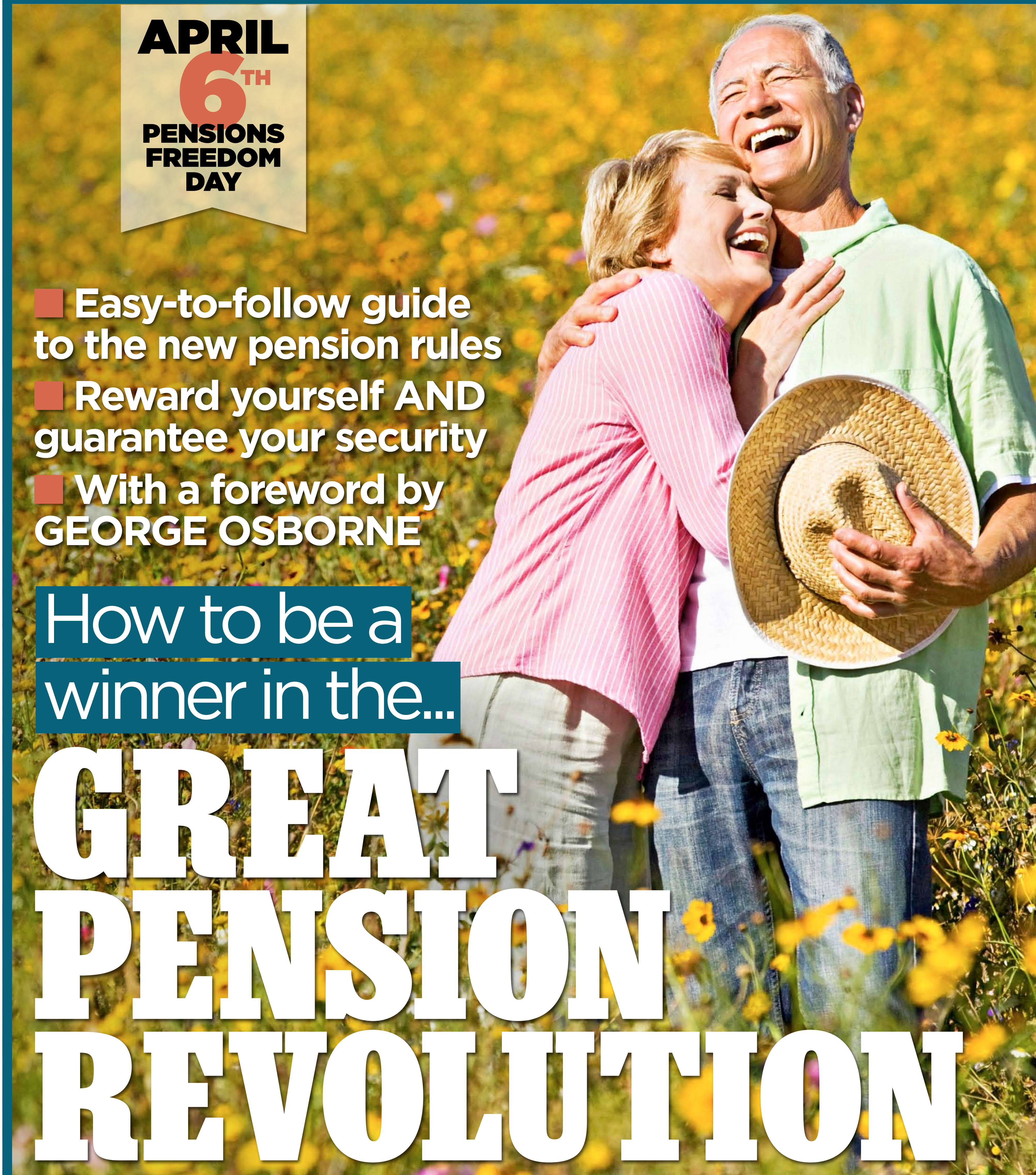
The Mail ON SUNDAY

PERSONAL FINANCE SPECIAL ISSUE



APRIL 6TH PENSIONS FREEDOM DAY

- Easy-to-follow guide to the new pension rules
- Reward yourself AND guarantee your security
- With a foreword by GEORGE OSBORNE

How to be a winner in the...

GREAT PENSION REVOLUTION

It's right you have this new pension freedom – after all, it is YOUR money

By George Osborne
CHANCELLOR OF THE EXCHEQUER

IN A couple of weeks we will see the biggest and most exciting change to our pensions system for a century. People will no longer be effectively forced to buy an annuity on retirement.

Instead, from April 6, under reforms I introduced in last year's Budget, people who have worked hard and saved all their lives will have the freedom to make their own informed choice about what to do with their pension in retirement.

For many that may well mean taking out an annuity – or, from April 2016, cashing in an existing annuity in payment. But it could also include being able to draw down their pension a bit at a time or taking it all as a lump sum. People will also have the peace of mind knowing their loved ones can inherit any remaining pot free of the punitive death tax on pension pots, which I abolished last year.

This is about more than reforming the rules around pensions.

It is about understanding that hardworking people should be trusted to look after their own savings. It's your money.

Now, there are Labour politicians who don't get this. They believe it is the State's job to keep as much of your money as possible and restrict what you can do with what is left.

They do not believe people can be trusted to look after the money that they themselves have worked hard for. I say this is patronising nonsense.

For at the heart of our Long Term Economic Plan is giving hard working people real choice over their money and building a stronger more balanced economy where people can save and invest for their future.

This is why I, as a Conservative Chancellor, have increased the tax free personal allowance, meaning more than 26 million people are keeping more of the money they have worked hard for in the first place.

It is why I have made our 65+ Pensioner Bonds available so that in an era of very low interest rates – necessary to support the economy through a difficult period – savers are supported, not punished.

It's why I have abolished the 10p tax rate on savings as well as significantly increasing how much money readers can invest tax free in their ISAs. I have also introduced, for the first time, Junior ISAs.

Of course when making a financial decision as important as this it is important to get it right. This is why we have set up a free and impartial guidance service – Pension Wise – for anyone wanting to take advantage of the new pension freedoms.

This new service will provide guidance on the options available to you. You can choose how to access this free guidance – over the phone, online or face to face.

Pension Wise will work closely with Citizens Advice and The Pensions Advisory Service, and its specialists will be rigorously trained to a standard accredited by the Chartered Insurance Institute.

So there will be free impartial guidance available to all. This guidance will help people take advantage of these reforms and ask the right questions of their pension provider in order to get the best decision for their personal circumstances while avoiding scammers and fraudulent offers.

Many firms have already announced flexible and innovative products and some firms, such as Axa Wealth and Zurich, have already confirmed they will be offering a full range of flexibilities.

This is great news for hardworking savers and our reforms will empower people to choose those products that are right for them.

My message is clear.

It is right that people have these freedoms over the money they have worked hard for all their lives. We must never forget it is your money.

It is an important and sometimes complex decision. So there will be lots of support and guidance available for you – free of charge.

The biggest pension reforms in a generation are on their way – and how you use these new freedoms is up to you.

It's an example of our Long Term Economic Plan in action.

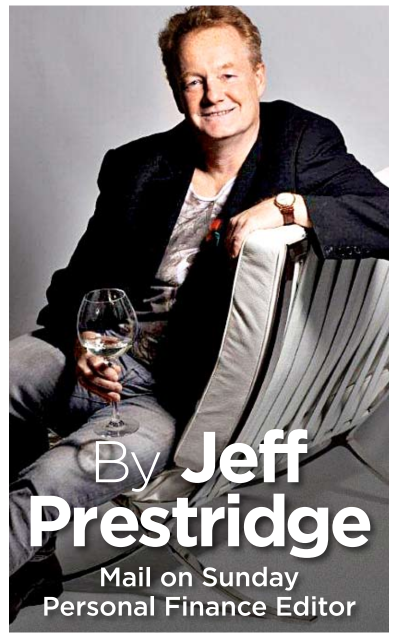
"Hardworking people can be trusted to look after their savings"

INSIDE YOUR ESSENTIAL PENSIONS REVOLUTION GUIDE

PLUS THINK YOU KNOW ABOUT PENSIONS? TRY OUR QUIZ ON PAGE 22

1 Armchair guide to the great shake-up

Are you sitting comfortably? Then here is how pensions are changing



By Jeff Prestridge
Mail on Sunday Personal Finance Editor

IT'S taken 20 years of campaigning by this newspaper – sometimes against governments of the day, other times against big corporate vested interests in the financial world. But after all the battling – and going a little greyer on top – it's time to raise a glass of prosecco and toast a new era.

The great pensions revolution has arrived: goodbye unwieldy, straight-jacketing pensions; hello pensions fit for a modern, flexible Britain.

From April 6, the pension pendulum swings firmly from provider to you, the consumer, the investor. Rejoice. Savour the bubbles. If you want to – and some won't – you now have the opportunity to take firm control of your pension funds and mould them to best suit you as you make the journey from work, maybe to going part-time and through to retirement.

You can even cash the pension pot in if you want – provided you're 55 – and walk off with the money. Gone are the days when you were bullied into a one-size-fits-all pension solution. Your pension can now be turned into a quasi-retirement bank which you dip into when the need takes you.

This essential 24-page special report has been put together to help steer you through the pension changes. Opportunities – and pitfalls – abound. It covers everything you need to know – starting with why pensions needed to change, through to how the new rules work and how you can best benefit.

END OF OLD-STYLE PENSIONS

WHEN I started earning a living as a mediocre trainee accountant more than 30 years ago, the business world was different – rigid and regimented. Jobs (apart from those for trainee accountants who didn't know a creditor from a debtor) were for life. And invariably a works pension was for life. You started as an apprentice, paid a bit of your weekly wage into the company pension scheme, usually after a qualifying period, and the future was sorted. On retirement, you got a gold watch, a pension based on a combination of your final salary and years of service – and a thank you letter from the boss for your blood, sweat and toil. Today, it's all change.

Jobs are no longer for life and company pensions have changed beyond recognition. Other than in the public sector, defined benefit schemes (final salary or career average) are a rarity. They have become too expensive for employers to run. Those that exist are either shut to new entrants or to everyone.

Workers are now increasingly contributing into pensions where there is no guarantee of an income based on your finishing salary.

Your retirement fund is dependent upon how much you and your employer put in and how well that money is then invested.

Auto-enrolment, introduced two and a half years ago, has also swept five million workers into these types of pensions, called money purchase or defined contribution schemes. That number will be ten million come 2018.

The impending pension changes recognise this irrevocable shift from defined benefit to defined contribution – and attempt to make defined contribution more fit-for-purpose, especially when it comes to delivering income.

DID YOU KNOW?
Five million people have been auto-enrolled into pensions since 2012. The target is another five million by 2018. A pension could be coming your way

FIT FOR PURPOSE

NEARLY all defined contribution pensions – either works-based or set up on a personal basis – require a person to turn their fund into a lifetime income at retirement. This is done through the purchase of an annuity.

That sounds fine in principle but in reality many annuities have locked people into a lifetime of financial misery (although people will be able to exchange them for cash in proposals outlined in last week's Budget). In some instances, the annuity bought has been pitiful because of rock bottom rates – a legacy of 2008 and the financial crisis.

According to figures from Alan Higham, retirement director at wealth manager Fidelity Worldwide Investment, a £50,000 pension pot would today secure a healthy 65-year-old an annuity of £2,800. Five years ago, it would have bought £3,265. Ten years ago £3,550.

In other cases, people have had an annuity foisted upon them without being told they had a right to shop around for the best deal.

The changes mean you no longer have to buy a poor value annuity – although some will still prefer the regular income they provide.

Instead you will have licence to draw down money from your pension when you want, on a regular or irregular basis.

The only provisos are that you must be at least aged 55, you pay tax on any withdrawals beyond your right to tax-free cash (typically 25 per cent of the fund) and your pension provider has got its act together for the pensions revolution.

RECOGNISING LONGER LIFE

RETIRING at 60 or 65 is no longer an option – or a burning desire – for a majority of people. Many want to work on and that means you may not need a regular pension income. You might just want to dip into your fund, occasionally to begin with and then more regularly as you work fewer hours. The new pension freedoms allow you to mould your pension income around your finances.

SO WHAT CHANGES?

THE new rules give you the right to micro-manage your retirement pot.

- You don't have to buy an annuity any more. In fact, you will soon be able to cash in an annuity, if you have one, in payment.
- You can cash in your pension or withdraw chunks as soon as you reach 55 – subject to tax.
- You can set up your pension so that upon your death it goes to a loved one – tax free if you die before age 75.
- Spousal benefits payable under annuities will be tax-free from April 6.
- It's a revolution in pensions that means you dictate terms. Not an inflexible pension provider.

THE EXPERTS' VIEW

MOST pension experts give the freedoms the thumbs up. Malcolm McLean of consultants Barnett Waddingham says: 'We have to get away from the tyranny of annuities.'

John Lawson, head of policy at insurer Aviva, says pensions are now a 'must have' investment, adding: 'Building a pot as big as possible will give you great financial flexibility once you're 55. So save, save, save.'

ILLUSTRATION: Rebecca Lea Williams

AT-A-GLANCE THE NEW RULES

OLD PENSIONS WORLD

- **Most people bought an annuity paying a fixed income for life – often representing poor value.**
- Once bought, an annuity could not be changed – it stuck with you for life.
- **Many annuities were mis-bought or mis-sold, resulting in no financial protection for dependants or enhanced income for those in ill-health.**
- Only those with a five-figure guaranteed income in retirement had the right to control withdrawals from a pension.

BRAVE NEW PENSIONS WORLD

- **Everyone has a right (in theory at least) to access their pension from age 55.**
- No one is now forced to buy an annuity.
- **You can now pass on your pension on death to a loved one without paying onerous tax.**
- You can cash in your pension in one go.
- **Withdrawals beyond right to tax-free cash can be made – but are subject to income tax.**
- You can cash in an annuity in payment.

WHAT ON EARTH DOES IT MEAN? YOUR COMPLETE JARGON BUSTER

START a conversation about pensions and it can quickly begin to sound like double-Dutch. Here's our plain English jargon-busting guide to pension-speak…

ANNUAL ALLOWANCE
The maximum you can save into a pension each year, currently £40,000. Contributions of more than this will trigger a tax charge.

ANNUITY
A guaranteed income bought from an insurer using pension savings. Typically, an annuity will last for the rest of a person's life but they can also be bought for a set number of years. Income can be fixed, or increase each year in line with inflation.

