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IT'S YOUR MONEY IT'S YOUR CHOICE

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IT'S YOUR MONEY: IT'S YOUR CHOICE

You now have a great deal of choice over how you take your retirement savings from "defined contribution" ("DC") pension schemes, as well as certain other arrangements. Having choice is a good thing, but if you make the wrong choices it could cost you a lot of money, possibly leaving you without enough to live on in your retirement.

On average, people retiring at age 65 are currently expected to live for around 22 years, meaning that half are expected to live longer than that. Many people will live into their 90s and a small (but growing) number will live to be over 100. If you are one of these people, how are you going to ensure that you spend your retirement savings wisely, so that they last for your whole retirement and give you the comfortable, secure lifestyle that you want?

THIS GUIDE

This guide describes the main options that you will have for your income when you retire.

What you can do with your money changed in April 2015, so make sure you read this booklet and keep it for reference when considering your retirement planning.

THREE STEPS...

To decide what to do with your income in retirement.

1. Find out more more about your options at retirement

In any UK defined contribution (DC) pension scheme the options available can be one or a combination of the following:

A single cash lump sum

Income Drawdown

A guaranteed income for life from a pension annuity

The following pages describe each of the options in more detail.

2. Find out whether your scheme is eligible

These options apply to you if you have savings in any UK defined contribution (DC) pension scheme (sometimes called "money purchase" schemes). This could also include:

- Personal pensions
- Trustee Buyout Policies
- Cash balance pensions
- Defined contribution Additional Voluntary Contribution savings that you might have, including within any Defined Benefit schemes you might belong to (such as the Pension Plus Section).

Your current scheme might not offer all the above options. If you want to use an option that your scheme does not provide, you should be able to transfer your benefits into another scheme that is able to pay your benefits in the form that you want.

The options offered by any scheme may change over time as new products come to the market, so please ensure that you have the latest information from each of your schemes before you make any final decisions.

3.Take advice and find out more

Financial Advice

In order to decide how you should take your benefits when you retire, you should speak to a suitably qualified and FCA-regulated independent financial adviser who can talk you through the different options, review your personal circumstances and Income Tax position, and help you reach a decision.

It is normally necessary to pay a fee for this service. However, how you use your retirement savings might be one of the largest financial decisions you make in your life, so it is strongly recommended that you take financial advice to ensure you do not make a choice that you may later regret.

Information on how you can find an independent financial adviser is available at **www.unbiased.co.uk**

Contact Capita

You may also request further information from the scheme administrators, Capita, about the defined contribution benefits that may be provided, your opportunity to transfer those benefits and the options available to you under the scheme rules. This information may help you decide what to do with your defined contribution benefits. Contact Capita by calling 0800 328 4233 or by emailing them at pfizerpensions@capita.co.uk

You can also find useful information on the scheme website to help you plan ahead for your retirement. Active members can access the scheme website via a Single Sign On link within hrSource; deferred and pensioner members, or active members not logged into the Pfizer network, can access the site online at **www.mypfizerpension.co.uk**. You can also use the site to:

- Update your personal details
- See the current range of funds
- Review the range of investment options

Budget microsite

Visit the budget microsite at **www.pfizerpensionchanges info.com** to find further information about the changes and how they are likely to impact you. In this easy to use site you can find more information about your options at retirement, an explanation of frequently used terms and links to other helpful websites.

Did you know?

If you are a current or former Wyeth employee there may be some different terms and conditions that apply to your pension savings. See page 10 or contact Capita for more information and to see if this applies to you.

PENSION WISE

To help people understand their retirement choices, the government has introduced a pensions guidance service called Pension Wise, which:

- Is available to help members to understand the options in relation to what they can do with their defined contribution benefits
- Can be accessed at: **www.pensionwise.gov.uk** or via telephone on 030 0330 1001. You can also book a face-to-face appointment online

The pensions guidance will be free and impartial.

We will be providing you with more detailed information on the options available to you in the near future. In the meantime please contact Capita with any queries.

A SINGLE CASH LUMP SUM

Subject to the scheme rules, after age 55 you can withdraw all of your savings from any defined contribution pension scheme as a single cash lump sum. Normally 25 % of the lump sum payment will be tax free with the rest subject to Income Tax.

Advantages

- The money is yours to spend, invest or give away as you wish, outside of any restrictions traditionally associated with holding money in a pension.
- You will know exactly how much you have to live on in your retirement.
- You don't have to make any decisions about how you invest your savings within a pension scheme, although you do need to think about what you will do with the money if you are not going to spend it immediately.

