# The Lifetime SIPP

## Guidance Notes - Risk Warnings

The FCA require us to provide you with warnings about the types of risk you may be subject to when taking benefits from your pension savings. We are only required to provide these warnings to you if you have not taken advice (regarding taking your retirement benefits) from a regulated financial adviser.

This guidance accompanies the 'Retirement Request Form' and should be read when you complete the Risk Warning Questions on page 3 of the form. We also recommend that you also read 'Guidance Notes - Retirement Benefits' a copy of which can be found on our website or by contacting us on 01173169991.

If you are still unsure of which answer to select or you wish to obtain more information regarding the risks mentioned in any of these questions you should contact an FCA regulated financial adviser or speak to Pension Wise. You can find an adviser by going to www.unbiased.co.uk or you can contact Pension Wise by going to www.pensionwise.gov.uk.

**Question 1**
*Are there any aspects of your health or lifestyle that could potentially shorten your life?*

A person's state of health can be an influencing factor in accessing their pension savings.

An annuity typically pays a guaranteed income for life. Consequently the rate of income paid is, amongst other things, based on life expectancy. It follows therefore the longer a person lives, the more income is paid by the annuity. In some cases though, for people in poorer health and/or with lifestyles that may reduce their life expectancy, some annuity providers recognise this by paying higher incomes through their annuities.

On the other hand, leaving pensions savings within the pension scheme may be more tax efficient if you were die before accessing your pension savings - please refer to the 'Tax Implications - Investment/IHT' question later..

If you have poor health or a lifestyle that could reduce life expectancy (i.e. heavy smoker) then you may be eligible for a better value annuity, for example an enhanced annuity. On the other hand, by accessing pension savings could mean that benefits may not pass as tax efficiently to your dependants and/or beneficiaries.

**Question 2**
*Do you understand that there are no guarantees attached to the amount of income or lump sum paid out?*

There are different ways of accessing your pension benefits. You are considering accessing your pension benefits via flexible/flexi-access drawdown, where funds are taken directly from your pension savings. Unlike some other ways of accessing your pension, such as buying an annuity with some or all of your pension pot, there are no guarantees attached to taking benefits via drawdown and/or lump sum. This is because the amount of benefit paid to you, whether a lump sum and/or an income, is determined by the value of your pension pot at the time.

**Question 3**
*Are you reliant on the funds within this pension pot to provide an income through your later years and, where applicable, for your beneficiary's after death?*

In the past a pension fund has been viewed as a savings plan aimed at providing an income in the later years of one's life (i.e. anytime after age 55), either until death or beyond through benefits for dependents and/or beneficiaries.

Accessing some or all of a pension fund using flexible/flexi-access drawdown, can jeopardise the ability to fund income in later life and beyond for dependants/beneficiaries. This is because the funds are exhausted quicker, or all in one go, meaning there is little or no money left in the pension pot to either access and/or commit to an annuity should a guaranteed income be required.

**Question 4**
*Are you comfortable in your understanding of the effect that the investment of your pension savings has on your potential future income from these savings?*

*When electing to take pension savings by flexible/flexi-access drawdown, the remaining pension savings will remain invested until*

**Question 5**
*Are you comfortable that you fully understand the income tax implications of taking your benefits?*

Typically when accessing pension pots, benefits can be paid as a combination of a tax-free lump sum and income. The tax-free lump sum usually represents 25% of the funds accessed with any income from the remaining 75% of the portion subject to income tax.

The income from the remaining 75% of the fund can either be taken in stages (drawdown) or in one go. The income taken from your pension pot is added to any other income you receive and this determines what, if any, rate of tax you pay. It follows therefore that the more income you take, particularly if taken in one payment from your pension rather than in stages, the higher your income will be and therefore a potentially higher rate of tax paid, especially if you cross into a higher tax band.

**Question 6**
*Are you comfortable that you fully understand the tax implications of taking benefits insofar they relate to investments and inheritance tax?*

One of the attractions of a pension fund is that generally investments grow free of tax. For example interest paid on a bank account within a pension pot would not be subject to tax whereas interest paid on an individually held bank account would quite possibly attract tax. Consequently it follows that one of the impacts of moving funds out of a pension is that if funds are reinvested in investments held personally, the tax treatment of those investments may not be as favorable as if the funds were left invested in the pension pot. Therefore a consideration of accessing pension funds, with a view to possibly reinvesting the funds personally is possibly higher tax charges than if the funds were left in the pension pot.