BENEFICIARY NOMINATION FORM
A document with the name of a person, or names of people, who you would like to receive your pension savings after you die.

CLOSED PENSION SCHEME
A pension scheme that is closed to new members. If it is closed to existing members too, you cannot continue to top-up your pot.

CONTRIBUTIONS
Sums you pay into a workplace or personal pension.

DEFERRAL
Delaying the point at which you take your state pension. If you reach state pension age before April 6 next year you can increase your income by one per cent for every five weeks you defer. After April 2016 this changes to one per cent for every nine weeks you defer.

DEFINED BENEFIT
Often known as 'final salary', this is a pension that will pay an income linked to your number of years' service with a company and the final salary you earned at the point of retirement.

DEFINED CONTRIBUTION
A pension pot from which future income will depend on the investment growth of your contributions and those of an employer if it is a workplace pension.

DRAWDOWN
Income drawdown allows you to take an income from your pension savings while keeping the remainder of the pot invested.

ENHANCED ANNUITY
A higher rate of guaranteed income paid for life to people with poor health or certain medical conditions. The higher payments acknowledge that the individual won't live as long as healthier people taking out ordinary annuities.

EXIT FEE
A penalty charge applied to a pension pot when a saver transfers their funds to a new scheme.

FINANCIAL SERVICES COMPENSATION SCHEME
The UK's independent compensation fund. Compensation may be paid out to pension policy holders if an authorised insurer goes bust.

INFLATION
A rise in the general cost of goods and services we buy. This has the potential to erode the value of pension income.

JOINT LIFE ANNUITY
A guaranteed income for life which continues to be paid to a spouse after you die.

LIBERATOR SCHEMES
Also referred to as 'early pension release', this is a scam encouraging you to access pension savings before age 55. Scheme operators take a hefty fee for their 'service' and the victim is left with a 55 per cent tax bill to pay.

LIFETIME ALLOWANCE
The maximum sum that can be paid into pension savings over a lifetime, currently £1.25million.

PENSION PROTECTION FUND
The organisation responsible for paying compensation to members of defined benefit pension schemes if an employer goes bust and the pension fund doesn't have enough cash to meet commitments.

PENSION WISE
The new free and impartial Government service to guide people through their retirement options.

PERSONAL PENSION
Pension pots separate to the state pension and any workplace pension you may have.

SELF-INVESTED PERSONAL PENSION (SIPP)
A do-it-yourself pension putting you in control of where to invest. It can be a useful way to consolidate multiple pots in one place.

STATE PENSION
A regular weekly payment from the Government of up to £113.10, which starts at 65 for men and between 62 and 65 for women.

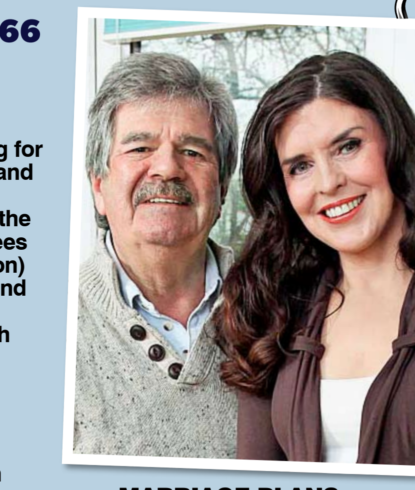
TAX-FREE LUMP SUM
The chunk of pension you can take tax-free when you retire – usually, but not always 25 per cent.

TRUSTEES
People responsible for independently overseeing the management of a pension scheme.

CASE STUDY 1

Tiswas star will take small slice of his pie

Bob Carolgees, 66
Entertainer



MARRIAGE PLANS: Funnyman Bob with partner Tricia

BACK in the late 1970s, Tiswas was required Saturday morning viewing for families, as custard pies and buckets of slime flew everywhere. Not far from the carnage was Bob Carolgees (real name Robert Johnson) and his bad-mannered hand puppet, Spit the Dog.

Today, Bob, 66, lives with former beauty queen and singer Tricia Liedl in Frodsham, Cheshire. And although he occasionally takes Spit the Dog on the road, his main focus is on his successful retail business selling candles and home fragrances.

Looking to step back from work commitments, and get married, he sees his pension funds playing a big role in his financial life. Bob says: 'People think that because you've been on the television you're a multi-millionaire. Well, that isn't the case. I've had a comfortable life but now I want to make the most of my money so I can enjoy my retirement.'

He is planning to use the new rules to take more cash from his pensions. He says: 'I am selling my business, but this will take time, so I was pleased when my adviser said I could use funds without restriction from my pension to meet short term costs.'

Although there is the possibility that some people might spend all their pension, he welcomes greater pension flexibility.

He adds: 'If people have saved for their retirement, then I think they should be treated as adults and allowed to access their money when they need it.

'If people have been sensible enough to save they'll probably be sensible enough to hold pension money back to support themselves later in life.'

CASE STUDY 2

New rules help me see a clearer future

David Rose, 60
Retired director

IF PROOF were needed that pensions rules had to change, look no further than David Rose, a former director of a world-wide optical company.

Two and a half years ago, David contacted The Mail on Sunday in desperation after the monthly income from his pension was suddenly cut by 53 per cent – more than £1,000.

The breathtaking reduction followed a review of his pension under onerous rules laid down by the Government.

The rules were aimed at ensuring people in so called 'capped' income drawdown pensions – the type David had – did not deplete them too quickly, leaving them a potential burden on the State.

David had no intention of ever being a 'burden' and downsized to his current home, a semi-detached house not far from Thetford in Norfolk.

The rules on his type of pension have also been relaxed, meaning financial life is comfortable for him and 60-year-old wife Lynne.

He says: I am delighted the pensions world is freeing up.

'People who save diligently throughout their working lives are not going to splurge out on a fast car. Responsible savers make responsible retirees.'

Although David expects some people will blow their pensions, he thinks huge tax bills on big withdrawals will curb many others.

'I am meeting my financial adviser next month to see what I should do in light of the changes,' he says.

'I might transfer my pension to a plan where I have free rein to withdraw money as and when I need it. So good on George Osborne, I say.'

DELIGHTED: David Rose with wife Lynne

2 How to pick the right path in pension maze


ILLUSTRATION: Rebecca Lea Williams

Ten golden rules to guarantee your secure retirement

By **Jeff Prestridge**

ON THE surface, pension freedom seems all-empowering, putting people in control of their hard-earned savings. But the pension waters remain as dangerous post April 6 as they are now.

So here are your ten top tips on how to benefit from the new pension regime – and how not to trip up.

1 YOU DON'T HAVE TO ACT IMMEDIATELY

ALTHOUGH the new freedoms pave the way for you to raid your pension funds from age 55, this doesn't mean those who are eligible should go out on April 6 and buy a Lamborghini – or take out cash.

Richard Jones, retirement director at insurer Scottish Widows, says: 'You don't have to wake up on April 6 and suddenly take decisive pension action because freedom day has arrived.

'If you have been saving in a pension for 30 years, what to do next is not a 30-minute decision. Take your time.'

It's a view echoed by Andy Bell, chief executive of pensions provider AJ Bell. 'For most people the starting point should be that they are better off leaving their pension fund intact and only drawing out money as and when they need to spend it,' he says.

'Unfortunately I fear that unscrupulous and aggressive sales tactics will make a mockery of the various lines of defence that are being lined up to ensure people don't squander their pension.'

Early indications suggest that common sense will prevail and there will not be an immediate stampede to take cash.

Pension provider Prudential says that only one in 50 of those intending to retire this year are considering the 'Lamborghini option' of blowing their whole pension pot on extravagant purchases.

Vince Smith-Hughes, head of business development at Prudential, says: 'It's good to see that a big majority of the retirement class of 2015 are not planning to blow their entire pension savings en masse. The upcoming pension freedoms mark the start of a process, not the end.

'We'd encourage anyone approaching retirement to take time to get all the help they need, rather than rushing headlong into cashing in their pension.'

2 YOU MIGHT NOT BE ABLE TO ACT IMMEDIATELY ANYWAY

NOT everyone aged 55 and over with a pension will be able to access cash. Some providers – managers of company schemes and personal plans – will not have computer systems capable of allowing people to make ad hoc withdrawals.

Graham Vidler, director of external affairs at The National Association of Pension Funds, says the short time between the new pension rules being announced in March last year and their implementation has made it difficult for company pension schemes to provide members with greater flexibility over how they access their funds.

3 HELP IS AT HAND

ANYONE who wants to cash in their pension – whether a chunk of it or the whole lot – will be signposted to the Government's guidance service by their employer or pension provider. It is called Pension Wise and you can get a feel for what it's all about by visiting website pensionwise.gov.uk. Face-to-face guidance will also be available at branches of Citizens Advice.

Pension Wise is a useful starting point if you want to get to grips with the different options for accessing a pension and avoid nasties such as scams and big tax bills.

But if you want the gold-star level of hand-holding when you take a leap with your pension savings, speak to a qualified, regulated and independent financial adviser. They will be worth every penny. Find one at website unbiased.co.uk. Malcolm McLean, pensions expert at consultants Barnett Waddingham, says: 'The Pension Wise website is helpful but I worry that Citizens Advice is not an organisation that specialises in pensions on a regular basis.

'Most people would doubtless be better off from receiving fully regulated financial advice.'

4 SIPPS ARE FREEDOM FRIENDLY

THE best pensions giving you control over your income in retirement are called self-invested personal pensions. You determine how contributions are invested and when you take income after age 55.

If you've got pension pots from either previous employers or periods of self-employment, you can transfer them into a Sipp.

The plans you transfer in should primarily be those run on a defined contribution or money purchase basis that have a cash value.

Make sure the old plans you transfer do not provide invaluable retirement options such as the right to a bumper guaranteed annuity.

How deferring a £100 weekly state pension can boost your income

Years deferred	Amount given up	Extra weekly pension	Total boost after 5 years	Total boost after 10 years
1	£5,200	£10.40	£2,704	£5,408
2	£10,400	£20.80	£5,408	£10,816
3	£15,600	£31.20	£8,112	£16,224
4	£20,800	£41.60	£10,816	£21,632
5	£26,000	£52.00	£13,520	£27,040

Table applies to pensioners reaching state retirement age before April 2016. The pension uplift for a year's deferral is 10.4 per cent. For those retiring after April 2016, it reduces to 5.8 per cent.

Defer your state pension... and get more

THE state pension can play a vital role within the new pensions freedoms for hundreds of thousands of savers reaching retirement age before April 2016.

This group may be better off drawing down on any private pension they own before claiming their state pension.

Under current rules, deferring a state pension bolsters its value significantly – providing a higher guaranteed lifetime income than if it was taken straight away. It's also far cheaper than buying an equivalent annuity.

Alan Higham, retirement director at wealth manager Fidelity Worldwide Investment, says: 'Retirees who defer taking their state pension can receive a one per cent uplift to their income for every five weeks of deferral. This amounts to a significant 10.4 per cent boost in every year.'

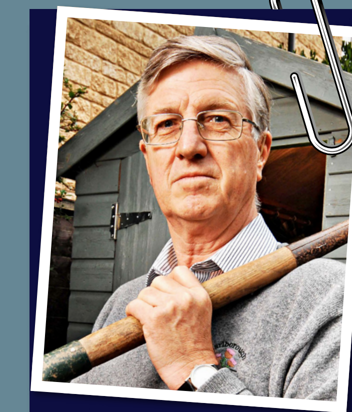
Under old rules, pensioners had to make their private pension last until they died – probably using an annuity – but now they can take money from it as they wish.

Higham points to a woman aged 62 with a £40,000 pension pot and a £7,000 state pension entitlement. 'She could theoretically buy an inflation-linked annuity with the pot worth about £1,300 a year. That, with the state pension, would increase her income to £8,300,' he says.

'But under the new freedoms she could opt to drawdown on her pot at, say, £9,900 a year, increasing with inflation instead, and leave the state pension unclaimed.

'Although the pension pot would run out after a little over four years, the state pension would be enhanced by 41.6 per cent, providing her with an inflation-linked state pension of £9,900 a year for life (in today's terms) – £1,600 more than she would otherwise have received.'

However, anyone reaching retirement age after April 6, 2016 will get a state pension rise of only 5.8 per cent a year.



CASE STUDY 1

Enjoy, but take care

John Allen, 73
Company secretary

FORMER company secretary John Allen, above, is a big believer in people being given freedom to make financial decisions for themselves.

But he is worried that the impending pension freedoms could prove disastrous for some.

John, who lives with wife Dafyne in Calne, Wiltshire, says: 'I fear there will be some who will be tempted to empty their pension pots too early, leading to them being impoverished later on in retirement.

'If they then become a financial burden on the State, that would not be good for anyone.'

John recently transferred his remaining pension fund into a self-invested personal pension.

It means he now has complete control over how much income he draws down.

'I guess the jury is out on these pension freedoms,' he adds.

5 DELUXE PENSIONS SHOULD NOT BE TOUCHED

IF YOU are lucky enough to belong to a workplace pension where your retirement is based on a combination of years worked and final salary, it will probably make better sense to keep it intact and take the benefits at or close to the stipulated retirement age.

Leaving these defined benefit or final salary pension funds well alone applies to former workers who have deferred pensions waiting to start – as well as current employees.

If you are adamant that you want to transfer a defined benefit pension scheme into a plan that then allows you access to cash, you will first have to go to an independent financial adviser. This rule applies to any scheme with a transfer value in excess of £30,000. Public sector workers who are members of 'unfunded' schemes will not be allowed to move their pensions because they are paid out of the public purse.

6 YOU CAN STILL TAKE TAX-FREE CASH

IN THEORY, current rules allow you to take free cash from a pension at age 55 – although some pensions, especially work-based plans, may not pay the tax-free cash until you reach the scheme's stipulated retirement age.

Usually, tax-free cash is limited to 25 per cent of the pension fund value. The new rules don't change how much tax-free cash can be taken but they do give greater freedom over how it is accessed.

John Lawson, head of policy at insurer Aviva, says: 'You can take 25 per cent tax-free cash up-front and then taxable withdrawals of regular income or lump sums from the remaining three quarters as and when you need. It's called flexi-access drawdown.

'Or you can take withdrawals at any time, with one quarter of each being tax-free and the other three quarters taxed at the saver's highest marginal rate of tax. It's the equivalent of a pension bank account.'

Kate Smith, strategy manager at insurer Aegon, says not all providers or pension plans will give these options, with some not allowing regular withdrawals but permitting the entire pot to be cashed in.

