Taking your money out of Nest

Information to help plan for your retirement

Contents

Before you start

This booklet is part of your Nest retirement pack and should be read alongside your retirement letter, which is sent to you six months before the retirement age we hold for you. It doesn't give you financial advice and is provided for information only.

When we talk about retirement we mean the point in your life when you choose to take your money out of Nest.

It doesn't necessarily mean you'll stop working. Some people decide to take their money out when they reach a particular age but they still want to work as well. Also, reaching retirement age doesn't mean you have to retire. You can keep contributing to your Nest pot and help it grow if you decide to retire later.

The decisions you make now about whether to continue saving or take your money out will determine how much is available to you. Your retirement could last for many years, so it's important to think carefully about your options.

There's a lot to think about so don't rush to make a decision. Take some time to read about and talk through all your options. This will help you choose how and when to take your money out of Nest or any other pension scheme.

Checklist

- Check your State Pension details to see your retirement age and the amount you should receive
- Trace other pensions you may have at **gov.uk/find-pension-contact-details**
- Estimate your retirement income with the Money and Pensions Service pension calculator at **moneyadviceservice.org.uk/en/tools/pension-calculator**
- Visit **pensionwise.gov.uk** to find out more about your options when you're ready to retire
- Read through the options in this booklet about what's available when nearing retirement

Beware of pension scams

Some people have built up a lot of money in their pension pots. This has attracted an increasing number of scams that target people approaching retirement.

Spotting a scam

Scams can take many forms and their tactics often change. Here are some of the typical warning signs to look out for.

What they usually offer

- High growth investment opportunities for your pension savings, usually overseas.
- Early access to your retirement pot if you're under 55.

Tell-tale language

- Upfront cash or a free pension review.
- Offers to cash-in or liberate your pension, pension loans, early pension release, pension selling, saving advance.
- Unique or one-off investments, often with guaranteed returns.

How they may deal with you

- Approach you over the phone, by text or at your door.
- Pressure you to sign documents quickly, for example with a courier at your door.
- Encourage you to speed up your pension transfer.

What can happen

Scams are designed to look appealing, but they usually end with people losing some or even all of their retirement savings. Once you've signed over your money, you can't get it back. Not only that, you can also face large tax penalties for taking an unauthorised payment from your retirement pot.

What you should do

It's sensible to get independent advice on any offer to transfer your pension or check with the Money and Pensions Service on **0300 123 1047**. Never rush a decision or sign anything under pressure. If you think you've already been approached by a scammer, call Action Fraud on **0300 123 2040**.

Find out more at **thepensionsregulator.gov.uk/individuals/dangers-of-pension-scams.aspx**

Getting guidance from Pension Wise

The government has set up a service to offer free, impartial guidance on your retirement options. Pension Wise, which is part of the Money and Pensions Service, will explain all your options, the decisions you'll need to make and what tax or fees to look out for when you take money from your pot.

When you're starting to think about your retirement, you should call Pension Wise on **0800 138 3944** or visit **pensionwise.gov.uk/en/about** to book an appointment, or to arrange a face to face meeting at a Citizens Advice branch. You can arrange your appointment any time from the day you turn 50.

To make sure they can give you the right information, Pension Wise will ask you about all of the pension schemes you're saving in. You'll find all the information you need about your savings with Nest in your retirement letter or latest annual benefit statement. You can access your Nest account at **nestpensions.org.uk/login** You may be asked if your scheme includes any guarantees, special features, restrictions or conditions – none of these apply to your Nest retirement pot.

You can also find lots of general guidance about retirement options at **pensionwise.gov.uk**

Other ways to get help

You may want to get professional financial advice to help you make your retirement decisions.

The Money and Pensions Service can help you find out about professional financial advice, the different types available, when you might need it and where to get it from. It's all on their website at **moneyadviceservice.org.uk**

An independent financial adviser will be able to give you advice about your options while taking into account your individual circumstances. However, they may charge you for the advice and any services they provide. You can find an adviser near you at **directory.moneyadviceservice.org.uk/en**

Any advice you receive will be independent of Nest and Nest won't be responsible for any fees you may be charged.

Pension wise
Get to know your options

Starting to think about your retirement?

Your retirement's important. You could be retired for 20 years or more, so you need to consider your retirement plans carefully.

Thinking carefully about your retirement can help you make the most of the money you've saved.