The other potential impact is that whilst funds are held in a pension pot they are outside of a person's estate for inheritance tax purposes whereas once paid to the individual from the pension pot, they could fall within the person's estate.

**Question 7**
*Are you comfortable that you have considered the impact of charges or fees by investing any benefits you take from your pension?*

*Where benefits are paid from a pension pot the investments held within the pension generally have to be converted into cash to allow the benefits to be paid. This sometimes results in charges or fees being incurred.*

*If the intention is to reinvest some or all of the benefits into other investments then this too may incur charges. For example, if shares were sold within the pension in order to pay the benefits and then repurchased in the person's name once the benefits had been paid, there would be two sets of charges incurred - the selling costs within the pension and the buying costs incurred by the person. Similarly if you invest in other savings plans, these may well have charges attaching.*

*Consequently the impact of charges and fees needs to be considered when taking benefits.*

**Question 8**
*Are you comfortable in your understanding that creditors may have a call on money taken out of pension savings?*

*Funds held within a pensions pot offer some protection against a person's creditors. This is because generally the funds within a pension scheme are ring-fenced (as they are held by trustees) meaning creditors cannot access these funds directly. Consequently if a person has a debt which they cannot pay, whilst creditors may be able to force the sale of assets held personally to repay the debt, the pension pot is not an asset the creditor can access.*

*If funds within a pension pot are accessed via flexible/flexi-access drawdown or taken as a lump sum then these funds become held personally and therefore could be available to creditors in the event of an unpaid debt.*

**Question 9**
*Is there a possibility of you being declared bankrupt or are you currently an undisclosed bankrupt?*

Where an individual is declared bankrupt or is an undischarged bankrupt by accessing pension benefits a trustee in bankruptcy can apply to the court for an income payments order under the terms of the Insolvency Act 1986?

**Question 10**
*Are you aware that accessing pensions savings via drawdown or lump sums could impact on any means-tested benefits you receive and the implications this will have on your personal circumstances?*

Increasingly state benefits are becoming means-tested. Often means-testing is based on a person's individual wealth and/or income rather than necessarily what funds are held in their pension pot. By accessing pensions savings through drawdown or lump sums could increase a person's wealth and/or income that could impact on any means-tested benefits received. This could even apply where the pensions savings accessed are passed on to others. Further information can be found on the Department of Work & Pensions (DWP) website.

**Question 11**
*Are you aware that investment scams exist, often targeting pensions savings, and that care should be taken when investing any funds taken from your pensions pot?*

The incidents of investment scams have increased over recent years. Such scams can be far ranging and by way of example have included schemes such as overseas forestry, farmland or property investments. Often pension savings have been targeted for these investments although pension providers now have tightened their controls to prevent such investments occurring. As a consequence there is a fear that those involved in pension scams may instead seek to entice people to access their pensions savings with a view to persuading them to invest in unsafe investments.

The FCA have produced various warnings on this matter within the 'Consumers/Scams' section of their website.

**Question 12**
*Are you aware that flexibly accessing your pension savings to provide income will reduce your annual allowance to £10,000?*

The total contributions that can be made to all pension schemes are restricted by the annual allowance. This is currently £40,000 for the 2015/16 tax year. Once pension savings have been flexibly accessed via flexible/flexi-access drawdown (and income paid) the annual allowance is automatically reduced to £10,000.

**Question 13**
*Are you satisfied that you have adequately researched and understood the options available to you in accessing your pensions savings and that you are making an informed choice in the method you have selected?*

One of the impacts of the new rules allowing greater pensions flexibility that came into effect in April 2015 was greater choice in the range of products available to access pensions savings. This adds potentially more complexity when deciding how to access pension savings - choices are increased, all of which have pros and cons, including taxation and cost. Consequently it is advisable to research all available options and ideally take advice from a suitably qualified and authorised adviser.

**Further Notes**

Once you have returned the completed Retirement Request Form we will use the answers you have given to the Risk Warning Questions to provide you with a personalised risk warning. Two identical copies of your personalised risk warning will be sent to you with the retirement quotation pack.

Please read your personalised risk warning carefully, if you are unsure of anything on the warning then you should contact your financial adviser or Pension Wise.

If you wish to proceed with the retirement benefits that you have selected you will need to sign and return one of the two identical personalised risk warnings that you have been sent.

**Please note that The Lifetime SIPP Company are unable to provide you with any advice regarding your retirement options.**