7 TAX IS AN ISSUE

WITHDRAWALS of income on top of any tax-free cash will be subject to tax at a taxpayer's marginal rate. Withdrawing income beyond tax-free cash also compromises the ability to make further contributions into the plan as the annual allowance then reduces from £40,000 to £10,000. There is an exception with small pension pots worth less than £10,000. Smith says: 'It's possible to cash in a maximum of three pots each worth less than £10,000 – personal pensions for example – without triggering the reduction in the annual allowance. But you would pay tax on the money cashed in after 25 per cent tax-free cash.'

8 YOU CAN STILL BUY AN ANNUITY – AN OPTION FOR ILL HEALTH

NOTHING under the new regime stops you from turning your pension into a lifetime income by buying an annuity – unless you are lucky enough to have a defined benefit plan.

Indeed, for many people, the assurance of a regular income every month will bring peace of mind and financial certainty. For those in poor health, an annuity may make sense because they will be able to secure more income because of their shorter life expectancy.

9 LET A LOVED ONE INHERIT YOUR WEALTH

FROM April 6, new rules will allow pensions to cascade down the generations without big tax charges.

Jamie Jenkins, head of pensions strategy at wealth manager Standard Life, says: 'If someone dies before 75, new rules will allow a nominated individual – typically husband or wife – to inherit the tax pot. They can then dip into it at any age, drawing as much or little as they choose, tax free.

'If someone dies after 75, the pot is taxed as income in the hands of the nominated beneficiary. And once a beneficiary inherits a pot, they can put a nomination in place. This allows it to cascade down the generations inside the tax wrapper.'

10 POLITICIANS WILL MOVE THE GOALPOSTS

PENSIONS are a political football and politicians love meddling with them – as shown by Labour's plans to reduce the annual allowance and cut relief on pension contribution for higher-rate taxpayers.

Indeed, even the Works and Pensions Committee at the House of Commons is already suggesting a rise in the age from which people can access their pensions.

Andy Bell of AJ Bell says: 'If politicians continue to play Russian roulette with pensions, this could trigger a wholesale cashing in of pensions which would be disastrous.'

Freedom could be short-lived.

CASE STUDY 2 Now for our holidays!

Mick Hollyhead, 62
Operations manager

RETIREMENT beckons next month for Mick and Jane Hollyhead, right, – and they can't wait. Both in their early 60s and living in Telford, Shropshire, they intend to enjoy retirement to the full – with sun on their back a priority.

Mick says: 'We've grafted throughout our lives, never been out of work, saved assiduously and so we're going to enjoy the fruits of our labours. We've earned that right.'

Mick and Jane, 60, a trainer in health and safety issues, have saved through self-invested personal pensions administered by wealth manager Standard Life. 'We love managing our pensions,' says Mick, 'and will continue to do so in retirement, tax-efficiently.' He adds: 'Not all pensioners are going to buy Lamborghinis. I think George Osborne's decision to give freedom to pensioners is absolutely the right thing to do.'

After the obligatory farewell drinks at the brick-manufacturing company Mick works for, he will turn his attention to holidays.

'We're off to Gran Canaria next month,' he says.

Why give the taxman more than he's owed?

3 Knowing the crucial 25% tax rules

By **Jeff Prestridge**

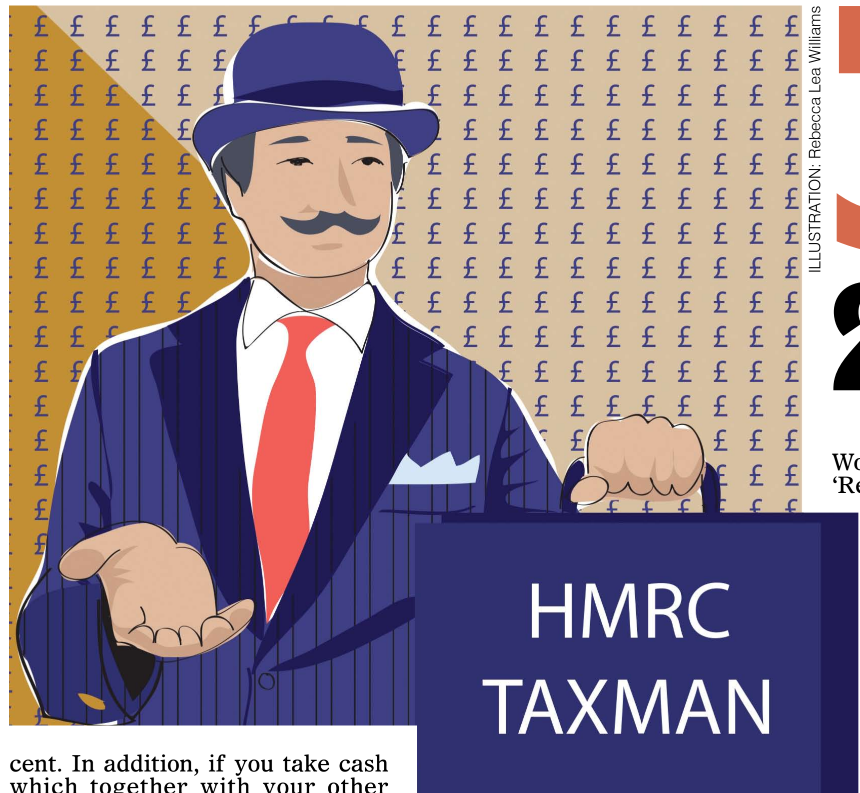


ILLUSTRATION: Rebecca Lea Williams

FREEDOM has a price. And when it comes to the great pensions revolution, the price for that freedom is something we all abhor – horrible income tax.

According to the Government's own figures, it is hoping to generate much needed tax revenues from people either cashing in pensions or making withdrawals over and above their right to tax-free cash.

Number crunchers at the Treasury forecast that in three years' time, tax from pension withdrawals could be bringing in extra revenue of £1.2billion a year. They are rubbing their hands in glee, especially given the delicate state of the country's finances.

In theory at least, the taxation rules on pension withdrawals after April 6 are straightforward.

First, everyone still has a right to take tax-free cash from their pension – usually equivalent to 25 per cent of their fund value. Any withdrawals made above this are taxed as income in the tax year you draw it – at your highest marginal rate of income tax.

David Trenner, an adviser with Intelligent Pensions, says: 'Any withdrawal which is not tax-free cash will be taxed at up to 45 per cent. In addition, if you take cash which together with your other income in the tax year amounts to more than £100,000, you will lose part or all of your personal allowance.'

Unfortunately, the unwieldy nature of the tax system run by Revenue & Customs complicates matters. Alan Higham, retirement director at wealth manager Fidelity Worldwide Investment, explains: 'Retirees will be liable for income tax on their pension withdrawals. But that is not how tax will be collected from most people by their pension scheme.

'In most cases, the scheme will be required by Revenue & Customs to take tax from ad hoc withdrawals at a higher rate under emergency tax rules.

'People will then have to reclaim the overpayment from Revenue & Customs using forms P50 or P53.

'If they don't do that, they could wait a year for the taxman to give them a refund.'

Higham has put together four examples that highlight the 'crazy taxation' of pension withdrawals (see panel on the far right).

In example one, for example; someone taking £30,000 from a pension fund – with no other taxable income – would pay emergency tax of £8,572 when in fact their tax liability is £2,378. They then have to go through the rigmarole of seeking a refund for £6,194.

Stephen Womack, a chartered financial planner with David Williams IFA in Northampton, says that reclaiming emergency tax is a pain. But a more important issue is to try to 'stagger' withdrawals over different tax years. By doing this, tax bills can be reduced (see panel below).

In scenario one, someone with gross annual income of £20,000 in the tax year starting April 6 – comprising a mix of state pension, salary and company pension – who is looking to cash in a £40,000 personal pension pot could save £1,523 of tax. Instead of cashing in all the pension in the new tax year starting April 6, they could access half then and take the rest the following tax year.

Not that Womack believes people should be accessing taxable funds from their pensions if they don't really need to. He believes that new rules on inherited pensions – allowing pension funds to be passed on tax-free on death to loved ones provided the deceased was aged under 75 – make a good case for leaving money in pensions.

He says: 'If you are under 75, and you have enough wealth for inheritance tax to be a factor, it makes sense to spend down other savings before drawing on a pension.'

AT A GLANCE TAX FACTS

- **You have a right to take tax-free cash from a pension. In most cases, it is 25 per cent of the fund value.**
- Withdrawals above this tax-free amount will be taxed as income in the tax year they are taken.
- **Although you will pay tax at your highest marginal rate – 20, 40 or 45 per cent – you may be hit by an emergency tax. You will then have to reclaim any refund owing.**
- Reclaims for overpaid tax can be made via Revenue & Customs forms P53 ('small pensions taken as a lump sum: repayment claim') and P50 ('claiming tax back when you have stopped working').
- **Both P53 and P50 forms are downloadable via the internet.**
- If you want to mitigate tax, speak to a financial adviser specialising in pensions. Visit website unbiased.co.uk.

THE CRAZY REDUCTION IN PENSION INCOME AS A RESULT OF EMERGENCY TAX

EXAMPLE ONE Annual taxable income of zero, one-off pension withdrawal of £30,000 taken in April 2015 (post April 6)

1 You are eligible for 25 per cent tax-free cash – £7,500.

2 £22,500 of pension withdrawal is taxable.

3 Withdrawal of £22,500 is taxed at emergency rate. Tax deducted: £8,572.

4 You get £13,928 of taxed pension withdrawal and £7,500 of tax-free cash. Total: £21,428.

5 But your actual income tax liability is £2,378 – assuming normal personal allowance of £10,600 applies. You must apply for a refund of £6,194.

EXAMPLE TWO The same £30,000 pension withdrawal but this time you have annual taxable income of £8,000.

1 You are eligible again for 25 per cent tax-free cash – £7,500.

2 £22,500 of pension withdrawal is taxable.

3 Emergency tax is applied to £22,500 pension withdrawal resulting in tax of £8,572.

4 You get total pension payment in your hand, net of tax, equal to £21,428.

5 Your actual tax liability is £3,978.

6 You have in effect overpaid tax of £4,594. You must then claim it back from the taxman.

EXAMPLE THREE Let's assume someone with zero income wants to make an even bigger pension withdrawal in April of £50,000.

1. £12,500 – 25 per cent – is tax-free while £37,500 is taxable.

2. Emergency tax of £15,322 is applied to the £37,500, resulting in total pension payment in hand of £34,678.

3 But your actual tax liability is just £5,378.

4 You have overpaid tax of £9,944. You must then claim it back.

EXAMPLE FOUR The same £50,000 pension withdrawal but this time you have annual taxable income of £20,000.

1 Again, £12,500 – 25 per cent – is tax-free while £37,500 is taxable.

2 Again, emergency tax of £15,322 is deducted, resulting in total pension payment of £34,678.

3 But this time you can only reclaim £4,801 because the proper tax on your pension should be £10,521.

● *All figures supplied by Fidelity Worldwide Investment*

HOW STAGGERING YOUR PENSION SAVES TAX

SCENARIO 1

●Saver reaches age 65 in June 2015 retiring on salary of £30,000 ●Final salary pension is worth £12,000 per annum ●State pension of £6,000 per annum ●They also have a personal pension pot of £40,000

STEP ONE: THINK ABOUT INCOME

Salary for April and May is £5,000.
State pension for ten months of the year is £5,000.
Final salary pension for ten months of the year is £10,000.
This means gross income for tax year ending April 2016 of £20,000 with total tax due of £1,880.

STEP TWO: THINK ABOUT THE PENSION

SOLUTION ONE: TAKE PERSONAL PENSION IN ONE GO
Total fund of £40,000. Tax-free cash equals £10,000.
£30,000 pension lump sum taxed as income.
Total taxable income in tax year ending April 2016 is now £50,000. Tax due is £9,403.
Total income in tax year ending April 2017 falls to £18,000.
Tax due is £1,480.

TOTAL TAX DUE OVER TWO YEARS: £10,883

SOLUTION TWO: TAKE THIS PENSION OVER TWO YEARS
Take £20,000 pension payment in tax year ending April 2016.
Tax-free cash equals £5,000.
£15,000 pension lump sum taxed as income.
Total taxable income in tax year ending April 2016 is £35,000.
Tax due is £4,880.
Then take second £20,000 pension payment in tax year ending April 2017.
Again, tax-free cash equals £5,000 and £15,000 pension lump sum taxed as income.
Total taxable income is £33,000 resulting in tax due of £4,480.

TOTAL TAX DUE OVER TWO YEARS: £9,360

TAX SAVING BY PHASING PENSION LUMP SUM OVER TWO YEARS: £1,523

SCENARIO 2

●Saver reaches age 65 in June 2015 retiring on salary of £30,000 ●Final salary pension is worth £12,000 per annum ●State pension of £6,000 per annum ●They also have a personal pension pot of £140,000

STEP ONE: THINK ABOUT INCOME

Salary for April and May is £5,000.
State pension for ten months of the year is £5,000.
Final salary pension for ten months of the year is £10,000.
This means gross income for tax year ending April 2016 of £20,000 with total tax due of £1,880.

STEP TWO: THINK ABOUT THE PENSION

SOLUTION ONE: TAKE PERSONAL PENSION IN ONE GO
Total fund of £140,000. Tax-free cash equals £35,000.
£105,000 pension lump sum taxed as income.
Total taxable income in tax year ending April 2016 is now £125,000. Tax due is £43,643.
Annual income in next four years falls back to £18,000.
Tax due each year is £1,480.

TOTAL TAX DUE OVER FIVE YEARS: £49,563

SOLUTION TWO: TAKE THIS PENSION OVER FIVE YEARS
Take £35,000 tax free cash in tax year ending April 2016, 25 per cent of £140,000.
Also £21,000 taxable pension payment.
Total taxable income in tax year ending April 2016 is £41,000.
Tax due is £6,080.
Then take £21,000 taxable pension payment in next four tax years on top of the £18,000 annual income.
Tax due is £5,680 per tax year.

(Figures assume all income. all tax bands and tax rates stay the same)
Source: David Williams IFA

TOTAL TAX DUE OVER FIVE YEARS: £28,800

TAX SAVING BY PHASING PENSION LUMP SUM OVER FIVE YEARS: £20,763

Take advice to avoid a painful hit

ONE OF Claire Walsh's specialities is ensuring people make the journey smoothly from work to retirement.

But the chartered financial planner is worried that many people will now take big amounts of cash from their pensions without realising they will be hit with a tax charge.

She says: 'The reforms are good news for the public purse, that's for sure. The Government is rubbing its hands at the prospect of additional income tax revenue.