Important: Not all options are available from every pension scheme and, even where an option is available, restrictions may apply to how you can take your benefits. Please contact all of your pension providers and ask for full details of the options they are able to offer before deciding how to take any of your pension benefits.

Disadvantages

- Withdrawing a large lump sum in a single tax year, particularly if you also have earnings from your job during the same tax year, may push you into a higher Income Tax bracket than you normally pay. This could mean that you pay much more tax on your cash sum and receive less than you might be expecting. See the "Income Tax" section on page 11 of this guide for details of how Income Tax works.
- You may find that "emergency" rate Income Tax has been deducted from your cash payment, and you will need to complete a self-assessment tax return to reclaim this from the government, which may not be possible until several months into the next tax year.
  - Unless you are planning on spending your savings immediately, you might be better off leaving your retirement savings invested.
  - If you spend your money too quickly, or if you live longer than you expect, you could run out of savings before you die. You may have to spend your later years surviving on a small State pension paid by the government, possibly at a time when you most need the money.
  - When you die, any cash savings or investments you have outside of a pension will form part of your Estate and be subject to Inheritance Tax.
- If you withdraw your benefits as a single cash sum and they are worth more than £10,000, then any future savings you make to any defined contribution pension schemes in the same tax year will be subject to the "Money Purchase Annual Allowance". (See page 13).

INCOME DRAWDOWN

What is Income Drawdown?

With Income Drawdown you can withdraw as much or as little of your pension savings as you choose at a time, leaving the rest invested to hopefully grow in value.

There are two different types of Income Drawdown. Both are available once you reach age 55 and both involve leaving your pension savings invested and taking out money as and when you need it.

Flexi-access Drawdown allows you to draw a regular income from your pension savings. **Irregular Cash Lump Sums** allows you to withdraw irregular cash lump sums as and when you need them.

Both options are treated slightly differently for tax purposes. With **Irregular Cash Lump Sums**, 25% of each payment is tax free, but under **Flexi-access Drawdown** you take the full tax-free cash sum as a one-off payment when you retire, with all future payments subject to Income Tax.

See below for a more detailed comparison.

Flexi-access Drawdown

- Normally you can take up to 25% of your fund value as a **single tax-free cash sum**.
- Any further withdrawals that you make from your savings will be subject to Income Tax and may be subject to an administration charge.
- You leave the remainder of your fund invested within the pension policy.
- You withdraw (or "drawdown") as much as you wish from your pension savings each year or you can use some or all of your fund to purchase a "short-term" annuity (up to 5 years).
- Your remaining pension fund will be subject to investment charges and may be subject to additional administration charges.
- You may need to move your funds into a separate pension scheme or policy that offers this facility.

Irregular Cash Lump Sums*

- In this case you do not take one tax-free lump sum amount.
- You choose when and how much money you want to take out of your pension as a lump sum payment.
- 25% of **each withdrawal** you make is tax free. You will pay Income Tax on the remaining 75%.
- The rest of your savings remain invested within the pension scheme.
- You can withdraw lump sum payments in this way as often as you want, possibly even while you are still working (subject to the rules of each pension scheme)
- At any time, you can withdraw up to 25% of your remaining fund as a single tax-free cash sum.
- The remainder of the fund would then be subject to Income Tax when you withdraw it.
- You can transfer out any remaining pension savings to another pension scheme.

*Officially called Uncrystallised Funds Pension Lump Sums

Advantages – Income Drawdown

You can withdraw as much or as little as you like from your fund. For example, you might want to:

- Withdraw as much money as you can each year while minimising the amount of Income Tax you pay.
    - Withdraw as much money as you need each year to live on.
    - Withdraw just enough to try and make your pension last for your entire retirement.
    - Leave some money in your pension fund, to go to your family after your death.
    - Leave as much as you can invested in your pension fund so that it might grow in value, giving you more money to spend later in retirement.
- Any investment growth will be free from Capital Gains Tax that might apply if you withdraw the money and invest it outside of a drawdown arrangement.
- If, at a later date, you would prefer to have a guaranteed income for the rest of your life, you can use your remaining fund to purchase a pension annuity at any time. If annuity rates have improved or your fund has grown, your annuity might be higher than if you had bought it when you retired.
- If you die before age 75, your remaining fund can usually be paid out tax free to your beneficiaries, without Inheritance Tax being deducted or Income Tax being payable. If you die after age 75, inheritance tax is not payable, but the beneficiaries may need to pay Income Tax on what they receive.
- **Irregular Cash Lump Sums** only: Subject to your scheme's rules, you can withdraw as much as you want each time and 25% will be free of tax.
- **Irregular Cash Lump Sums** only: By continuing to invest your money while you are retired, your pension savings might grow, giving you more money to spend later in retirement. As 25% of each payment will be tax free, you might eventually get more tax free cash from your pension than if you had immediately taken a tax free lump sum when you originally retired.