Some of the things that will have a big impact on your retirement are:

- how old you are when you choose to take your money out of Nest
- how many years you've been saving
- how much you regularly save
- the level of retirement income you'll need.

The number of years you've saved and the size of the retirement pot you've built up will affect the cash lump sum and any retirement income you could get. This is also true of any other retirement pots you may have. The value of retirement pots can go up and down but saving for longer gives you more time to try and grow your money.

You can change your Nest retirement date at any time by visiting **nestpensions.org.uk** and logging into your account.

Your retirement date

It's important to let us know in advance the date you plan to take your money out of Nest. If your money is invested in a Nest Retirement Date Fund, we'll aim to manage your pot so it's ready for the year we expect you to take your money out.

Unless you've told us differently, we've assumed you'll take your money out of Nest at age 65, or at your State Pension age when you joined the scheme. Which of these applies to you will depend on your date of birth.

Post retirement fund

If you don't take your money out of Nest when we're expecting you to, or if you join Nest after your State Pension age, we'll set your retirement age at 75 and put your money in our Post Retirement Fund. This may not be the best place for your money if you plan to keep it in Nest for a number of years.

Once you've decided on your Nest retirement date, log in to your account to check and change it if appropriate.

1. What will you get in retirement?

You need to know what your overall household income will be when you retire, taking into account income from all sources. If applicable, you should also think about your spouse or partner's financial circumstances when considering your own retirement.

The sort of things you need to bear in mind are:

- whether your spouse or partner is still working
- when they expect to retire
- whether you want to put off your retirement until your spouse or partner retires
- whether you'll decide to carry on working or take a part-time job to add to your income
- how much your State Pension will be
- what you have in the way of savings, both pension specific and otherwise
- whether your spouse or partner has their own pension or will be relying on your savings.

How much will you need?

It's a good idea to think about how your spending is likely to change in retirement. For example, when you stop working you could spend less on things like transport. On the other hand, with more time on your hands, you may want to spend more on leisure activities and holidays. You might want a lump sum to finish paying off your mortgage.

Understanding how much you'd like in retirement can help you identify how and when you'll want to take your money from your pot.

There are some useful online tools to help, including the budget calculator from the Money and Pensions Service, which can be accessed at **moneyadviceservice.org.uk/en/pensions-and-retirement/budgeting**

Using the budget calculator, you can:

- decide what kind of retirement income you want, for example, half your earnings
- work out whether you're on track to get the retirement you want
- build a budget of your post retirement expenses.

2. Find out about your State Pension

Most of us will get a State Pension from the government when we reach our State Pension age. This will be 66, 67 or 68 for most of us, depending on when we were born. You can check when your State Pension Age is at **gov.uk/state-pension-age**

The full state pension is currently £168.60 per week but your State Pension will depend on your national insurance contribution record.

You can get your State Pension forecast by calling the Department for Work and Pensions (DWP) on **0800 731 0175** or via **gov.uk/check-state-pension** Your partner should also do this. If you or your partner don't currently have a national insurance contribution record that enables you to qualify for a full State Pension, you may be able to top this up by paying additional voluntary contributions.

Those on low incomes in retirement may be entitled to other benefits, and you can find out more about this from the Money and Pensions Service.

3. What about other pension savings?

You should gather the details of any pension savings you've built up during your working life.

Looking at the details of all your sources of retirement income will help you decide when you can retire and how and when to take your money out of Nest.

You may have other pension pots in addition to the one you hold with Nest. When you know how much these are worth today, tools like the pension calculator from the Money and Pensions Service can help you get an idea of how much these could give you in retirement. You can find this at **moneyadviceservice.org.uk/en/tools/pension-calculator**

If you can't find details of your other pension pots, you could try and find them using the DWP free pension tracing service. Go to **gov.uk/find-pension-contact-details** Or you can call **0800 731 0193**.

Approaching your retirement date

When you're close to your retirement date, you need to let Nest know what you want to do with your savings.

Your options are set out in this section. We'll also explain your options in your retirement letter that we'll send to you six months before your Nest retirement date.

You don't have to take your Nest savings when you stop working. Men aged 65 are now expected to live to 84 on average, and women to 86. If you don't need the money in your Nest pot now, you could delay your Nest retirement date, so you take the money when you think you'll need it instead.

To select an alternative Nest retirement date, log into your Nest account, click on 'Edit profile' and follow the instructions.

Your options

The first decision you need to make is when to take your money out of Nest.