'Yet I worry for those who don't understand the tax implications of taking their pension as a lump sum.'

Walsh, who works for financial planner Aspect8 in Brighton, East Sussex, says financial advice that embraces tax matters will prove invaluable in the new regime.

'Increased flexibility is good news for those who are able to understand the options and make the right choices,' she says. 'It should also prove invaluable for those willing to pay for independent financial advice.'

FEARS: Financial planner Claire Walsh

Don't get caught by circling sharks

4 Making sure that your investment plan is safe

By **Sally Hamilton**

PENSION freedom provides opportunities. But it also increases the danger of being hoodwinked by fraudsters eager to get their hands on your lifetime savings.

The Work And Pensions Select Committee warned earlier this month that many people were ill-equipped to make decisions about their retirement savings.

This, it said, left them wide open to scams. The committee called for a single regulator to be created, tough enough to protect retirement savers from rip-offs and fraud.

Currently, regulation is split between The Pensions Regulator – with its focus on workplace pensions – and the Financial Conduct Authority. These two watchdogs are struggling to stamp out pension scams that target the under-55s.

Operating under the enticing banner of 'liberator schemes', salesmen are luring pension savers with texts and emails promising them the chance to access their pension early. But to do this the pension fund must be transferred to another scheme, usually based overseas and invested in high-risk assets.

DID YOU KNOW? The TOTAL UK loss to investors from pension scams is estimated at £600 million

Dishonest salesmen – who take a hefty fee for the transaction – fail to point out that savers risk a 55 per cent tax penalty for accessing their pot early.

For example, a retirement saver with £100,000 who wants to take out £30,000 before the age of 55 would be likely to pay a 30 per cent fee (£33,000) to the liberator, from the fund. The taxman would then come after the saver for a 55 per cent charge on the whole unauthorised transfer of £100,000. This would lead to a 55 per cent tax charge of £55,500.

So to get a £30,000 sum from a pension, it could cost an investor £88,000. And there is no guarantee there will be any money left when they retire. Pension freedoms arriving next month will make life easier for the scammers. They will be able to target the over-55s and tempt them into expensive and high-risk ventures. Jamie Jenkins, head of pensions strategy at wealth manager Standard Life, says: 'People should not engage with anyone who cold calls them about their pension. Instead, speak to the pension provider, someone at the Government's Pension Wise service or a financial adviser.' Pension advisers are also warning people to take care when carrying out an online search for the free Government-backed Pension Wise service. Fake websites with similar names are sprouting up to catch out savers who could end up parting with their cash to fraudulent or unregulated investment schemes.

Geraint Davies, financial adviser at Montfort International in Guildford, Surrey, says pension scammers often track their prey on social networks. He says: 'One favourite pool is LinkedIn where they can search to see if anyone has moved overseas, which makes them easier targets out of the UK regulators' reach.'

He adds: 'Look for the FCA authorisation and ensure the qualifications of the person you are speaking to are genuine and the experience is provable. If not, walk away.'

Adrian Lowcock, head of investment at financial giant AXA Wealth, recommends savers think logically about what is being offered before leaping into a scheme.

He says: 'People need to remember a pension is meant to see them through their later years so reducing that pot of money early will destroy that plan. This is income for retirement, not for a mid-life crisis.'

CASE STUDY

'I've had to talk fraud victims out of suicide'

ANGIE BROOKS
Retired tax adviser

ANGIE Brooks, right, knows a thing or two about pension scams. The retired tax adviser is representing many of the 500 victims of six Ark pension 'liberation' schemes, many of them facing financial ruin.

These savers were persuaded in 2010 to take loans of up to 50 per cent from their pensions – paying hefty fees to the 'introducers and advisers'.

The money was then transferred to high-risk investment schemes, including a field in Cyprus, a brothel in the north of England and timeshares in St Lucia. Not only are their pensions now decimated but many of the victims are facing crippling tax bills of up to 55 per cent of the 50 per cent 'loans' liberated from the original pension fund value, as HMRC classified these as unauthorised payments.

Brooks is lodging appeals against the tax demands, which range from £5,000 to £250,000. She says: 'I have talked some Ark victims out of suicide since these demands started being sent out.'

Brooks fears the new pension reforms are likely to provide further fodder for fraudsters. She says: 'By allowing people to access all of their pension at 55 they are adding legitimacy to the concept of busting it all open.'

ILLUSTRATION: Rebecca Lea Williams

DANGER! TELL-TALE SIGNS THAT A SCAMMER IS AFTER YOU

1 **USE of phrases like 'one-off investment opportunities', 'free pension reviews', 'legal loopholes', 'cash bonus', 'government endorsement'. All tosh.**

2 **APPROACHES** by salesmen out of the blue over the phone, via text messages or in person door-to-door.

3 **TRANSFERS of money or investments overseas, meaning the money is nigh impossible to recover.**

4 **PROMISES** of access to pension pot before age 55.

5 **LITTLE documentation sent to customer.**

6 **ENCOURAGEMENT** to speed up transfer of money to the new fraudulent scheme.

7 **WEBSITES masquerading as the Government's Pension Wise service.**

5 How anyone can inherit a pension

By **Sally Hamilton**

FROM April 6, millions of savers will be able for the first time to pass their pension pot free of tax to anybody they want when they die.

The main winners from these death tax reforms are those who inherit a defined contribution pension fund left to them by someone under the age of 75 who was already withdrawing money from the pot before they died.

Previously they would have been stung with a hefty tax bill of more than half the value of the fund.

Tom McPhail, head of pensions at broker Hargreaves Lansdown, says: 'A £100,000 pot inherited today would attract a tax charge of £55,000. But from April 6, if the owner of the plan dies under age 75, the beneficiary can receive the full £100,000.'

The new rules also mean those who inherit this money can pass the fund on to chosen beneficiaries, safe from tax, allowing pensions to be preserved and passed down the generations.

Before pensions freedom day on April 6, retirement pots can be passed on tax-free only if pension savers are under the age of 75 when they die and have not touched the pension. But from April 6, all under 75s will be able pass on the pension tax-free, even if they had made withdrawals from the pot.

The same applies to payments made to a spouse from a joint life annuity – a fixed lifetime income purchased with pension funds. These annuity rules do not apply if the deceased was 75 or more.

The annuity the widow or widower receives in this case will be taxable at their marginal rate – as now.

For those who die over the age of 75, what remains in a pot can still be passed on to anyone.

But in future, if the beneficiaries take it as a lump sum they must pay 45 per cent tax in the 2015-2016 tax year, although this may change. This is still less than the previous 55 per cent. If beneficiaries make withdrawals from the pot instead, they will pay tax at their highest marginal rate of tax – 20, 40 or 45 per cent. Jamie Jenkins, head of pensions strategy at Standard Life, says: 'The changes will make a real difference to how pensions can be preserved and cascaded down the generations.'

David Woodhouse, head of advice services at investment adviser Chase de Vere, based in Bath, Somerset, says: 'For many people it could now become more tax efficient to draw income from other investments that would be liable to inheritance tax on death – such as savings accounts and Isas – before tapping into pensions.'

Indeed, he thinks that pensions are a more compelling proposition than ever. 'Think about it. First, pension investments continue to grow in a tax-efficient environment,' he says.

'Second, if the need arises, those aged 55 and over can access their money whenever they want and in whatever form they want.

'Add these pluses together and the case for retaining – and where possible adding to – pension assets becomes a strong one.'

McPhail says the kinder tax treatment of inherited pensions sends out a strong message to investors.

He says: 'The social contract has changed. Your focus as an individual is now on your family and immediate co-dependants to share your collective wealth, rather than with the wider community through the tax system.'

CASE STUDY

Cruel twist: husband dies 'a week too early'

Helena Brown, 68
Widow

NOT EVERYONE is a winner from the new rules allowing widows or widowers to receive payments tax-free from an annuity left by a loved one.

Widow Helena Brown, left, from Halesowen in the West Midlands, has lost out because her husband David died a week before the cut-off. 'How cruel,' she says.

The new rules apply from the start of the new tax year. Provided the first 'spousal benefit' payment is after April 6, and not before, then the income is tax-free.

Yet there is another hurdle. The buyer of the original annuity must have died on or after December 3 last year – that being the date when the rule change was unveiled by Chancellor George Osborne. In Helena's case, David died on November 25 after a short battle with an aggressive form of Parkinson's disease – a week too early for the widow's benefits within his two annuities to qualify to be paid tax-free to Helena.

She says: 'I have not taken benefit from either policy because I was advised not to until April 6. But it was only recently that I became aware of the December 3 cut-off.'

She is now hoping the cut-off will be removed. Asked to comment, the Treasury would only confirm the date.

TAKE OFF WITH YOUR WINDFALL

THE pensions revolution means fast cars, luxury holidays and childhood dreams are at last in reach. Here TOBY WALNE looks at what you could do with a little – or a lot – of your pension pot...

Learn to fly a classic...

RETIREMENT offers an ideal opportunity to fulfil ambitions you have harboured since you were young, such as learning to fly.

Introductory flying lessons can start from as little as £125 for half an hour in the sky, but splash out £200 and you could go up in a vintage Tiger Moth.

Captain Barry Hughes is head flight instructor at Clacton Aero Club in Essex and also instructs at Classic Wings, based at Duxford Aerodrome in Cambridgeshire.

He says: 'You can take as long as you like learning to fly – that's part of the appeal. If you pay by instalments you need not break the bank.'

A private pilot's licence entitles you to take up an aircraft for non-commercial flights. You must complete at least 45 hours of qualified flight training and pass nine written exams before getting your wings.

Flight schools charge between £130 and £200 an hour for lessons, so you could obtain your pilot's licence for about £6,000.

Or why not enjoy a thrilling 30-minute flight in a two-seater Spitfire, offered by Classic Wings at Duxford Aerodrome for £3,000.

... BUT WHAT YOU ARE MORE LIKELY TO AFFORD

A FLYING lesson of 30 minutes should not break the bank. But if you are nervous of taking control then why not indulge in a hot air balloon experience instead.

You can enjoy a one-hour balloon flight for about £100.

6 You've earned it – here's how you COULD spend it

DREAMS TAKE FLIGHT: Barry Hughes with a Tiger Moth

SPEEDY: Geoff Armstrong with his Lamborghini Countach

Get behind the wheel of 217mph sports car

PENSIONS Minister Steve Webb says he is 'relaxed' about people buying Lamborghinis with their retirement savings come April 6 – even if it means cashing in their entire pension.

But if you want a new Lamborghini Aventador you will need to pay at least £260,000 to find out what accelerating from 0 to 60mph in under three seconds – and a 217mph top speed – really feels like.

Geoff Armstrong owns two Lamborghinis and plans to sell one of them later this year to help fund his retirement.

The 59-year-old engineer from Long Eaton in Derbyshire aims to retire in August. He bought a second-hand Lamborghini Countach eight years ago for £40,000. It was one of the last of these iconic supercars built in the 1980s and it is this one he plans to sell.

Geoff says: 'It is now valued at anything between £200,000 and £300,000. It was bought as an investment to boost my income in retirement and is a well looked after 25th anniversary edition.

Geoff intends to keep his other Lamborghini – a 1970s Urraco worth £40,0000 – for him and his wife Jane to enjoy when the couple retire.

...BUT WHAT YOU ARE MORE LIKELY TO AFFORD

THOSE looking to invest in a classic sports car in retirement are often drawn to the heyday of British designs from the 1950s and 1960s.

The curvaceous E-Type Jaguar heads the list for many, but with top condition examples selling for £70,000 it can take a hefty chunk out of a retirement fund.

Garaging, professional maintenance, insurance and running costs must be added to the bill.

A typical £25,000 pension pot would buy a brand new Skoda Octavia.

GLAMOUR: On board the Orient Express

Solve a murder on the Orient Express

THOSE wanting to blow cash on a taste of paradise could try Sir Richard Branson's billionaire playground Necker Island in the Caribbean.

This 74-acre island can be rented for about £40,000 a night, or £300,000 for the week. It comes complete with all the extras you would expect of a playboy hideaway – private beaches, speedboats, hot tubs, half a dozen houses and 200 flamingos.

Alternatively, you can share the dream location with others as it accommodates 30 paying guests.

A seven-night stay at the top-of-the-range Great House Master Suite for two starts at £31,000, including all meals, alcohol and facilities.

But you must find your own way to the nearby Beef Island Airport for a pick-up. A return flight from London costs about £1,000. If the pension budget won't quite stretch to hiring your own island, then consider a trip on the legendary Orient Express.

Once a year, at the end of August, the Venice Simplon-Orient-Express departs from Paris on a six-day luxury rail trip to Istanbul that costs £5,870. With your own dedicated steward, and cocktails inspired by Agatha Christie's Murder On The Orient Express, you can relax listening to the pianist before a five-course dinner is served.

This year is the 125th anniversary of Agatha Christie's birth and to commemorate it you can indulge in a Murder Mystery-themed one-day train trip, leaving from London's Victoria Station.

It includes a five-course lunch with champagne on a British Pullman and costs £310.

Those in search of a less sedate adventure might consider an African safari, going in search of the big five – lion, elephant, buffalo, leopard and rhino.

Starting with a tour of the Okavango Delta in Botswana, where you wake up to elephants' calls, a ten-day organised trip costs from £3,000 with accommodation and flights. Visit website safaribookings.com.

.... BUT WHAT YOU ARE MORE LIKELY TO AFFORD

HOLIDAYS of a lifetime can be affordable – but they require careful planning. So, leave your pension intact, save and stay at home and watch an Agatha Christie DVD box set.

Set sail on a superyacht that looks like Monaco!

IF money really is no object, a superyacht is essential. Retirees with a limitless budget – and supersized pension – can spend £245 million on a 500ft yacht modelled on Monaco.

The floating palace – called Streets of Monaco – includes a go-kart track and a miniature Monte Carlo casino, plus the usual array of billionaire accessories, including helicopter pads, pools, man-made waterfalls and luxury penthouses.

Russian oligarch and Chelsea Football Club owner Roman Abramovich has a 536ft £240 million yacht, Eclipse, that might offer further inspiration.

It comes with a couple of helipads, a submarine, an anti-missile defence system and James Bond-style lasers that scan the horizon for paparazzi.

Sacha Bonsor, editorial director of Boat International magazine, says: 'Superyachts are objects of desire at any age but are particularly appealing at a time of life when you can enjoy them.'

She says there is still an opportunity to enjoy a taste of luxury for a whole lot less.