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INCOME DRAWDOWN CONTINUED

Disadvantages – Income Drawdown

- If you withdraw a lot of money in one go you might end up paying a higher rate of Income Tax than if you withdraw the money more gradually.
- Administration charges may be payable each time you withdraw money. You will also have to pay additional investment management charges and administration expenses for running your Income Drawdown policy.
- If your fund value in the scheme is worth more than £10,000 when you start Income Drawdown, future savings you make to any money purchase pension schemes will be subject to the "Money Purchase Annual Allowance". (See page 13)
- You will need to continue to carefully manage your pension investments even after you are retired. Poor investment returns could result in your pension savings falling in value, significantly reducing your income in the later years of your retirement.
- If you withdraw a large amount of money in one go (including any tax free lump sum amounts), you need to consider what you are going to do with that money. Unless you are planning to spend it immediately, you might be better off leaving it invested.
- If you spend your money too quickly after you have retired, or if you live longer than you expect, you could run out of savings before you die. You may have to spend your later years surviving on a small State pension paid by the government, possibly when you might need the money the most.
- If you plan to buy a lifetime pension annuity later in retirement (after opting for Income Drawdown when you originally retired), you should remember that annuity rates can rise and fall. You might find that the amount of pension income you receive is lower than expected if annuity rates fall. Similarly, if your fund has reduced too much through overspending or poor investment returns, your eventual annuity might be lower than it would have been when you first retired.
- **Irregular Cash Lump Sums** only: You may find that "emergency" rate Income Tax has been deducted from the taxable element of your cash payment, and you will need to complete a self-assessment tax return to reclaim this from the government, which may not be possible until several months into the next tax year.

It is very important that you take independent financial advice from a suitably qualified, FCA-regulated adviser before using Income Drawdown. If your DB transfer value in the scheme is worth more than £30,000, taking advice is a requirement before opting for Income Drawdown.

GUARANTEED INCOME FOR LIFE FROM A LIFETIME PENSION ANNUITY

If you wish, at any time after reaching age 55 you can use your retirement savings to secure a guaranteed income from a pension annuity that will last for the rest of your life. After your death it could also pay an income to your spouse or partner for the rest of their life.

You can do this by:

- If you wish, taking any tax-free cash lump sum from your savings when you retire (usually up to 25% of your savings); and
- Using the remaining 75% of your pension savings to buy a lifetime pension annuity.

What is a pension annuity?

A pension annuity is an insurance policy, where you give your pension savings to an insurance company, and in return they guarantee to pay you an income for the rest of your life, even if you live to be 110!

You have a lot of flexibility over how the pension annuity income is paid to you, for example you can choose to buy a pension annuity that increases each year, or you could choose to have a flat-rate pension annuity that never changes – this would start at a higher rate to one that increases each year.

When a pension annuity policyholder dies, the insurance company keeps any pension savings that have not yet been paid out as an income and uses this money to keep paying out pensions to other pension annuity policyholders who outlive their savings. In this way, if you live longer than expected, you are always guaranteed to get a pension annuity income for the rest of your life. This is what pension annuities are designed to do – protect you against the risk that you outlive your pension savings.

But this can also be one of the main concerns with pension annuities, in that if you die shortly after retiring the insurance company keeps all of your remaining savings rather than it being paid to your family. To help with this, you can choose to buy a pension annuity that has one of the following protection features:

- A pension annuity for your spouse or partner after you die, payable until their death;
- A guarantee that the pension annuity will pay out a minimum number of years of income, even if you die within that time (usually 5 or 10 years but it could be longer).

Pension annuities can be complicated and choosing the correct one can be difficult. Your pension scheme may offer access to an annuity broker or financial adviser who can help you look at the market and choose the annuity that is most appropriate for you.

Following the recent changes to pensions in the UK, we expect to see a great deal of changes in the pension annuity market, with providers offering more flexible and varied annuity products. It is strongly recommended that you seek independent financial advice as part of your retirement planning, to help you choose the pension annuity product that is best suited for you.

Advantages

- Your pension annuity will last for your whole life, no matter how long you live.
- Once you have bought the pension annuity, you never have to worry about how your pension annuity is invested, or what charges you are paying because your income is guaranteed.
- You can buy financial protection for your spouse or partner.
- If you buy a pension annuity that increases in payment (for example, in line with inflation), your income from the pension annuity will increase each year of your retirement, helping to protect you against the effect of increasing prices on your standard of living.

