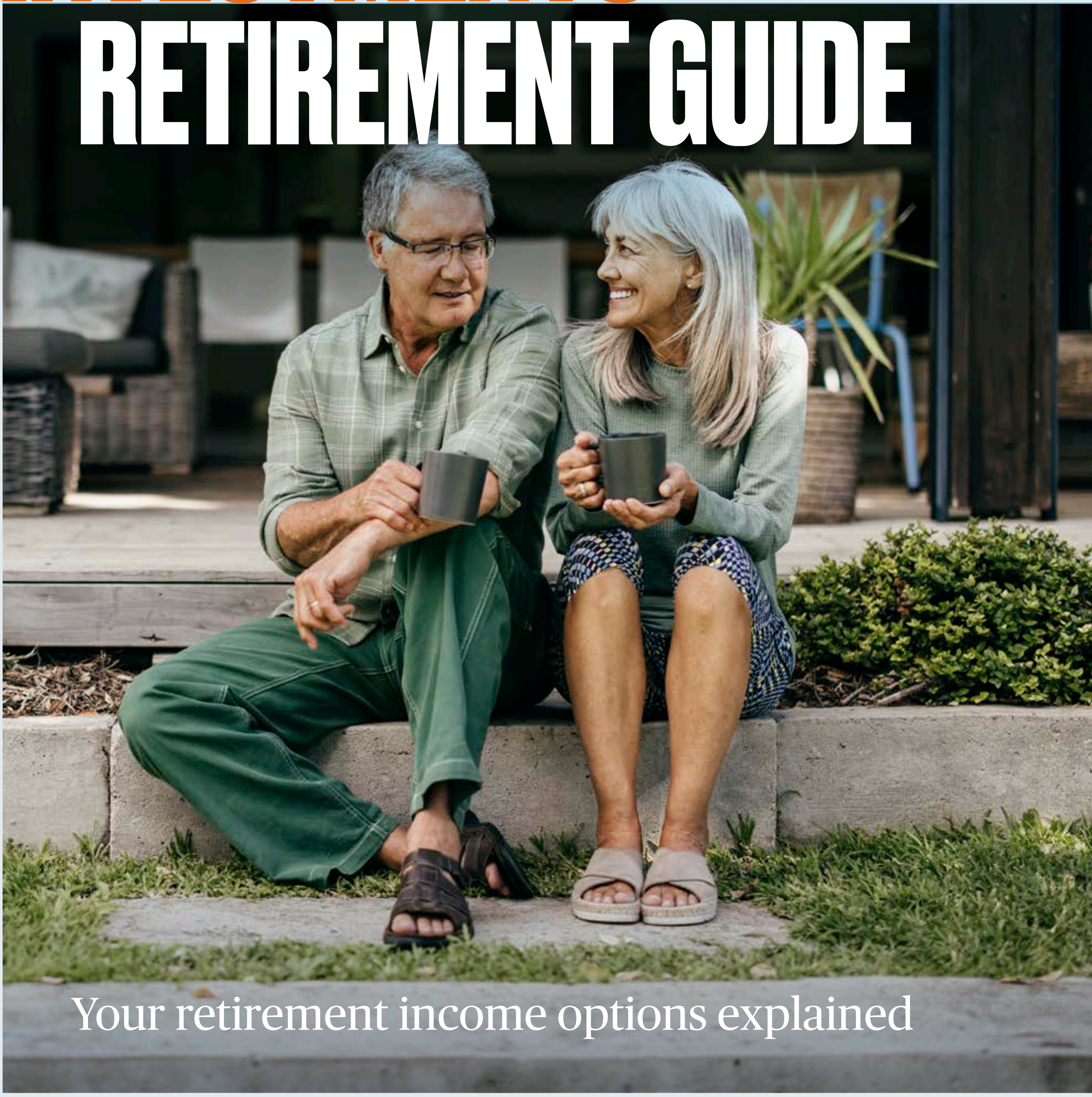
The value of investments can fall. Investors may not get back the amount invested.
Income from investments may vary and is not guaranteed.