'A million pounds can buy you a fabulous yacht such as a British-made 54ft Oyster ocean cruiser. These are spacious and practical with three cabins. They make ideal vessels for sailing around the world,' she says.

Or if you prefer an adventure on the waves without breaking the bank, go for a luxury cruise instead.

The 1,082ft Britannia offers 20 different gins and 70 bottled beers and ciders served in 13 bars.

For relaxation, there are 13 restaurants and cafes, four swimming pools, a theatre, cinema complex, gyms and art galleries.

The P&O cruise ship set sail on its maiden voyage earlier this month. It is still taking bookings for a 14-day cruise to Barbados between December 18 this year and January 1, with prices per person for a balcony cabin from £3,049.

... BUT WHAT YOU ARE MORE LIKELY TO AFFORD

DREAMING costs nothing. A subscription to Boat International magazine costs £50 a year. Take a copy with you to read on a canal boat over a long weekend this Easter. It will cost £500 with berths available for seven people.

Dazzle with a £29m rare pink diamond

INSPIRATION for spending in retirement is everywhere, and thanks to the internet you don't even need to leave home.

Diamonds and jewellery offer the chance to get poor quickly, especially as the market is unregulated.

Diamonds are measured in carats – weight rather than size. One carat is a fifth of a gram.

A round-cut one-carat 6.5mm diameter diamond is relatively common and costs around £1,500. But fall in love with a more elusive three-carat diamond and you won't see change from £30,000. Set it in jewellery and prices really start to spiral.

A rare pink diamond sold for a record £29million at Sotheby's in November 2010. The 24.78-carat 'Graff Pink' was bought by the British billionaire jeweller Laurence Graff.

Fashion designer labels also offer a fabulous way to waste money, with wardrobes costing thousands of pounds one year suddenly almost worthless the next when the latest looks have fallen out of fashion.

The same goes for an electronic gadget that becomes an essential accessory – even though previously you did not know it existed.

... BUT WHAT YOU ARE MORE LIKELY TO AFFORD

BEFORE buying what you don't need, sell what's gathering dust through an auction website. Then treat yourself. Internet-based traders such as Girl Meets Dress and Handbags From Heaven enable you to hire designer labels for less than £100 rather than buying them.

But seriously... DON'T DO IT

WHILE the cruise industry is expected to be a major beneficiary of the new pension freedoms, the boss of one cruise line does not want people to blow their financial futures come April 6.

David Dingle, chairman of Carnival UK, which owns P&O Cruises and Cunard, says he would rather people 'preserve' their pensions.

Speaking earlier this month at the launch by the Queen of P&O's Britannia, Dingle said: 'We have many retired people who sail with us and this is a year-round operation. Our whole economic model is running these ships 24/7, every day of the year. So I don't want them blowing their pension all at once, I want them managing their pensions nicely so they can come back year after year.'

A survey by Saga, the financial services provider for the over-50s, found that eight per cent of people approaching retirement said they would use some of their pension money for holidays.

7 How to fund other investments with your pension pot funds

Should you join the army of buy-to-let landlords?

By **Emma Simon**

THOUSANDS of people have invested in buy-to-let properties as a way of funding their retirement.

But new 'pension freedom' rules will allow many more of those in their mid fifties to join this growing army of landlords.

Mark Hayward of the National Association of Estate Agents is predicting a buy-to-let boom.

He says: 'There are no doubts we will see a feeding frenzy, with many of those with large pension pots cashing in their lump sum and putting it straight into property.'

It is not hard to see the attraction of buy-to-let as it offers the potential of long-term capital growth with the opportunity to earn a regular income.

Strong tenant demand has seen rents rise over the past five years. The money you put in a typical buy-to-let is effectively providing a 5.1 per cent annual return, known as the yield, according to property service company LSL Property. This compares favourably with the returns from savings accounts and other investments.

From April 6, those aged 55 or over can unlock their pension savings, effectively enabling them to fund an investment property. But how do you use your pension to buy a second property?

Despite Hayward's enthusiasm, David Hollingworth of mortgage broker London & Country in Bath, Somerset, says many people will not have a big enough pension to buy a suitable investment property outright.

But they can use part of their pension savings to put down a sizeable deposit, then try to finance the rest through a specialist buy-to-let mortgage deal.

Hollingworth says: 'Most buy-to-let lenders require buyers to put down at least a 25 per cent deposit.' Interest rates on these loans tend to be higher than for standard residential mortgages.

For example, those with a 25 per cent deposit can get a five-year fixed rate at 3.89 per cent from the Post Office. This deal comes with a £995 fee.

For those taking out a £150,000 mortgage to buy a £200,000 property, this would mean monthly repayments of just over £486.

Alternatively, buyers could opt for a two-year fix at 2.89 per cent from Metro Bank, although this comes with a £1,999 fee.

DID YOU KNOW? The value of buy-to-let loans in the UK is a staggering £2.5 billion

As happens in the residential mortgage market, those who can afford to put down a larger deposit can access more competitive mortgage deals.

If you have a 40 per cent deposit, for example, you can get a five-year fix at 3.19 per cent from Virgin Money, This has a £2,094 fee. A £150,000 mortgage on a £200,000 property would cost £319 a month.

Unlike standard home loans, most buy-to-let deals are set up on an interest-only basis. This means lower monthly repayments as you are repaying only the interest on the loan, not the capital you have borrowed. But this does mean borrowers have to repay off the outstanding balance at the end of the mortgage term. This is usually done through selling the property, clearing the outstanding debt and pocketing any capital profits.

Those who want to keep the property longer – to provide an income in old age – should consider taking out a repayment mortgage so this debt is gradually paid down, removing the need to sell.

Many older people find it difficult to get a mortgage. But Mark Harris, chief executive of mortgage broker SPF Savills, says buy-to-let lenders impose fewer age restrictions.

He says: 'Most buy-to-let lenders will provide a mortgage until a borrower's 75th birthday. But some will want any debt repaid by the time a borrower hits 70.'

Buy-to-let lenders also have different ways of assessing how 'affordable' their loans are. Rather than examine an applicant's income and earnings, they look at the rental income that a property is likely to generate.

Hollingworth says: 'Lenders usually insist that the rental income is at least 125 per cent of the mortgage interest.'

He says that to qualify for a £150,000 mortgage on a £200,000 property, the Post Office would need the buy-to-let to generate a monthly income of at least £781.

Lenders use a notional 'standard variable rate' when doing these calculations, rather than the lower interest rate you would be charged for the first few years on any mortgage deal.

Another problem is that many lenders expect borrowers to have non-property earnings of at least £20,000 a year before they will offer a buy-to-let mortgage.

This is because they want to know customers have enough cash to cover repayments if tenants are hard to find. Non-property earnings can include pension income.

But it is important to understand the potential pitfalls of buy-to-let. Maintenance bills can be high and tenants can be demanding, so property investment is certainly not for the faint-hearted.

Patrick Connolly, a financial adviser with Chase de Vere in Bath, says using your pension to invest in a buy-to-let is not tax efficient. You can take a quarter of your pension pot as a tax-free lump sum. But if you take more, you'll have to pay income tax on these withdrawals.

Those taking large sums from their pension could find this pushes them into the next tax bracket – meaning a 40 or 45 per cent tax bill on the pension withdrawals.

The good news is that when your buy-to-let is up and running, mortgage interest and a host of other costs can be deducted from your rent – and you only pay income tax on what is left.

But if you sell your property at a profit you may end up paying capital gains tax, which is normally due on profits of more than £11,000.

Although the property will generate income when there are tenants, investors need to plan for when there could be a break in tenancy.

ILLUSTRATION: Rebecca Lea Williams

AT-A-GLANCE BUYING TO LET

PROS

- You get exposure to a booming rental sector.
- **Regular income stream.**
- Many running expenses can be offset against income.
- **Mortgage payments are interest-only.**
- Loans will usually be provided until age 75.

CONS

- **House prices are cyclical. So the capital value of your investment could fall.**
- Factor in that you might have gaps when no rental income is coming in.
- **Tenants can be difficult and damage your property.**
- You will have to spend time managing the property, or pay a company to do it for you.
- **Think twice before using any pension money other than tax-free cash to fund a buy-to-let purchase.**

What you pay in interest to fund a buy-to-let mortgage

Property Price	Monthly Repayment (25% deposit)	Monthly Repayment (40% deposit)
£100,000	£243	£160
£150,000	£365	£239
£200,000	£486	£319

Note: Interest payments for loans with 25 per cent deposit based on a 3.89 per cent mortgage fixed for five years (Post Office), Payments for loans with 40 per cent deposit based on 3.19 per cent mortgage fixed for five years (Virgin Money).

SOURCE: London & Country Mortgages

What you can expect to earn

Hot spots & postcode	Annual yield (%)
Sheffield S1	11
Aberdeen AB24	10.4
Bradford BD1	9.2
Manchester M14	8.7
Southampton SO17	8.7
York YO1	8.6
Greenock PA15	8.5
Aberdeen AB11	8.1
Glasgow G44	7.9
Paisley PA3	7.9

Annual rent received as a percentage of the purchase price

SOURCE: totallymoney.com.

CASE STUDY

I've started building a property 'empire'

Brian James, 56
Oil industry worker

BRIAN James, above, says he is fed up with returns from pensions and Isas – so he is planning to use property to fund his retirement.

Brian, who works in the oil industry, recently bought his first buy-to-let with wife Donna, 54.

He plans to use the money in his Isas to put down deposits on three other flats – all in the Newcastle area.

Brian, who lives in North Shields, says the couple did not have any difficulty arranging a buy-to-let mortgage and ended up with a 15-year loan from NatWest, which currently has an interest rate of 3.99 per cent.

He says: 'Provided the property is let, this will cover the mortgage and insurance costs and deliver a reasonable return each month.

'You'd hope that over the longer term the properties might increase in value, but this isn't the primary reason we've gone into buy-to-let – it is to get a decent return on our money, an income we can live on when we retire.'

He adds: 'I've never had a company pension that will pay a guaranteed income in retirement. I've had various private pensions but the returns haven't been great.

'I'd rather use the money I've saved to now invest in property, where I can get an annual income of between five and six per cent.'

Donna works at the local hospital as a physiotherapist. She will soon part-retire and will work only two days a week.

The couple say they are hoping that her connections with the hospital ensure they have access to a pool of young professionals looking to rent property.

CASE STUDY

Charlotte Younger, 35
Foreign exchange broker

CHARLOTTE Younger is fully aware of the pensions changes next month. But she has already taken retirement planning into her own hands by opting for buy-to-let investments rather than traditional pension savings.

The married foreign exchange broker from Clapham, South London, says: 'Although I am aware of the pensions revolution, it is a case of too little, too late for me. I am putting money into bricks and mortar and I have already started saving by investing in a buy-to-let apartment in Croydon.'

She adds: 'When the mortgage has been paid off on the apartment I intend to live off the income – hopefully buying one or two more buy-to-lets over the next few years to help boost my retirement income. The idea is to earn income from property rather than see it as a capital investment.'

Charlotte believes that not forcing retirees to buy an annuity with their pension pot is a good idea. It will not make her change her plans but she agrees that increased pension flexibility will encourage more people to take control of their investments and consider buy-to-let.

8 How the stars save for their life away from the cameras

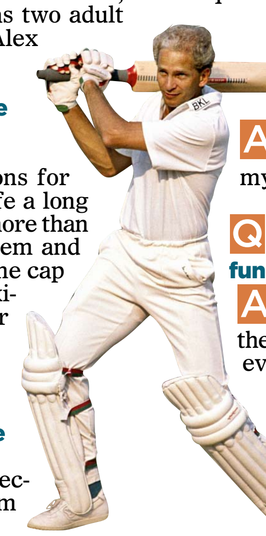
IN IT FOR THE LONG RUN: David with his wife Thorunn and, inset below, in his heyday

Look who's Smiling (and batting) their way to happiness

'A SAVER NOT A SPENDER': Carol Smillie is ready for the pension changes

My big-hitting pension plans, by DAVID GOWER

FORMER England cricket captain David Gower is one of Sky TV's most famous cricket commentators and a member of the International Cricket Council Hall of Fame. He is a keen wildlife conservationist as well as a patron of the rainforest charity, World Land Trust. Now 57, he lives in Hampshire with wife Thorunn, who is 'over 55', and has two adult daughters, 21-year-old Alex and 18-year-old Sammi.



Q Would you describe yourself as good at saving for retirement?

A Yes. I set up pensions for both me and my wife a long time ago now. There is more than £1 million in each of them and we're close to the lifetime cap of £1.25 million, the maximum permitted under current pension rules.

Q What is the most expensive frivolous item you have ever bought?

A I bought a Cyrus electronics sound system and some Ruarc speakers 20 years ago. They cost me £5,000 at the time, the equivalent of a lot more now.

Q When did you begin saving in a pension and what prompted you to start?

A I started putting money into pension funds in my mid-20s.

Q How much did you put into your pension fund?

A Whatever I could afford at first, and then, over the last ten or 15 years, whatever the maximum was.

Q What pension do you have?

A A self-invested personal pension.

Q How is it going?

A You have to accept the ups and downs of the stock market. Overall, though, my Sipp has definitely gone up over the years.

Q Did you lose money in the 2008 financial crash?

A There was one investment under my Sipp umbrella which was a commercial property fund. I lost pretty much all the money that I'd invested in it, which was about £20,000.

Q Did you get advice on how to invest your pension or did you go it alone?

A I took advice and invested in various managed funds. It's a safe, diverse portfolio.

Q What's the best investment you've made for retirement?

A It remains to be seen. I'm in the hands of the experts, and I just hope the funds will stack up by the time I get to needing them.

Q Do you think the new changes are a good idea?

I do – particularly the freedom to make your money work as hard as it possibly can rather than going down the ridiculous annuity road. If I were ever forced to take an annuity now for whatever reason, I'd feel completely legged over.

Q Do you plan to take advantage of the freedoms now?

A I'm still working so I've no intention of dipping into my pension yet. There's no need to touch it – I'd rather leave it intact and inheritable. If there were any financial disaster or if Revenue & Customs wants to start introducing even more retrospective and ludicrous tax legislation which threatens to take hard-earned money away, then maybe I'd have to look at it.

Q Will you draw it down in the future?

A I hope so. It would be ridiculous not to. But between now and when I need my pension, who knows what legislation will be introduced? One would like to think that anyone who's taken the right and responsible course of action to take the pressure off the State when they get to a certain age by saving would be respected by the Government. But it doesn't really seem to work that way.

Q Do you save in other ways for retirement – in Isas or property for example?

