**Annuity:** An insurance product that provides a guaranteed income for life. Usually this is bought with some or all of your pension pot.

**Basic State Pension:** This is the core element of the State Pension. Individuals have to have made sufficient National Insurance contributions to qualify for a full payout.

**Bonds:** If a government or a company wants to raise money, they sometimes borrow from an investor. In exchange, the investor receives a “bond” – a certificate that promises to repay the investment after an agreed period of time at a fixed interest rate. These are typically seen as less risky than shares and are popular with retired investors who need a fixed return on their money.

**Contracting out:** The option to take a National Insurance rebate rather than make contributions towards the State Second Pension or Serps. This is no longer an option for employees.

**Crowdfunding:** This is a way of seeking donations – usually online – from a large group of often anonymous donors. Usually this funding is to support business ventures or charitable projects. Sometimes donors want a share of future profits in return.

**Defined benefit pension:** This is a pension scheme that promises to pay out an amount linked to an employee's salary. This can be a “final salary” pension or a “career average” pension. The longer the employment period with the company or organization, the higher this pension will be.

**Defined contribution pension:** Also known as a money purchase pension. The employee builds up a “pot” of money, through their own and employer contributions. Personal and stakeholder pensions are also “defined contribution”, but they don't benefit from employer contributions.

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**Drawdown plan:** Also known as Flexi Drawdown. This is a facility to leave your pension invested after retirement and simply draw an income from it. You may need to move your pension into a drawdown plan to make use of this option.

**Equities:** See [Stocks and shares](#)

**Equity:** The value of a property after the mortgage and other costs have been paid off.

**Equity release:** A scheme designed to turn the value of a property into a tax-free cash sum. Usually this is via a loan or mortgage, but in some cases homeowners sell a portion of their property. With all these schemes the debt is only repaid when the property is sold.

**Executors:** The people you nominate in your will to organize your affairs after your death.

**Funds:** Most pensions and ISAs invest in pooled funds rather than direct share holdings. Customers' money is pooled so can be invested in a wider range of assets. It's possible to invest in equity funds, bond funds, property funds or multi-asset funds, which split your money across these different types of investment.

**Gilts:** A bond – or debt – issued by the UK government. These are seen as less risky than corporate bonds, issued by companies, so the interest rate paid tends to be lower.

**Home reversion:** A type of [equity release](#) plan where you sell off part, or all, of your property at a discount, but retain the right to live in it for life.

**Individual Savings Account (ISA):** A type of savings account that allows you to save or invest money without paying tax on it.

**Inheritance tax (IHT):** A tax paid on the estate – the money and property – of a deceased person.

**Intestate:** Dying without a will; this will mean your family take longer to inherit your money.

**Invest/investment:** Paying money into shares, property, commercial ventures or other financial schemes, with the hope of making a profit.

**Lifetime Allowance:** This is the maximum you can have in a pension – and gain tax benefits. This limit (currently £1.25 million) refers to the value of your various pensions, not the amount you have put in. The lifetime allowance is dropping to £1 million from April 2016. If you exceed this limit you face a punitive tax charge.

**Lifetime mortgage:** A type of [equity release](#) plan for the over 55s. You remortgage your property, but don't have to make repayments on this loan. Instead it is repaid back, with interest, when your home is sold – usually when you die or go into care.

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**Mortgage:** A loan provided by a bank or building society (the “lender”) to a person buying property.

**National Insurance (NI):** A system in which employees and employers make compulsory payments to pay for the state pension, the NHS and certain benefits. You need to make NI contributions for a set number of years to get the full state pension.

**Passive funds:** Also known as tracker funds. These are pooled funds, which simply replicate a stock market index, such as the FTSE100. They are typically cheaper than active funds.

**Pension credit:** A means-tested benefit paid to those who don't receive the full State Pension. This will be phased out with the new flat-rate State Pension.

**Personal pension:** A private pension plan. Can be used by the self-employed or taken out by those with company pensions to boost their retirement savings.

**Portfolio:** A term used to describe the various assets you invest in. Ideally, you should aim to have a diversified portfolio investing in equities, bonds, property and cash.

**Power of Attorney:** A legal document that nominates a representative to look after your affairs if you are no longer able to do so.

**Return:** A profit or gain made from an investment.

**State Pension Age:** The age at which you receive the State Pension plus a range of other benefits.

**Stakeholder pension:** A type of low-cost personal pension.

**Self-Invested Personal Pension (SIPP):** A type of personal pension that allows an individual to choose how their pension is invested. Many offer income drawdown facilities.

**Stamp Duty (SDLT):** Stamp Duty Land Tax or SDLT is a tax, paid by the buyer, on land and property transactions in the UK. The rate at which it is paid depends on the purchase price of the property.

**Stocks and shares** (also known as equities). Investments in companies whose value may go up and down depending on how business performs. When you buy a stock or share, you become a part owner of the company, along with all the other investors.

**Tax-free lump sum:** Most pension investors can take out a quarter of their pension fund tax-free from the age of 55.

**Tax relief:** A deduction in the amount of tax a person or company has to pay.

## Emma Simon



With almost twenty years' experience as a financial journalist, **Emma Simon** is the perfect guide to help you navigate through the retirement maze. She is an award-winning journalist who was the Personal Finance Editor for *The Sunday Telegraph* and Deputy Money Editor for *The Daily Telegraph*. She is now a freelance journalist and author who writes on a range of money and consumer issues. Her articles have appeared in *The Sunday Times*, *The Mail on Sunday*, *The Daily Telegraph*, *The Sunday Telegraph* and *The Guardian* online. She started her career working for the Press Association.

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