BNY INVESTMENTS RETIREMENT GUIDE



Your retirement income options explained

BNY | INVESTMENTS

Contents

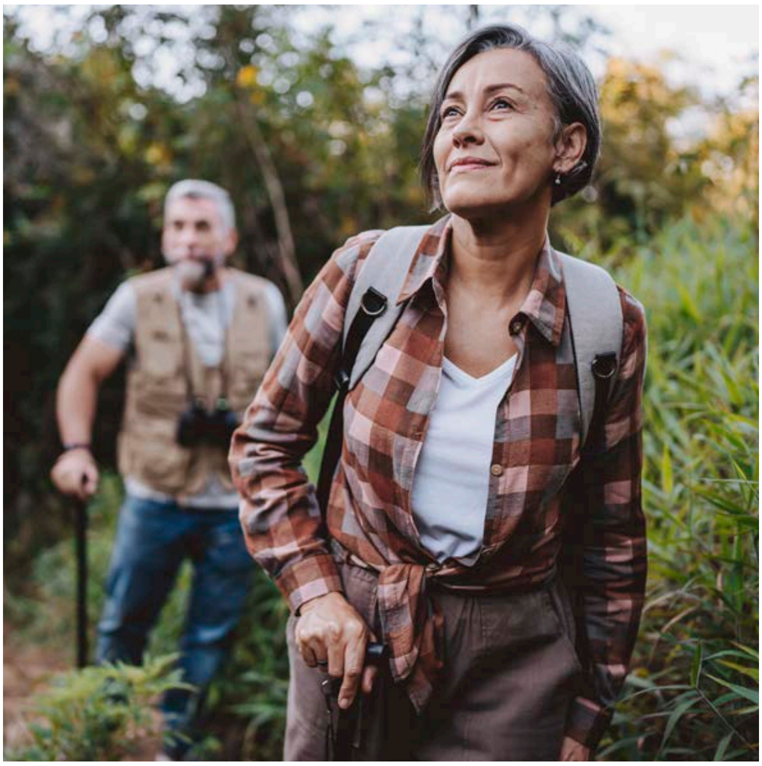
Your retirement income options explained

There are a number of ways to use pensions and other investments to generate a regular income when you retire.

Deciding on the most suitable course of action is not always straightforward, and you may benefit from speaking to a financial adviser.

You'll need to take several factors into account, from the total value of your investments and how much money you need to live on, to what other sources of income you have: for example, earnings from part-time work after your 'official' retirement, as well as any State Pension payments you're entitled to.

Another consideration is the type of pension you have: for example, if you have a workplace pension, your options will be different depending on whether it is a defined contribution or defined benefit scheme – see the following pension types box for more information.



Pension types explained

The term 'pension' covers a number of different types of schemes.

- **WORKPLACE PENSIONS**
  There are two main types of workplace pensions, defined contribution and defined benefit schemes. With defined contribution pensions, the value at retirement depends on how much money the individual (and, in some cases, their employer) has paid into it over the years, as well as how well its investments have performed. Defined benefit schemes – also known as final-salary pensions – pay a guaranteed level of annual income in retirement. This is usually based on the individual's earnings and length of employment.

- **PERSONAL PENSIONS**
  these are savings and investment accounts set up and run by individuals to help support them in old age. Like defined contribution workplace pensions, personal pensions build up a pot of money that can be used to generate retirement income. Their value will depend on how much money the individual has invested over the years and how well their investments have performed.

- **STATE PENSION**
  Most people in the UK are entitled to weekly State Pension payments when they reach State Pension age. The State Pension age is currently 66, but it is scheduled to rise to 67 between 2026 and 2028. State Pension entitlement is based on the number of years individuals have paid National Insurance contributions.

You should also think about the risks you might face – such as the risk your money could run out, or the risk that the value of your income could be eroded by the long-term impact of **inflation**.

Bear in mind that you may be able to use a number of strategies to generate income during your retirement: the most suitable approach at any given point may differ depending on your age and other circumstances, such as your financial needs and your health.