A Yes, we have Isas, for us and the children. We also have a couple of buy-to-let flats in South London.

A Finally, have you got a message for your 20-year-old self about saving for the future?

Q At 20, my message would be: have a bit of fun. At 25, look at your earnings and divide it up into money to live on, money to have fun with and money to save. But there's no point in saving for a rainy day in 50 years' time at the expense of living life in the meantime. Life is there to be lived and loved.

David spoke to Donna Ferguson

CAROL SMILLIE'S future's in SIPPs ... and underwear

SOON after she turned 50, Carol Smillie gave up TV presenting to start her own business venture with Annabel Croft, the former tennis player. The pair created women's underwear range Diary Doll. The award-winning range, which is already being sold in John Lewis, will next month hit the shelves in Debenhams, JD Williams and Alliance Pharmacies.

Carol, 53, lives in Glasgow with husband Alex Knight, 48, and her three children, Christie, 19, Robbie, 17, and Jodie, 15.

Q Would you describe yourself as good at saving for retirement?

A Yes, I would. I'm a saver, not a spender. I think saving is important because you don't know what's going to happen in the future. I wouldn't want to rely on my children in retirement – that's a terrifying thought!

Q What is the most expensive frivolous item you've ever bought?

A It has to be the diamond ring that I still wear to this day. I bought it in the 1990s, to celebrate a significant jump in my daily pay rate at the BBC. It cost a five-figure sum, more than I'd ever spent on a ring before.

Q When did you begin saving in a pension and what prompted you to start?

A I know it's unusual but I actually started saving into my first pension when I was aged 19. I was working as a promotional girl at a financial exhibition and it was quiet at this financial adviser's stand, and he talked me into paying £30 a month into a pension plan. It's still going. Since then, I've saved automatically into a pension every month.

Q Did you get advice on how to invest your pension?

A Yes, I started getting pension advice from a financial adviser when I was in my early 30s and earning significant sums of money. I think taking advice at that point was definitely the right thing to do.

Q Apart from your financial adviser, who's the main person you talk to about your pension?

A My husband Alex. He's very good with money, and does more of the household financial planning than I do.

Q What kind of pension do you have?

A Apart from that initial pension plan I set up all those years ago, everything is now in a self-invested personal pension.

Q How is your pension saving going?

A Quite well, I think. I use it as part of my overall tax-efficient financial planning. I put in the maximum that I am permitted to – £40,000 a year.

Q Have you made any mistakes with your pension?

A I had some bank shares inside my Sipp which I lost money on in the 2008 crash. But I've not had any major disasters because I didn't put everything into one basket.

Q What's the best investment you've made for retirement?

A The house in the Algarve, Portugal. We bought it just over 15 years ago. When we sold it in 2002, we got back double. We then bought another house on the same resort which we still have. I like bricks and mortar because it's a tangible asset.

Q Do you think the pension changes are a good idea?

A I think it's great that you can decide for yourself how much money to take out of your pension. It's also a good idea to give people access to their pension at the point they can still enjoy it, because 55 is not old. Also, the fact that you'll be able to pass on your pension free of tax before the age of 75 is good.

Q Do you plan to take advantage of the freedoms now or in the future?

A Yes, I'll start taking out tax-free cash when I turn 55. Some of it, definitely.

At the moment, I'm not doing any television presenting and Alex has left the restaurant business because we're both putting all our efforts into Diary Doll, pretty pants that women can wear with confidence during their periods.

The business is growing fast, but it's an uncertain time – we're bringing a product to market that nobody's ever done before, and we're at a stage in the business where we've got to put money into it.

Q What are your plans for your pension?

A My pension is there in the background as my security. I'm not dependent on it but it's a comfort for me to know it's there.

Q Do you save in other ways for retirement, such as in tax-friendly Isas or property?

A Yes, we have half a dozen properties in Scotland and we save the maximum we can into our Isas each year.

Q Finally, have you got a message for your 20-year-old self about saving for the future?

A Keep saving into your pension, and buy a property at 21 – which I did.

I actually think my 20 year-old self had it bang on financially!

Carol Smillie was talking to Donna Ferguson

Who's racing ahead in the retirement fund stakes?

By **Toby Walne**

THE Mail on Sunday joined some of the 230,000 revellers at the Cheltenham Festival earlier this month and looked at the odds for a rich retirement.

THE STUDENTS

EMILY Nicholson and Michole Jeynes both believe saving for their generation will be grim, but they are still optimistic.

The old schoolfriends, both 20 and from Worcester, were enjoying the fun and racing thrills of Ladies Day.

Emily, who is studying for a degree in international fashion promotion, says: 'I have no illusion about the huge challenge of saving for retirement, but for the next few years it will be paying off my university loan that will be the main priority.

'Then will come the hurdles of saving for a deposit to buy my first home and possibly the expense of any family I might have in the future.

'I see the prospect of retiring as just a distant dream. That is why I want to find a fulfilling job that I can really enjoy.'

Michole, who is doing a foundation course in hospitality, is fortunate to have been left a modest inheritance. She says: 'The pension changes definitely act as an encouragement to save.

'I only have a small amount of savings but I have an independent financial adviser who I am sure will make my money grow in the next few years.'

THE ENTREPRENEUR

RACHEL Hawkins, 29, is a partner in a company that buys and renovates pubs, restaurants and small hotels.

She says the Government has put too much onus on small companies such as hers in recent years, expecting them to offer pension provision for employees under the auto-enrolment scheme.

Rachel, of Stratford-upon-Avon, Warwickshire, welcomes greater pension flexibility and hopes that it will encourage people to become more self-sufficient when it comes to saving for old age.

She says: 'Everyone must be made to realise it is up to them and nobody else to save for retirement. Unfortunately, in the modern age you cannot rely on company pensions or the State to look after you in your dotage.'

Rachel, who was cheering on her partner, jockey Will Kennedy, adds: 'My pension is in effect my business, which gives me an added incentive to make it a success.'

CHOICES: Emma and Jeremy Bidie, above, each have three pension pots. Rachel Hawkins, right, is relying on her business

OPTIMISM: Students Emily Nicholson, above left, and Michole Jeynes

THE HARD-WORKING COUPLE

EMMA Bidie, 45, and her husband Jeremy, 56, from the Scottish Borders, each have three pension pots.

The couple, who have two children aged 18 and 20, welcome the new rules as they will open up more choices for them to dip into their funds as they see fit rather than be forced to buy annuities.

Emma, a hospitality manager at Musselburgh Racecourse, East Lothian, says: 'I am fortunate because I have a works pension that is defined benefit based and will give me a retirement income based on years worked and my final salary at retirement.

'But the others are defined contribution and I do not want to trade these in for annuities.'

Jeremy, a self-employed farm contractor, says: 'I might put all my pensions into one of these flexible self-invested personal pensions.'

9 Buying a Self-Invested Personal Pension that really does what it claims

Want to take control of your pension? Then SIPP it and see

ONE of the most flexible ways to save for retirement is through a Self-Invested Personal Pension, giving you choice over what you invest in. These plans also give you complete control over the income you take in retirement. Independent expert HOLLY MACKAY, a lover of all things Sipps, explains how such plans can work for you.

By **Holly Mackay**
INDEPENDENT SIPPS EXPERT

SELF-INVESTED personal pensions – known as Sipps – have traditionally been the domain of investors who use a financial adviser to look after their financial matters. But no longer.

The do-it-yourself Sipp market is growing like crazy as people look to take control of their own pension, in the process keeping costs low.

Research firm MoretoSipps estimates that there are nearly a quarter of a million people in Britain saving for their retirement this way, with pension pots collectively worth £20 billion.

If you are put off by the jargon, do not be. A Sipp is just a pension where you are in the driving seat, choosing the investments you want rather than throwing your lot in with the rather opaque world of mainstream private and workplace pensions.

WHY BOTHER WITH A SIPP?

I SEE three key benefits from a Sipp: choice, accessibility and transparency.

First, you get a large, diverse pool of investments to choose from. They are a good idea for anyone who has ever felt that their company pension is an intangible, inaccessible pot sitting locked away behind some grey pension provider's wall.

Most do-it-yourself Sipps let you access a range of investment funds, shares, exchange traded funds and investment trusts. Some will let you buy company bonds and foreign shares. More complex Sipps, which can be accessed through a financial adviser, will also let you hold commercial property, although residential property is excluded.

Sipps simply offer easy access to investments run by the best financial brands in the business. I call it the 'department store' approach.

If you have Isas too, you can hold these with the same company that administers your Sipp. One system. One password. Easy.

Secondly, Sipp suppliers have developed their plans with the mindset that you may actually want to see how your investments are doing. I am just transferring a company pension over to a Sipp and I will not miss those unintelligible pension statements, written every six months by an actuary in a galaxy far, far away. He invariably took 20 pages to say nothing. I want to see what I have and how it's doing. Online and when I want.

Finally, Sipps are transparent in terms of charges. Providers typically levy an annual service charge in the range of between 0.3 per cent and 0.45 per cent with annual fund charges on top of about 0.75 per cent.

So, you think a Sipp might be for you? Here are some more issues to consider.

HOW MUCH DO YOU NEED TO START ONE?

DO not automatically turn the page if you are in your 30s or 40s.

If you consider yourself too virile for pensions and feel that you will think about them when you take up golf or bridge, well think again.

As with other types of pensions, the Government will automatically top up any £800 contribution a basic rate taxpayer makes to a Sipp with another £200. That is effectively free money.

So, the earlier you start the more you will squirrel away for a comfortable retirement.

Crucially, you do not need to be super-rich to get going. The biggest do-it-yourself Sipp provider, Hargreaves Lansdown, will let you start with a £25 direct debit each month, although a regular monthly contribution of between £50 and £200 is the norm.

Other providers such as newcomer Nutmeg ask for a minimum initial contribution of £5,000 although this does not need to be cash. It can be a transfer from an existing pension you already have.

Some – Alliance Trust Savings, for example – have no minimums but with fixed annual charges of £155 plus VAT, you would want to have at least £40,000 in your pension pot to make these costs stack up.

OLD PENSIONS

IF you have moved from one job to another, amassing a few small pension pots along the way, it might be a good idea to transfer them all under the umbrella of one Sipp.

Having one meaningful pot is financially more motivating than having several bits and pieces strewn at the side of your career path. Do check carefully before any transfer though. Some company pension schemes provide valuable guarantees and benefits which are not worth giving away. Some charge nasty exit fees.

If you want to move from a final salary pension scheme, it is made purposefully hard – to protect you from possibly losing out on the security and benefits these offer.

Hargreaves Lansdown and another big Sipp provider AJ Bell Youinvest insist, for example, that you have evidence that you have met a financial adviser to discuss any transfer.

Some, such as Fidelity, just will not let you do it.

AT-A-GLANCE BUYING A 'SIPP'

THE PROS...	... AND THE CONS
You are in control of your pension, not a faceless insurer.	It's your pension baby – all the investment mistakes are yours. You can't blame anyone else.
You choose when to take income (post age 55) – and how much.	**You may incur a charge for income withdrawals – check and check again.**
You choose what to invest in – exchange traded funds, investment trusts, investment funds and equities.	Charges are levied for running the Sipp and for any trading within it. Keep an eye on them.
You can transfer money in from existing pension pots, getting the plan off to a flying start.	**If your Sipp is invested in stocks and shares, expect bumps along the way.**
You can view the value of your plan online as often or as infrequently as you wish to.	Not all assets can be held inside a Sipp – your home, for example.

COSTS

THERE are two ways of charging. The first is a percentage fee which is charged on the total value of your Sipp.

The typical range for this falls between 0.3 per cent and 0.45 per cent. Tilney Bestinvest, Fidelity and Hargreaves Lansdown fall into this camp, with Hargreaves at the top end of charges. Share trading will cost extra, usually about £10 per trade, although fund trading is free with these three.

The second way of charging is a flat fee which does not change according to the size of your pot. Interactive Investor charge £96 per annum and Alliance Trust Savings charge a fixed fee of £186 per annum. Both will charge transaction fees as well for both fund and share trades.

A few providers fall into the middle ground, using a hybrid mix of percentage and fixed fees. AJ Bell Youinvest, Barclays and TD Direct are examples.

As a general guide only, the percentage models are usually best for people starting out on the Sipp journey with pots of less than £50,000.

Once you amass more than this, then a fixed fee will usually be cheaper.

If you are tempted with the idea of setting up a Sipp and have less than £50,000 saved, I would avoid providers with fixed charges or charges for transfers in. I would look at AJ Bell Youinvest, Tilney Bestinvest, Fidelity or Hargreaves Lansdown.

For more established savers with £100,000, who will probably have some Isas too, AJ Bell Youinvest, Barclays, Tilney Bestinvest, Interactive Investor and TD Direct will typically be keenest on charges.

As a basic rule of thumb, a do-it-yourself Sipp which is mostly invested in active investment funds will levy annual total costs in the region of 1.1 and 1.25 per cent. That is up to £125 for every £10,000 you save this way. Any more and you have to ask yourself if you are being fleeced.

IN THE DRIVING SEAT: Holly Mackay

DID YOU KNOW? Sipps were introduced by Chancellor of the Exchequer Nigel Lawson (the father of Nigella) in 1989.

WHO TO TRUST

THIS is a tricky one and, let's face it, pensions and trust have not historically sat comfortably on the same page.

But these new-style Sipp providers are at the transparent 'good guy' end of a tainted spectrum.

With online fraud and scams rife, I personally think about the size, experience and strength of any provider. Although size is by no means perfectly correlated with competence, I prefer to play it safe with my savings.

When it comes down to simply knowing your pensions shtick and having the big company processes around to make it safe, my instincts point me in the direction of AJ Bell Youinvest, Fidelity and Hargreaves Lansdown.

CONFIDENCE

YOU do not need a first in Economics to run your own Sipp.

Lots of providers now provide good online pointers and guidance. Tilney Bestinvest, Fidelity and Hargreaves Lansdown all provide useful recommended fund shortlists.

If you are tempted by a pension where the decisions are made for you, have a look at Nutmeg.

Want a few pointers without taking full financial advice? TD Direct has just announced plans to offer guidance both online and over the phone. Finally, do not forget there are some good fee-based financial advisers out there. Paying someone a pre-agreed rate for a sense-check might well provide an extremely wise investment. Find someone who charges an hourly rate and buy a few hours of their time.

SO WHO WOULD I SUGGEST TO FRIENDS AND FAMILY?

IF you are a less confident, first-time investor, or someone with up to £50,000 saved, I like Tilney Bestinvest, Fidelity and Hargreaves Lansdown.