Legally you can take your money out of Nest at any time from the day you turn 55. Although there are a few circumstances, where you can take your money out of Nest before age 55. For example, if you're suffering from serious ill health.

The age you are when you decide to take your money out of Nest will affect the income you receive. The younger you are when you take your money out, the smaller the income you're likely to get and the longer it'll need to last.

Keeping your money in Nest until you need it

By leaving your money in Nest longer, and adding to it, you'll have more time to work towards building a larger retirement pot. Doing this could give you:

- a larger lump sum to take as cash
- higher retirement income payments.

Can you take your money out earlier due to ill health?

In the event that you're suffering from serious ill health or you're incapable of work due to illness, you may be able to take your money out of Nest before you reach 55. To do this you'll need to have your medical condition confirmed by your doctor or registered medical practitioner.

You should be very cautious if you're offered early access to your retirement pot for other reasons. Many of these offers are scams that could end in you losing some or all of your retirement savings and risk paying large tax penalties. Find out more in 'Beware of pension scams' on page 4.

For information on the tax implications of taking your money out early due to ill health see page 22.

Change your Nest retirement date

The age we expect you to take your money out of Nest is called your Nest retirement date. When you joined Nest, we assumed you'll take your money out of Nest when you reach 65, or your State Pension age, depending on your date of birth. However, you can choose to postpone this date if necessary, by logging into your online account and changing the current Nest retirement date to a later one.

When you're ready to take your money out of Nest, there are a number of things you can do. Nest won't charge you for taking money from your pot.

Some of the retirement income options available are not provided by Nest and you would have to transfer your retirement pot to another retirement income provider to access them.

Please note that whichever of the following options you choose, we'll still retain and process personal information to, for example, comply with our legal obligations, resolve disputes and enforce our agreements. Please read the privacy notice on our website **nestpensions.org.uk/privacypolicy** for more information on how personal data is used and how long we keep it.

When deciding which retirement option to take you should shop around, as different providers will have different charges and rules, such as the size of the pot required.

Different options also have different features such as rates of payment, charges, tax implications, rules and the size of the pot required.

1. Keep your money invested with Nest

You can delay taking your money out of Nest by logging into your account at **nestpensions.org.uk/login** and changing your retirement age.

If you don't let us know about the change to your retirement age, we'll set your retirement age to 75 and put your money in our Post Retirement Fund. This may not be the best place for your money if you plan to keep it in Nest for a number of years.

If you delay taking your money out of Nest, your retirement fund will not only continue to grow as a result of your savings returns but also through contributions you and your employer make, together with any tax relief you're entitled to.

If you leave your money invested you can continue to make contributions. Any contributions up to £40,000 each year will normally also benefit from tax relief.

For more information about the tax implications of leaving your money invested with Nest go to page 18.

Reasons to nominate a beneficiary

Should you die, while your money is still invested with Nest, your retirement pot will be paid to your nominated beneficiary. If you die before taking your money out of Nest, there's a set of rules we have to follow. We can't make discretionary decisions about who to pay your money to. Your pot will be considered part of your estate and may be subject to inheritance tax.

Nominate a beneficiary

- Tell us who you'd like to get your retirement pot if you die before taking your money out.
- This is known as your nominated beneficiary, and can be:
  - a family member
  - a trust
  - your favourite charity
  - a combination of people and organisations.

Log into your online account to name your beneficiaries at **nestpensions.org.uk/login**

It's important to keep your nominations up to date. Should you change your mind about who you want as your nominated beneficiary, you need to tell us.

2. Take your money as a number of lump sums

If you've got £3,000 or more in your Nest retirement pot, you can take some of the money each month and leave the rest of your money in Nest.

You must withdraw a minimum of £200 at a time and leave £2,000 or more in your pot after any withdrawals.

Nest won't charge you for taking lump sums from your retirement pot. However, the annual management charge will continue to be applied to your remaining pot. You'll still be able to make contributions to your Nest account.

Your retirement pot will reduce with each lump sum withdrawal and could run out.

For most people a quarter of each payment we make will be tax-free. We're required to deduct tax from the rest. You can find out more information about tax on page 19.

If you continue to contribute your annual allowance will be restricted to £4,000. For more on annual allowance see page 23.

If you die, any remaining Nest savings can be passed on to your beneficiaries. We do, however, have to follow certain rules. We can't make discretionary decisions about who to pay your money to. Your pot will be considered part of your estate and may be subject to inheritance tax.