GUARANTEED INCOME FOR LIFE FROM A LIFETIME PENSION ANNUITY CONTINUED

Disadvantages

- Purchasing a pension annuity is currently a one-off decision that you cannot reverse if you later change your mind.
- Your money will be paid to you as a regular income, so you will not be able to withdraw any large amounts in the future, for example to meet unexpected expenses.
- If you die soon after retirement, your dependants may not get the full value of your pension savings back. Although you can buy pension annuities that pay out guarantees or offer pension annuities to your dependants, these protections reduce the amount of income you will receive from the annuity.
- In some rare circumstances, you might be subject to the Money Purchase Annual Allowance after you have purchased an annuity (see page 13).

Important: Not all options are available from every pension scheme and, even where an option is available, restrictions may apply to how you can take your benefits. Please contact all of your pension providers and ask for full details of the options they are able to offer before deciding how to take any of your pension benefits.

IMPORTANT NOTE FOR CURRENT AND FORMER WYETH MEMBERS

The scheme comprises a defined benefit (DB) section and a defined contribution (DC) section. The DB section of the scheme is closed to both new entrants and to future accrual. The DC section is open to new entrants.

Members in the DC section may have pure DC benefits (where the benefits at retirement are determined solely based on the value of their fund at retirement) or DC benefits with a DB underpin (where the benefits provided at retirement are determined based on the value of their fund, but are subject to a specified minimum level), or a combination of both.

At the date of conversion when the scheme closed the DB benefit to future accrual and converted to DC provision, some members would have become eligible to a DB underpin. If the value of this DB underpin at retirement is more valuable than the benefit that can be secured through the DC fund, then typically the DB underpin takes precedence. It's important to know if a DB underpin is applicable to you as this could well influence your approach to retirement savings. Further information can be obtained by contacting Capita by calling 0800 328 4233 or by emailing them direct using the following details; **pfizerpensions@capita.co.uk**

INCOME TAX – HOW IT WORKS

Under any of the pension options described, you can normally take up to 25% of your pension savings as tax-free cash, either as a single lump sum or as 25% of each payment that you take.

The Income Tax that you pay will depend on your total income in each tax year. The higher your income, the greater the amount of Income Tax you pay.

For this reason, you should think carefully about the timing of how you take your benefits from your pension savings if you wish to avoid paying the higher rate of tax that can apply.

How it works

Please note that the figures opposite have been simplified to make it easier to demonstrate how Income Tax rates vary depending on your income in each tax year. In reality, Income Tax calculations can be complicated and it is strongly recommended that you consider taking financial advice, including in relation to tax, before taking your benefits out of any pension scheme.

In the UK, the tax year runs from 6th April of each year to the following 5th April. For example, the 2015/16 tax year runs from 6th April 2015 to 5th April 2016. The figures below are for the April 2015/16 tax year.

For up to date Income Tax rates please go to:
www.gov.uk/income-tax-rates

The rate of Income Tax you pay is calculated in a number of bands.

- You do not normally pay Income Tax on the first £10,600 of your income in any tax year. This is called your "Personal Allowance". For a number of reasons, your Personal Allowance may vary throughout your working life.
- Income of £0 - £31,785 would be taxed at 20%. If you have the full Personal Allowance you would start paying this rate on income over £10,600
- Income of £31,786 - £150,000 would be taxed at 40%. If you have the full Personal Allowance you would start paying this rate on income over £42,385
- Income of £150,000 or more would be taxed at 45%.

INCOME TAX – HOW IT WORKS CONTINUED

If your income in any tax year goes above £100,000, then your Personal Allowance will gradually reduce as your income increases. Once your income reaches £121,000 your Personal Allowance will be zero.

This means that you will pay Income Tax on all your income, including the first £10,600 you earn.

Remember that you are liable to pay Income Tax on all of your income in any tax year, including any State pension, earnings from employment, interest on investments and any income you take from any pension schemes.

As you can see, the more you earn in any tax year, the higher the rate of tax you pay.

Example

If you normally receive an annual income of £30,000 in total, from your job, the State pension or your other pension arrangements, then you would normally pay 20% Income Tax on the amount over the Personal Allowance.

However, if you also take taxable cash payments from your pension savings totalling £60,000 in the same tax year, your total income would be £90,000. You would normally not pay any Income Tax on your Personal Allowance (£10,600), but you would pay 20% Income Tax on £31,785 and 40% Income Tax on the remaining £47,615, higher than your normal rate of Income Tax.