Fidelity has a fee-free first year offer at the moment for anyone putting more than £2,400 into a Sipp or setting up monthly payments of £200 before April 5. Forget Fidelity if you want to include shares too. If you want to trade shares then TD Direct is worth a look.

If you know your way around financial markets, I would add AJ Bell Youinvest to your list when your pension pot tops the £35,000 mark. It knows pensions.

And if you are Captain Confident with a big pension stash? It is hard to argue against the relative cost benefits offered by fixed fee providers Alliance Trust Savings and Interactive Investor. But do not expect the smoothest online experience in town.

● *Holly Mackay is an investment expert who holds personal accounts with all firms mentioned here. She is not paid by any of these firms.*

CASE STUDY

I took a bet on my shares... and 'won' a pony for our daughter

Sarah Talbot, 42
Software specialist

SARAH Talbot, from Malmesbury in Wiltshire, takes a gung-ho approach to her investing and enjoys taking a risk with her money – and so far it has paid off more often than not.

Sarah, 42, who is married to Steven, 47, and has two daughters Lorna, ten, and Jessica, 18, even bought a black Welsh pony on the profits of one of her stock market investments, which she holds with online platform Interactive Investor.

She invests actively both inside and outside her pensions.

She holds a self-invested personal pension with Legal and General as well as having a managed pension with Scottish Widows.

Sarah says: 'I invest high risk with the aim of a high return.'

She admits she can afford to take more investment risk as the couple have Steven's war pension to fall back on if her bets go awry. Steven served in the 23 Pioneer Regiment and the Royal Logistics Core, serving in Northern Ireland, Iraq during the Gulf War, and Afghanistan.

Sarah, a wealth management software specialist who used to work for vacuum cleaner giant Dyson, says: 'About three quarters of my investment portfolio is high risk. Because of the industry I work in I like investing in new technology firms. One of my favourites has been i-Robot, a North American listed company that makes robot vacuum cleaners.

'My strategy is to cream profits off the top when the share value has risen by between 60 and 75 per cent and I did just that with i-Robot. I bought in June 2012 and sold in April 2014 at a good profit.'

Sarah helps organise her local pony club, works for charity Hope Through Horses, and reads voraciously in her spare time. She also finds time to monitor her investments several times a day.

She says: 'If the investments outside my pension don't give me the returns I want, I plan to dip into my pension when I reach 55 and use the lump sum towards buying a property in Germany.

'My husband spent a lot of time there when he was in the Army and we love the country and people who are so friendly.'

REWARD: Lorna and her horse, which was bought with an investment profit. Top: Sarah with husband Steven, Lorna and other pets

SOME OF THE UK'S BEST DIY SIPP PROVIDERS

AJBell Youinvest	www.youinvest.co.uk 0845 54 32 600	FundsNetwork	www.fidelity.co.uk 0800 41 41 61
Alliance Trust Savings	www.alliancetrustsavings.co.uk 01382 573737	Hargreaves Lansdown	www.hl.co.uk 0117 980 9926
Barclays Stockbrokers	www.barclaysstockbrokers.co.uk 0800 279 6551	II Interactive Investor	www.iii.co.uk 0845 88 00 267
Tilney Bestinvest	www.tilneybestinvest.co.uk 02031 316 167	nutmeg	www.nutmeg.com 020 3598 1515
Charles Stanley direct	www.charles-stanley-direct.co.uk 020 7739 8200	TD Direct Investing	www.tddirectinvesting.co.uk 0845 607 6002

By Laura Shannon

10 Find specialists who can explain the best plan for you

THE pension changes coming in next month make 2015 'the year of advice' – when hundreds of thousands of people expected to access a pension for the first time will need to be steered through a maze of changes.
Information, tips and advice will be coming from all sources, but these are the four main areas where the soon-to-be retired can find help:

1. PENSIONS GUIDANCE

THE Government has launched an independent service to deliver free, neutral information to those near retirement – it's called Pension Wise. The official website is pensionwise.gov.uk. For those who prefer information over the phone. The Pensions Advisory Service can be contacted on 0300 123 1047.

Citizens Advice will provide free face-to-face sessions at more than 500 locations and you can find out more about Pension Wise generally from any Citizens Advice bureau.

To find your local office go to citizensadvice.org.uk. You can also call the advice line on 03454 040506. Although not part of the official Pension Wise service, you can also download impartial guides from the Money Advice Service website at moneyadviceservice.org.uk.

2. FINANCIAL ADVICE

SPEAKING to a professional financial adviser will help those who have complex arrangements – several pension pots for example.

Karen Barrett, chief executive of Unbiased, a website dedicated to helping consumers find an independent financial adviser, says: 'There is more potential than ever to shape your retirement to be the way you want it. But at the same time there are more ways to get it wrong and do irreversible damage to your income in the later stages of life.

'Consulting an adviser should be considered essential.'

If you have only a matter of months left before retirement, experts suggest digging out information about your individual pension plans, tracing any lost or old ones and asking pension providers for an up-to-date statement showing the value of your funds. You can download a checklist from unbiased.co.uk/pre-retirement-checklist.

The next step is to find a trusted and authorised adviser, which you can do through websites including unbiased.co.uk, findanadviser.org and vouchedfor.co.uk. All have handy guides to explain changes and choices for taking a pension.

Unbiased is also offering a free initial pension health check with advisers and a £50 discount for anyone who goes on to take advice.

The information website Increaseyourpension offers free pension reviews. It is owned by Get Financial Advice, a website backed by financial planning company Penguin Wealth of Cardiff.

Speaking to an adviser can give you the confidence that you are doing the right thing with your money and can ultimately lead to higher income in retirement – often by thousands of pounds a year, outweighing the cost of advice.

Barrett says: 'There will usually be something you haven't thought of, an opportunity you've missed or a problem you never considered. The adviser knows what to look out for, so can flag these up.'

This is still true for those with modest pensions. There are about 3,000 specialist advisers available on Unbiased who can deal with questions about small pension pots. And if a regulated adviser doesn't believe you will benefit from paid-for advice, they will say so.

You can expect to pay between £675 and £3,500 for quality retirement advice, depending on how complex your arrangements are.

3. PENSION COMPANIES

THE Association of British Insurers, which represents some of the country's biggest pension providers, says its members will be pointing customers towards Pension Wise. You may come across such a message online, on social media, over the phone or in letters sent to you about your retirement.

The organisation is also launching a consumer campaign called Choice. This can be explored via the website abi.org.uk and will outline the changes happening with pensions and details of the Pension Wise service.

Individual insurers are also taking steps to help. For example, Standard Life has launched a service called #ReadyWhenUAre featuring need-to-know basics, a retirement 'pathfinder' and an 'explore' tool so you can see how much money you could get depending on which route you choose.

Aviva's 'My retirement planner' tool can show your possible retirement income. Meanwhile City regulator the Financial Conduct Authority has issued new rules for pension providers to ensure savers who don't seek guidance from Pension Wise are still made aware of the changes.

You can expect any company you have pension savings with to issue 'retirement risk warnings' when you decide on withdrawing money from a pension. They will also ask whether you have received advice or guidance from Pension Wise.

Jonathan Watts-Lay, director at Wealth at Work, which provides education and advice to employees, says: 'This is a response by regulators to worries that people could make bad decisions.'

Big financial companies such as Hargreaves Lansdown and Fidelity have guides, videos and other tools you can use. Investment group Tilney Bestinvest has launched a new 'At Retirement' service including lower costs for income drawdown, a new annuity comparison service in conjunction with specialist Just Retirement Solutions and a free consultation with a financial planner.

You can download a free guide from bestinvest.co.uk/retirement.

4. EMPLOYERS

CONTACT the workplace department managing your pensions and work benefits to ask for more information if they haven't been in touch already.

The National Association of Pension Funds, which represents workplace pensions, says employer schemes will have refreshed information in letters, online and for face-to-face sessions.

NAPF is also urging savers to take their time and allow for rule changes to settle into place.

USEFUL CONTACTS

PENSION WISE:
www.pensionwise.gov.uk
THE PENSIONS ADVISORY SERVICE:
www.pensionsadvisoryservice.org.uk; 0300 1231047
CITIZENS ADVICE:
www.citizensadvice.org.uk (England and Wales)
www.citizensadvice.co.uk (NI)
www.cas.org.uk (Scotland)
03454 04 05 06
UNBIASED:
www.unbiased.co.uk
ASSOCIATION OF BRITISH INSURERS:
www.abi.org.uk
MONEY ADVICE SERVICE:
www.moneyadviceservice.org.uk
0300 5005000

FINDING THE RIGHT PENSION PATH FOR YOU

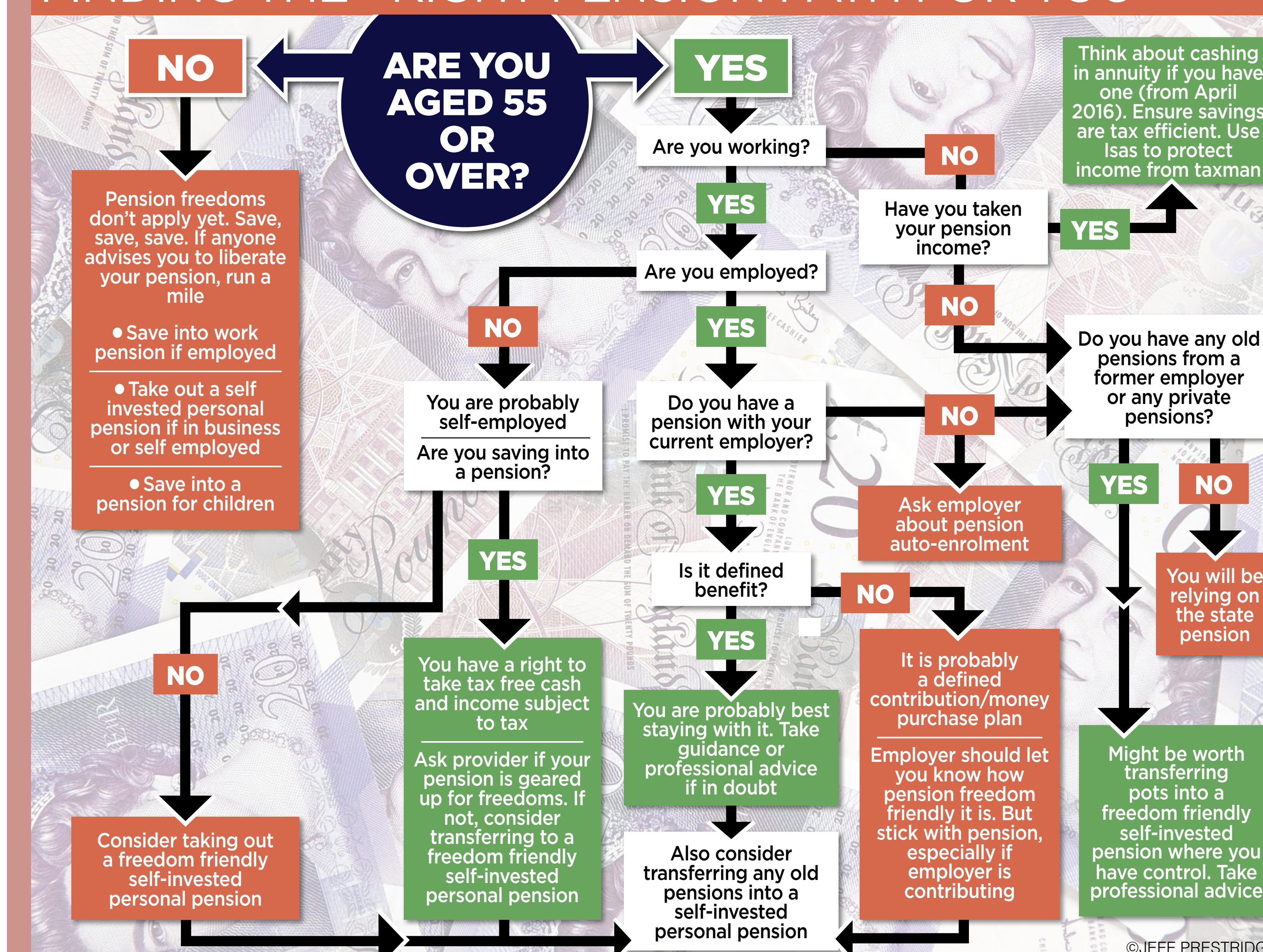


ILLUSTRATION: Rebecca Lea Williams

Five steps to get the best advice

1 Use the guidance offered for free by the Government's service, Pension Wise.

2 Don't be afraid to take professional pensions advice. Benefits will almost certainly outweigh any fees you pay.

3 Ask your employer if they are providing access to any financial advice – some will.

4 Get together all your pension statements and policy details. You'll need them if you're planning to take income.

5 Phone a friend if you've never used a financial adviser before. Ask among your friends whether they are happy to recommend one.

THINK YOU KNOW EVERYTHING YOU NEED TO KNOW NOW ABOUT PENSIONS?
Our fun quiz on the next page will reveal if you're really on the money

CASE STUDY Rosy picture for shrewd artist

ARTIST Gordon King, left, has benefited from professional advice over several decades. Thanks to a combination of shrewd decision-making and expert help from adviser EA Financial Solutions he is receiving a steady income from his portfolio of savings, which he started in his early 20s.

Such discipline early in life means that Gordon, 75, now has a decent sum to see him through his later years – although he hasn't given up painting because 'artists never retire'. He receives an income but also keeps a pot of money invested.

He says: 'I was brought up as a saver by my parents, with a middle-England "make-do" philosophy. It was difficult to save as an artist all those years ago but I ploughed in as much as I could and made myself secure.'

Father-of-three Gordon counts author Jilly Cooper among his buyers. He painted ballerina Darcey Bussell after being invited to sketch and photograph her at the Royal Opera House in London.

QUIZ Now let's see if you're on the money

NOW that you have read up on the facts for pension reforms in our special guide, test your new-found knowledge with The Mail on Sunday's Pension Quiz.

RULES No cheating! You cannot use the internet or correspondence from your pension provider to help – and you cannot phone a friend! Answers at bottom of the page.