Nominate a beneficiary

- Tell us who you'd like to get your retirement pot if you die before taking your money out.
- This is known as your nominated beneficiary, and can be:
  - a family member
  - a trust
  - your favourite charity
  - a combination of people and organisations.

Log into your online account to name your beneficiaries at **nestpensions.org.uk/login**

It's important to keep your nominations up to date. Should you change your mind about who you want as your nominated beneficiary, you need to tell us.

3. Take all of your Nest pot in one go

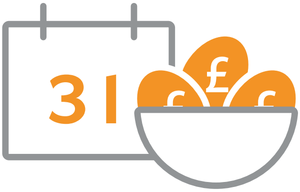
You can take the whole of your Nest retirement pot as a single lump sum. The first quarter of your pot will be paid to you tax-free, with the remaining three quarters being taxable.

What will this mean?

If you're considering this option:

- be sure that you need to take all your money in one go
- doing so means your account will be closed and you won't be able to make any further contributions to it
- you may be able to make your savings last longer by only taking what you need, when you need it.

Also, as with option 2, your cash withdrawal may push you into a higher rate tax bracket for that year. Depending on how much you take, you may end up paying more tax under option 3 than you would if you were to spread payments out over a number of years.



4. Take a regular income through an annuity product

If you want to take a regular income you'll need to transfer your pot to a retirement income provider to buy an annuity. An annuity is a retirement income product that will pay you an agreed level of income for the rest of your life or for a fixed period of time. You pay some or all of your retirement pot to the retirement income provider and in return they guarantee you a regular income.

You can take some of your pot as a tax-free cash sum before transferring the remainder to an annuity product. You could then start to draw a taxable regular income from that other provider, either immediately or at some point in the future.

You can find out more about annuities by visiting **moneyadviceservice.org.uk/en/articles/free-printed-guides#pensions-and-retirement**

Nest doesn't offer annuities but you could transfer your Nest pot to a retirement income provider if you want to do this. You could do this at any time once you've stopped contributing into your Nest pension pot. Nest won't charge you for making the transfer. The provider may charge you for receiving your money or may charge a different amount for looking after it.

There are many kinds of annuity and different providers charge different rates, so you should shop around to find the one that is best for you. See more about how to shop around at **pensionwise.gov.uk/shop-around**

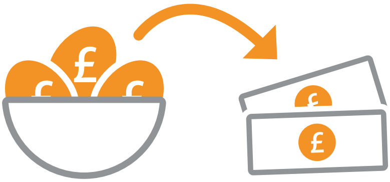
Many insurance companies apply a minimum pot size for buying an annuity. If your pot is below £5,000 you may have limited access to an annuity, unless you have pots elsewhere to combine with it.

Once you've bought an annuity, you can't change your mind, so it's important to choose the right one. You should therefore consider taking advice about which annuity is most suitable for you.

Once your pot is transferred to another provider, your Nest account is closed and you cannot make any further contributions to it.

If you choose to transfer your Nest pot to a retirement income provider, you can let us know via your Nest account. You'll need to use the online retirement tool to tell us how much you want to take as a cash lump sum before we send your pot to your chosen annuity provider.

Under certain circumstances you may be able to buy an impaired life annuity. Find out more on page 25.



5. Buying a drawdown from another provider

Another way to convert some or all of your pot into a regular income is to purchase a drawdown product from another provider.

Flexi-access drawdown uses your pension pot to give you a regular retirement income, by reinvesting it in funds designed and managed to provide this. The income you get varies based on the fund's performance. This differs from a guaranteed annuity, as it isn't guaranteed for life.

Nest doesn't offer a flexi-access drawdown option, but you could transfer your Nest pot to a retirement income provider if you want to do this. You could do this at any time once you've stopped contributing into your Nest pension pot.

While Nest doesn't charge you for transferring money out, the new provider may charge you for receiving it or may charge a different amount for looking after it.

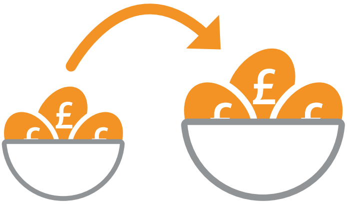
It's important to compare what else is on the market as charges, the choice of funds and flexibility might vary from one provider to another.

If you opt for a drawdown product, please note that future contributions into your remaining pot will be limited to £4,000 per annum before further taxes are applied.