You could minimise the Income Tax that you pay from your pension savings by:

- Only drawing money from your pension after you have stopped working.
- Waiting until the end of the tax year to stop working, so that you retire and draw your pension in a new tax year.
- Take your pension savings in smaller lump sums, spread over a number of years, to make sure that you always stay in as low a tax band as possible.

Important: "Emergency tax"

When a cash sum payment is made to you, including any "Irregular Cash Lump Sums", your pension scheme administrator will not know the correct rate of Income Tax to deduct for you, if they do not have details of all of your other earnings. As a result, they will be obliged to deduct "emergency" rate Income Tax, which could be at a higher rate than you actually need to pay. In these cases you will need to complete an annual self-assessment tax return and submit it to HM Revenue & Customs to reclaim the overpaid Income Tax.

In some cases you may find that you have not paid enough Income Tax, meaning that you may have a tax bill to pay in the future.

You should take great care to ensure that you clearly understand the tax payable on your benefits before you spend the money you receive.

Other tax issues

As well as Income Tax, there are also some other tax issues that you might need to take into account when deciding how you will take your retirement benefits, including Inheritance Tax, Capital Gains Tax on investments outside of a pension scheme and Income Tax on any savings interest.

These tax issues are beyond the scope of this guide. It is strongly recommended that you speak to a suitably qualified and FCA-regulated independent financial adviser in relation to these potential tax issues before you make any decisions. You can find one in your area online at **www.unbiased.co.uk.**

Money Purchase Annual Allowance

Once you have accessed any of your pension savings flexibly you can continue to pay further pension contributions, but you will only receive tax relief on contributions to defined contribution pension savings up to the new Money Purchase Annual Allowance (MPAA) of £10,000 for that year. Any contributions, made by you or on your behalf by a company that exceed this amount will be subject to a charge and will reduce the Annual Allowance in respect of any other pension savings you might make.

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JARGON BUSTER

Below you can find explanations of some of the terms that come up in this booklet. For more pension definitions and for further information of the increased flexibility at retirement, please visit the microsite at **www.pfizerpensionchangesinfo.com**

Defined Benefit (DB) Scheme

A type of pension scheme where you pay a fixed contribution rate each year but the amount you receive at retirement is worked out as a proportion of your earnings (based on the number of years you have been in the scheme).

Defined Contribution (DC) Scheme

A type of pension scheme where contributions are paid into your pension pot and the amount your pot is worth at retirement depends on the level of contributions and how your chosen investments have performed.

Flexi-access drawdown

A facility that you can enter into from age 55 which allows you to keep your pension pot invested as you choose. You can choose to take a tax free lump sum and then withdraw a regular annual income at a later date.

Income Drawdown

A facility that you can enter into from age 55 which allows you to keep your pension pot invested as you choose, but you can still have access to it and withdraw money from it over time.

Irregular Cash Lump Sums (or Uncrystallised Funds Pension Lump Sums)

A facility that you can enter into from age 55 which allows you to keep your pension pot invested as you choose. You can choose to withdraw as many small cash lump sums as you like and 25% of each withdrawal will be tax free.

Pension Annuity

An insurance contract that you can enter into from age 55 to buy a pension for life (regular guaranteed income) with your Defined Contribution pension savings.

CHANGES TO YOUR INVESTMENT OPTIONS

Now that you have more options at retirement we are making changes to the investment choices available to you within the Pfizer schemes. In particular we are changing LifePath to make it more flexible and more tailored to suit your own choices.

Previously, if members chose LifePath then we would invest your Pension Account on your behalf, moving your money gradually into lower risk funds as you approached retirement (to protect the pension pot you had already built up).

We are in the process of creating three versions of LifePath based on the three main options you now have at retirement (pension annuity, Income Drawdown or cash lump sum). The default option will be the pension annuity route, but you will be able to decide which route suits you best.

We are also making changes to our Self-Select range, for those of you who feel comfortable making your own investment decisions.

Phase 1 of the changes is already complete; we are expecting the new funds to be in place by September/October 2015. For more information on the changes, please contact Capita.

Important Notices

Taking out insurance or investing in other provider products brings risks of provider or insurer default. The Trustee accepts no responsibility or liability, including for consequential or incidental damages or for a particular insurer's or provider's future solvency.

Please also note:

- The value of investments can go down as well as up and you may not get back the amount you have invested. In addition, investments denominated in a foreign currency will fluctuate with the value of the currency.
- When there is no (or limited) recognised or secondary market, for example, but not limited to property, hedge funds, private equity, infrastructure, forestry, swap and other derivative based funds or portfolios it may be dif ficult for you to obtain reliable information about the value of the investments or deal in the investments.

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