1 At what age can you start saving into a pension?
a) Age 35
b) Whenever you start working
c) From birth if a parent or guardian pays into one for you
d) Age 16

2 The Government has launched an advertising campaign on TV and billboards to inspire the nation to save into a workplace pension. What is the catchphrase?
a) I'm sorry, but I'm out
b) We're all in
c) What's a pension?
d) I'd rather pay off the mortgage

3 What is the name of the impartial Government service launched to help people understand their options for taking a pension?
a) Pensions Unwrapped
b) Know Your Pension
c) Pension Boredom
d) Pension Wise

4 Which MP is currently the UK's Pensions Minister?
a) George Osborne
b) Andrea Leadsom
c) Steve Webb
d) Vince Cable

5 Which organisation(s) has/have been officially signed up to help deliver information about choices when you near retirement?
a) MoneySavingExpert, the consumer group founded by Martin Lewis
b) The Pensions Advisory Service
c) The Pensions Advisory Service along with Citizens Advice
d) None has been appointed as official bodies to deliver pension information

6 From April 2015 most people will have easier access to their personal or workplace pension savings once they reach retirement age. How much of a total pension pot will be taxed?
a) None of it
b) 25% is taxed, rest is tax-free
c) 75% taxed, a quarter tax-free
d) All of it is taxed

7 How much is in the average pension pot at retirement?
a) £50,000
b) £100,000
c) £500,000
d) £1 million

8 What is the current maximum payment per week for people receiving the basic state pension?
a) £50.90
b) £113.10
c) £190.10
d) £207.50

9 What is the minimum age for withdrawing money from a personal pension?
a) Depends on when you start taking your state pension
b) 67
c) 65
d) 55

10 Under what circumstances are you permitted to take a personal or workplace pension earlier than the minimum age?
a) You are retiring early because of ill health or if your pension scheme states that you can
b) If you run out of money
c) A family member becomes ill and needs care
d) You have paid more than 30 years' National Insurance contributions

11 What is an annuity?
a) A plan that guarantees an income for life in return for your pension savings
b) It pays out a lump sum once your savings drop below £23,000
c) It protects your pension savings from fraud
d) It pays out a lump sum if you are diagnosed with a serious illness

12 As of April, do you need to buy an annuity?
a) Yes
b) Only if your pension pot is £50,000 or less
c) No
d) No – because they will be scrapped

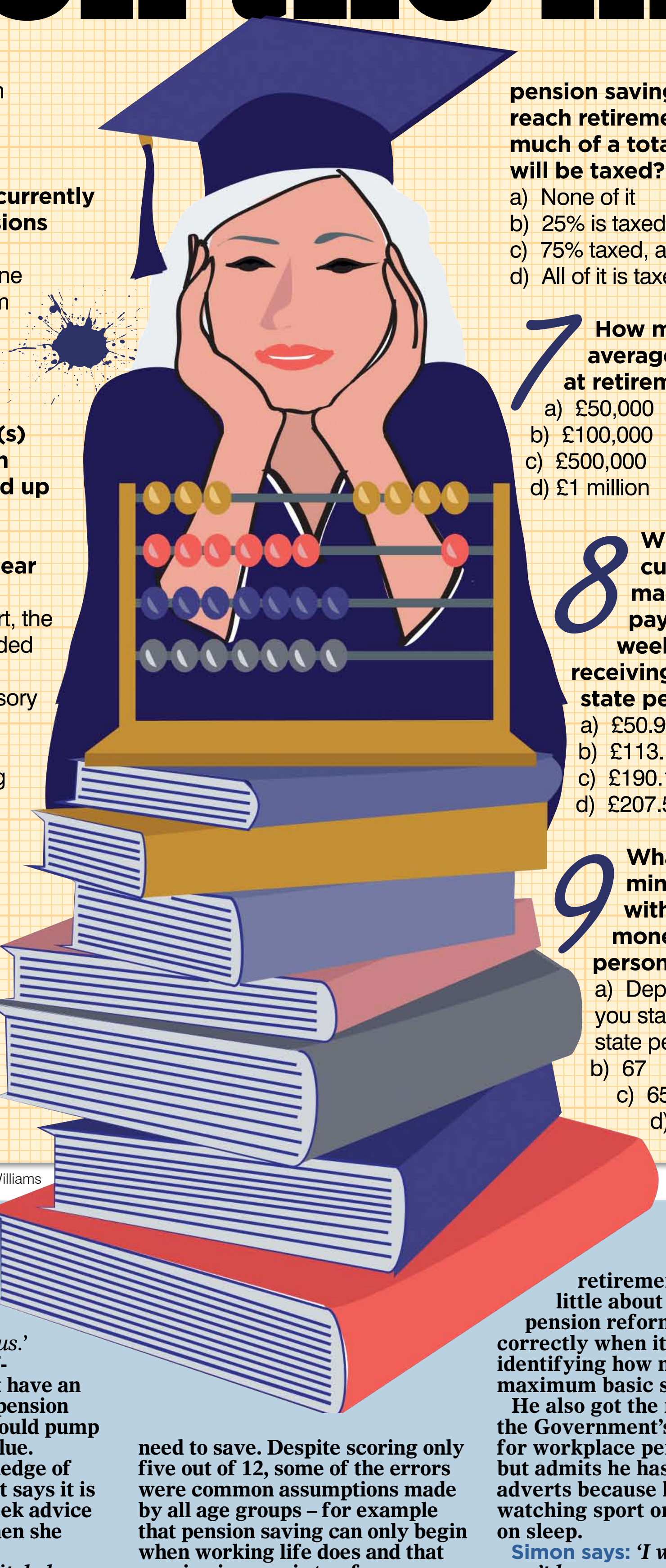


ILLUSTRATION: Rebecca Lea Williams

AND HOW DID THE EARLY BIRD QUIZ TAKERS FARE?

WITH signs of spring emerging, LAURA SHANNON heads to Kew, home of the Royal Botanic Gardens, to test the public's knowledge of pensions and the coming changes affecting them.

'I'M SHOCKED ABOUT TAX.' 4/12

SELF-EMPLOYED consultant Zuli Suttill and her friend Vildan Elhelw have not yet retired but have started to think about what they might need to do when the time comes. They took our quiz together, confessing that they knew little about pensions, and were surprised when the correct answers were revealed.

Zuli was stunned to discover she would be paying tax on her personal pension when she eventually retires.

Zuli says: *'I'm shocked. We all pay a lot of tax. It feels like the Government is getting too much out of us.'*

Given that Zuli is self-employed, she does not have an employer to boost her pension contributions, which would pump up her pension pot's value.

She admits her knowledge of pensions is patchy – but says it is exactly why she will seek advice from a professional when she reaches retirement.

Zuli says: *'I will definitely be speaking to a financial adviser as I will need help on what to do next.'*

'WE'RE WORRIED ABOUT OUR FINANCES.' 5/12

ROWENA Hill, 22, Amy Drew, 21, and Bonnie Atkinson, 30, are all in the early stages of their working lives. Though they are young, they are not clueless about pensions and are mindful of the need to save. Despite scoring only five out of 12, some of the errors were common assumptions made by all age groups – for example that pension saving can only begin when working life does and that pension income is tax-free.

Rowena says: *'I'm already thinking about my options for saving into a pension. I'm paranoid about my finances in general.'*

'BEING AN MP MIGHT HELP WITH RETIREMENT.' 4/12

SIMON Claxton, 32, who works for Pether of Kew Butcher, scored four out of twelve.

As he is a long way from retirement, Simon knows little about the upcoming pension reforms but answered correctly when it came to identifying how much the maximum basic state pension is.

He also got the right answer for the Government's catchphrase for workplace pension savings – but admits he has not seen the adverts because he is either watching sport or catching up on sleep.

Simon says: *'I worry that I won't have enough money to retire on. Maybe the only answer to a life of luxury in retirement is to become an MP, get a second job and claim lots of expenses!'*

AND WHAT HAPPENED WHEN HUBBY TOOK THE TEST? 3/12

I NEEDED a guinea pig for my pension quiz so naturally the first person I turned to was my spouse – 31-year-old engineer Robert Smith. Maybe he was not aware that buried in the terms and conditions of our marriage contract was a hidden clause meaning that he has to be of permanent use when it comes to matters affecting my job.

Never mind – too late now.

Since he has little interest in pensions other than ensuring his employer tops one up for him, I thought he was a perfect representative of a disengaged general public.

Rob – more used to asking finance questions than answering them – got a 'back-to-school' score of three. Certainly room for improvement I would say.

But he answered without hesitation the question about the minimum age for withdrawing from a personal pension.

It turns out this fact had been part of his knowledge bank for all of five minutes – he had just read an article about pensions.

ANSWERS 1) C 2) B 3) D 4) C 5) C 6) C 7) A 8) B 9) D 10) A 11) A 12) C

...and finally: What you asked the experts

WE invited Mail on Sunday readers to let us know whether they had any burning questions about the new pensions regime.

We then asked Stephen Womack, pictured right – a chartered financial planner with Northampton-based adviser David Williams IFA – to answer some of the queries.

IAN MCQUEEN ASKS

I WILL be aged 63 in June and I have four different pensions built up over the years working for medium and large companies.

I have heard a lot about the option of pension withdrawals and I naively assumed my pension providers would just let me draw down money as and when.

But it has been suggested to me that this is not the case. I need to move my funds into a 'different' type of pension to take money as and when I want. Is this correct?

STEPHEN WOMACK REPLIES

JUST as you might have to upgrade to a new smartphone to take advantage of the latest technology, so you might have to upgrade to a new pension to take full advantage of all the opportunities offered by the pension reforms.

There are millions of older pension plans. Only a minority have the necessary flexible features, or the computer systems, to provide people with the tools to draw income as they need it.

Sadly, as far as you are concerned, it may not be cost-effective for insurance companies to overhaul every older pension plan to make them all-singing and dancing.

So most firms now offer new-style plans – self-invested personal pensions – that you can switch money into at retirement, enabling you to dictate how and when you access income.

You might in any event want to consolidate a series of historic pensions under one roof to simplify managing the process of taking income and your ongoing investments.

But before making pension transfers, check for any guarantees linked to your existing pensions, such as preferential annuity rates. This is an area where advice can really pay.

DID YOU KNOW? One in ten people retiring this year think they can access all their funds tax-free. Wrong!

ALLAN FISHER ASKS

ALTHOUGH I agree with the imminent changes to pensions, is there anything I can do? I have already taken a tax-free lump sum and bought an annuity paying monthly income.

STEPHEN WOMACK REPLIES:

IN last week's Budget, George Osborne announced proposals giving people like you the right to cash in an annuity. From April 2016, you will be able to sell your annuity on the open market. You will be able to take it as a lump sum or put it into a pension and then draw down the money as you want it.

You will have to pay tax on the money. So, if you take it as a lump sum, you will pay income tax on it at your highest marginal rate in the tax year you cash in the annuity. If you put it inside a pension and then make withdrawals, you will pay income tax in the tax years the income is drawn down.

There is, however, one way that existing annuitants will benefit from the reforms. At the moment, many annuities provide a spouse's income after the death of the main annuitant. Under the new rules, if the main annuitant dies before age 75, then the spouse's income will be paid free of tax for their life. This applies to existing annuities providing the first spouse's payment is received after April 5 this year.

ANDY TRIGGLE ASKS

I HAVE an AVC pension linked to my main final salary company pension scheme, which will pay me a pension in four years' time when I am aged 63.

It is possible to claim my company pension early but I would lose a substantial amount for each year I claim before age 63. So, after April 5 will I be allowed to transfer the money held in my AVC to a new flexible pension that would allow me to make either regular or annual withdrawals?

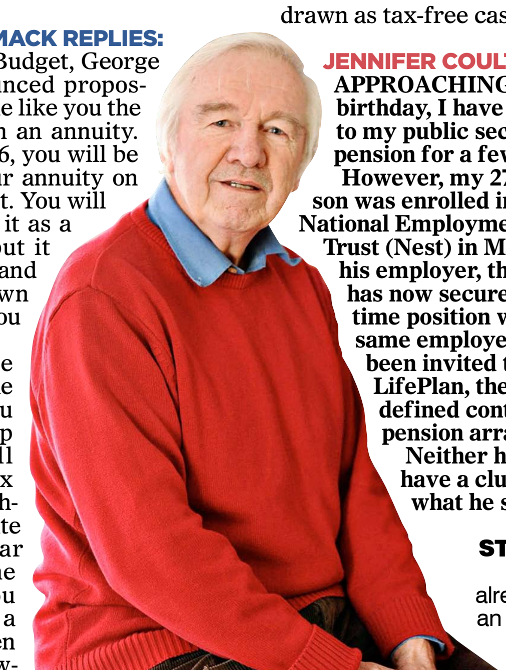
STEPHEN WOMACK REPLIES

ADDITIONAL Voluntary Contribution (AVC) plans allow members of company final salary schemes to save for an enhanced pension.

The key here is whether your AVC is structured as part of the main pension scheme, in which case the scheme rules will say when and how the value of the fund can be taken. It will be up to the trustees of your company pension scheme to decide if they want to amend the rules and incorporate the new pension flexibilities.

If your AVC is a freestanding AVC (FSAVC), which is independent of the main scheme, you should have more scope to switch elsewhere.

There may be a silver lining. If the AVC is inexorably tied to your main pension scheme, it may be possible that it can be used to provide all of your tax-free cash lump sum on retirement, preserving the full value of your pension for long term income. In some circumstances the entire value of the AVC can be drawn as tax-free cash.



STUCK: Allan Fisher has already bought an annuity with his pension

JENNIFER COULTER ASKS

APPROACHING my 60th birthday, I have had access to my public sector pension for a few years.

However, my 27-year-old son was enrolled in the National Employment Savings Trust (Nest) in May 2013 by his employer, the BBC. He has now secured a full-time position with the same employer and has been invited to join LifePlan, the BBC's defined contribution pension arrangement.

Neither he nor I have a clue as to what he should do.

Any advice or views on Nest versus LifePlan?

STEPHEN WOMACK REPLIES

WHEN you are invited by an employer to join their pension, it is generally worth doing. In this case, the LifePlan pension is very much a step up from Nest, which is a basic auto-enrolment scheme set up with backing from the Government.

LifePlan is a group personal pension managed by Friends Life, currently in the process of being taken over by Aviva. There is a wider choice of investment options than within Nest. Crucially, with LifePlan the BBC will at least double what an employee pays in, starting at four per cent of salary, and rising to a maximum of ten per cent if an employee pays eight per cent.

There is also life assurance of four times salary for those paying into LifePlan. Your son should join at once and pay as much in as he can afford.

Look forward with confidence

A lifetime of hard work deserves to be rewarded so it's important to take time to think about what the pension changes mean for you.

We've been helping people make the right decisions for their financial futures since 1848 and we're still here to help.

PRUDENTIAL