If you choose to purchase a drawdown product from another retirement income provider, you can let us know by logging into your online Nest account.

For more information on drawdown products, please visit **moneyadviceservice.org.uk/en/articles/flexi-access-drawdown**

You may want to seek advice before taking this option. You can find an adviser near you at **directory.moneyadviceservice.org.uk/en**



6. Transferring to consolidate your pension pots

You could have built up a number of pension pots with different employers or in private pensions. You may want to bring them all together by transferring all your pension savings into one retirement pot. If you do this, you could:

- get a single, potentially higher retirement income
- access other retirement options that require a minimum pot value, like flexi-access drawdown.

To find out more about transferring your other pension pots into Nest, go to **nestpensions.org.uk/schemeweb/memberhelpcentre/transfers/transfer-money-into-nest.html**

You can transfer money into your Nest pension pot, or transfer out of Nest and into another pension scheme, at any age. Nest can transfer a member's retirement pot to another UK registered pension scheme, a retirement income provider or a Qualifying Recognised Overseas Pension Scheme (QROPS).

Beware of pension scams

Remember there are an increasing number of scams out there which offer to transfer your pension. Never rush a decision or sign anything under pressure.

See more on page 4.

For more information on how tax is applied, please see the Tax Implications section on page 18.

Next steps

When you're close to your retirement date and have made up your mind about what you'd like to do, please get in touch with us.

You can log on at **nestpensions.org.uk/login**

Or call us on **0300 020 0090**.

Tax and your pension pot

Pension schemes such as Nest benefit from tax relief on the contributions you pay in. When you take your money out of Nest the tax implications depend on the option you've chosen.

1. Keep your money invested with Nest

All the time your money is invested with Nest it isn't subject to tax. If you decide to continue paying contributions into your retirement pot you'll receive tax relief on those contributions as long as you're below age 75.

If the total contributions paid into your retirement pot during a tax year, by you, your employer and the government are greater than the annual allowance, currently £40,000, the contributions over this limit may be taxed, through your self-assessment tax return. For more information on the annual allowance, see page 23.

If you die before age 75

Your retirement pot will be paid tax-free to your nominated beneficiary. This is the person who you choose to get the money in your Nest pot in the event that you die before claiming your pot. It can be a person, an organisation, or a combination of both. Should you change who you want as your nominated beneficiary, please let Nest know.

If you die age 75 or older

Your retirement pot will be paid to your nominated beneficiary, but will be treated as income, during the tax year, and taxed at the appropriate rate.

When you die, if the total value of your retirement pot is greater than the lifetime allowance, currently £1.055 million, further tax charges will be payable by your beneficiary. To find out more about the lifetime allowance, see page 23.

2. Take your money as a number of lump sums

Each time you take a lump sum from your retirement pot, a quarter will usually be tax-free. The rest is taxable in the same way as any income you'd earn, like your wages. This, when added to your other income, may increase the rate of income tax you have to pay that year.

As we won't know your overall income, we use the same tax rate for everyone who takes cash from their Nest pot. This may be different from the actual rate you'll need to pay. For this reason, it's possible that you'll need to pay more tax or have some tax refunded. The tax office will usually do that automatically during the tax year by adjusting your tax code. Sometimes they can't do that, for example if you don't get paid any more taxable income during the tax year. In that case, they may wait until after the end of the tax year to either pay you a tax refund or request an additional tax payment.

The amount of tax you'll need to pay will match the highest rate of income tax you pay – 0 per cent, 20 per cent, 40 per cent or 45 per cent (different rates may apply if you pay tax under Scottish Law).

We'll give you a certificate showing the tax we've taken off when you take out a cash lump sum. We'll also tell you how to reclaim tax from HMRC if you think we've taken too much.

Remember that you can usually only take a quarter of your pot tax-free. Any other cash or income that you take from your retirement pot counts towards your taxable income for that year.

If you take a large amount in one year, this may push you into a higher tax bracket. This means you could be paying tax at rates of 40 per cent or 45 per cent on some or all of your retirement savings, even if you aren't usually a higher rate taxpayer. Once you've taken money from your Nest account you won't be able to pay more than £4,000 a year into any pension savings in future without paying extra tax.