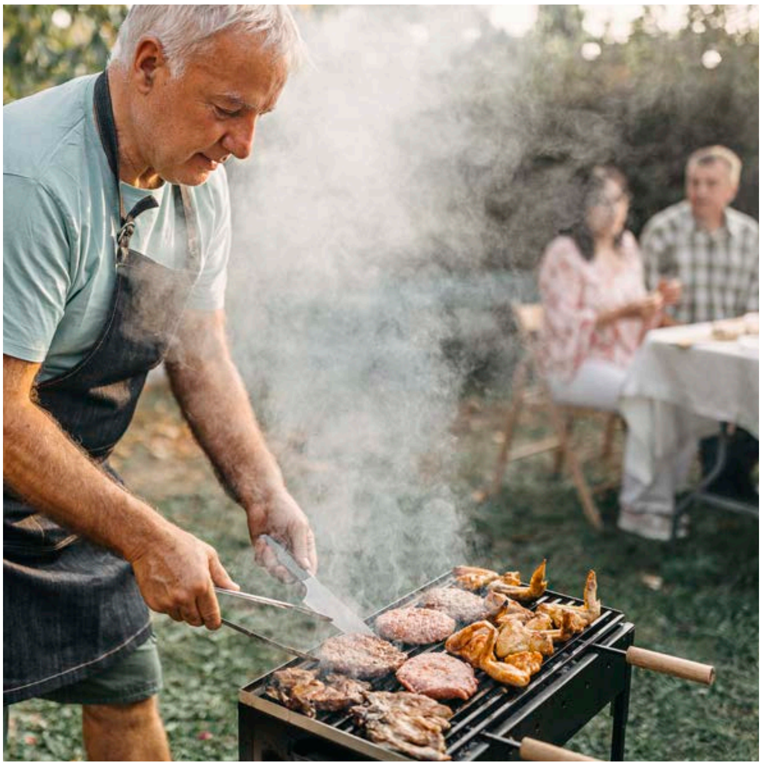
Your pension and your retirement age

If you have a personal or defined contribution workplace pension (see box above for more information), it will usually have a notional retirement age - this may correspond to the expected retirement age in your line of work, or may have been chosen by you when the pension was set up.

However, you aren't obliged to start taking your pension when you reach this retirement age. You may have decided to retire later than previously anticipated, for example, so you might not need any additional income yet. In such circumstances, you can choose to leave your pension invested in the hope it will appreciate further in value. You can also make additional contributions to your pension if you wish.

Equally, you can start taking money from your pension at an earlier stage if you wish. Under current rules, you can access your personal pension from the age of 55, although this lower age limit is due to rise to 57 from 6 April 2028.

With defined benefit pensions, on the other hand, income usually becomes payable on the scheduled retirement date. There may be the option to retire earlier or later than this date, but this will depend on the terms of the particular scheme.



Withdrawing income from your pension

One option for using your personal or defined contribution pension to provide retirement income is to leave it invested while making regular withdrawals. (Note that, for defined benefit pensions, where income levels are guaranteed and there is no risk of individuals running out of money, the below options do not apply.)

Note also that once you start taking income out of a pension, the amount you can save into the pension from that point on is limited to £10,000 a year.

There are two ways to do this.

FLEXIBLE DRAWDOWN:

This involves moving your pension into a special **drawdown** account and then taking regular income payments from it. Drawdown accounts allow you to invest in **shares, bonds** and other **assets**, and you can vary the amount of income you take. You can normally take 25% of your pension pot as a tax-free lump sum when you move your pension into drawdown; the remainder is then subject to income tax. (Note that you do not need to move your whole pension pot into drawdown at once.)

TAKING LUMP SUMS FROM YOUR EXISTING PENSION:

Taking lump sums from your existing pension: alternatively, you can simply take money out of your current pension and leave it invested. You can choose how much to withdraw with each lump sum and, when you do so, 25% is normally free of tax while the remainder is subject to income tax.

Both of the above approaches allow you to stay invested. This means your pension could increase further in value during your retirement, but there is no guarantee it will do so as the value of investments can fall as well as rise.

There is also the risk that your pension savings could run out partway through retirement. There will be a greater chance of this happening if you take a relatively high level of initial income. The performance of your investments and indeed how long you live will also have an impact.

Note also that once you start taking income out of a pension, the amount you can save into the pension from that point on is limited to £10,000 a year under current rules – but this allowance may be subject to change in the future.

Buying an annuity

An annuity is an insurance product that pays a guaranteed level of income for a certain period of time - typically, the rest of your life. Until relatively recently, annuities were the most common way for people to turn their personal or defined contribution pension savings into retirement income, but the strategies like using drawdown accounts (see above) have become more popular, in part due to their flexibility.

The amount of income provided by an annuity depends on a number of factors, including:

THE SIZE OF YOUR PENSION – The more you spend on an annuity, the more income it will provide.

YOUR AGE – The younger you are when you buy your annuity, the less it will pay out as the payments will be spread over a longer period.

YOUR HEALTH – If you have a serious medical condition that could potentially limit your lifespan, you could get a higher level of income.

CURRENT INTEREST RATES – When rates are high, annuity income payments are usually higher.

WHO THE ANNUITY COVERS – If you want your annuity to continue providing payments to a spouse after you die, regular payments will be lower.

INDEX-LINKING – Annuities that provide payments which increase in line with inflation can provide extra peace of mind, but at a cost of lower levels of initial income.

DEATH BENEFITS – you can choose to have some of the annuity refunded to your beneficiaries if you die within a certain period (for example the first five or 10 years). Again, this will usually mean less initial income.

Before you buy an annuity, you can normally take up to 25% of your pension as a tax-free lump sum. The money you get from the annuity will then be taxed as income.

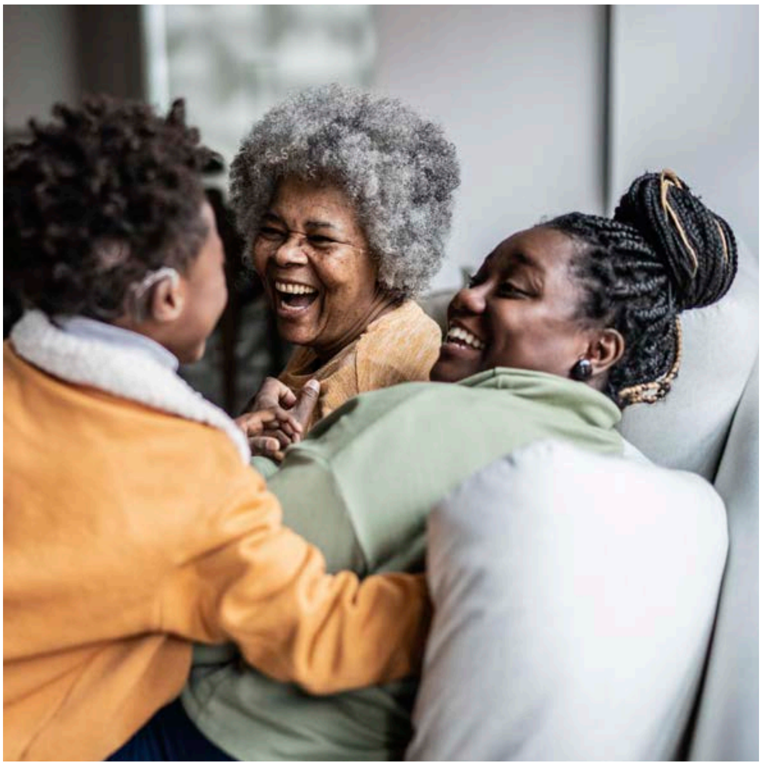
Any money you use to buy an annuity will no longer be able to benefit from investment growth.

Combining income strategies

You could consider combining different approaches - for example, by using part of your pension to buy an annuity but leaving the rest invested to generate income. This could help ensure you don't run out of money later on.

(Bear in mind also that your State Pension provides a certain level of guaranteed and inflation-linked income if and when you are eligible to receive it.)

Another option is to use drawdown in the early years of retirement and then use some or all of your pension to buy an annuity when you are older.



Tax and tax-free cash

You should also think about the tax implications of your approach to pension income. Usually, 25% of your pension can be taken free of income tax. This means you can take a quarter of your pension as a tax-free lump sum when you buy an annuity or enter drawdown, for example. Alternatively, you can take a number of lump sums out of your pension, with just 75% of each taxed as income.

The rate of income tax payable on your pension income depends on your total income in any financial year: this could include salary payments if you're still working, as well as rent from buy-to-let property or savings interest, for example. Be aware that by taking high levels of income out of your pension you could end up paying income tax at a higher rate.

Note that cash and investments held in ISAs (individual savings accounts) can be withdrawn free of tax, while there may be income and capital gains tax to pay on non-ISA investments.

The tax treatment of pensions and other investments depends on individual circumstances and may change in the future. For example, the government has recently announced plans to include pensions when inheritance tax bills are calculated. Under current rules, there is no inheritance tax to pay on defined contribution or personal pensions.

Determining the most suitable approach to deliver retirement income for your needs can be complicated. If you are unsure as to the best course of action, you may benefit from talking to a financial adviser.

Usually, 25% of your pension can be taken free of income tax. This means you can take a quarter of your pension as a tax-free lump sum when you buy an annuity or enter drawdown, for example.

Glossary

ASSET(S): In this context, investments held in a portfolio, for example stocks, bonds, property and cash

BOND(S): A loan of money by an investor to a company or government for a stated period of time in exchange for a fixed interest rate payment and the repayment of the initial amount at its conclusion.

DRAWDOWN(S): In pension planning, drawdown refers to the option of taking income from a pension pot while keeping the remaining funds invested.

INFLATION/INFLATIONARY: The rate of increase in the cost of living. Inflation is usually quoted as an annual percentage, comparing the average price this month with the same month a year earlier.

SHARE(S): Also known as equity, is a security representing the ownership of a fraction of a company listed on the stock market.