Checking you've paid the right amount of tax

If you think you've paid too much tax or believe you need to pay more, you don't have to wait until the end of the tax year for the adjustments to be made. You can send a form to your local tax office for an immediate assessment. The form you need to complete depends on your circumstances. To find out which is the right form for you, visit the HMRC website at **gov.uk/claim-tax-refund** or call them on **0300 200 3300**.

If you die before age 75

Your remaining retirement pot will be paid tax-free to your nominated beneficiary. This is the person who you choose to get the money in your Nest pot in the event that you die before claiming your pot. It can be a person, an organisation, or a combination of both. Should you change who you want as your nominated beneficiary, please let Nest know.

If you die age 75 or older

Your remaining retirement pot will be paid to your nominated beneficiary, but will be treated as income, during the tax year, and taxed at the appropriate rate.

When you die, if the total value of your retirement pot is greater than the lifetime allowance, currently £1.055 million, further tax charges will be payable by your beneficiary. To find out more about the lifetime allowance see page 23.

3. Take all of your Nest pot in one go

When you take your retirement pot as a lump sum, a quarter will be tax-free for most people. The rest is taxable in the same way as any income you'd earn, like your wages. This, when added to your other income, may increase the rate of income tax you have to pay that year.

As we won't know your overall income, we use the same tax rate for everyone who takes cash from their Nest pot. This may be different from the actual rate you'll need to pay. For this reason, it's possible that you'll need to pay more tax or have some tax refunded. The tax office will usually do that automatically during the tax year by adjusting your tax code. Sometimes they can't do that, for example if you don't get paid any more taxable income during the tax year. In that case, they may wait until after the end of the tax year to either pay you a tax refund or request an additional tax payment.

The amount of tax you'll need to pay will match the highest rate of income tax you pay – 0 per cent, 20 per cent, 40 per cent or 45 per cent (different rates may apply if you pay tax under Scottish Law).

We'll give you a certificate showing the tax we've taken off when you take out a cash lump sum. We'll also tell you how to reclaim tax from HMRC if you think we've taken too much.

Remember that you can usually only take a quarter of your pot tax-free. Any other cash or income that you take from your retirement pot counts towards your taxable income for that year.

If you take a large amount in one year, this may push you into a higher tax bracket. This means you could be paying tax at rates of 40 per cent or 45 per cent on some or all of your retirement savings, even if you aren't usually a higher rate taxpayer (different rates may apply if you pay tax under Scottish Law).

If you want to avoid paying the highest rate of tax, it may be worth delaying or staggering your cash withdrawals, so that they don't all fall in the same tax year. If you take your whole Nest pot in one go, you may have to pay some higher rate tax.

We'll show you how your Nest retirement pot will be taxed in your retirement letter contained in your retirement pack.

Once you've taken any money from your Nest account, you won't be able to pay more than £4,000 a year into any pension savings without paying extra tax.

It's worth considering how much you plan to save for retirement in the future before taking cash from your retirement pot. You may not be subject to the £4,000 limit if your Nest pot is under £10,000 and you take it all in one go.

Lifetime allowance

The Government also puts a limit on the total amount you can accumulate in all your pension savings without paying extra tax. This limit is called the lifetime allowance and is currently set at £1.055 million.

Read more on this in the Jargon buster.

You can also get information about how you'll be taxed for different retirement options from the free guidance service Pension Wise.

Find out more in Getting guidance on page 5.

4. Buy a regular income

Income from an annuity is taxable in the same way as any income you'd earn, like your wages.

The annuity provider will deduct income tax at your tax rate before they make their regular payment to you.

5. Buying a flexi-access drawdown product from another provider

There are tax implications on any withdrawals you make, as well as any contributions you make to your drawdown product. For withdrawals, everything over the tax-free element is taxed as income.

Once you've taken money from your drawdown product you won't be able to pay more than £4,000 a year into any pension savings in future without paying extra tax.

6. Transferring to consolidate your pension pots

There are no tax implications associated with transferring your pension pot to a UK registered pension scheme or provider.

Should you choose to transfer your retirement pot overseas, tax implications could apply.

7. Taking your money out of Nest due to ill health.

If you take your pot as cash, due to serious ill health, when you're under age 75, it will usually be paid out to you tax-free. Once you've reached 75, we'll need to take off income tax from the total amount in your pot. We'll take off the tax before we pay the cash lump sum to you.

The amount of tax you'll need to pay depends on your individual circumstances and how much other taxable income you have that year.

Jargon buster

Some of the terms in this Jargon buster have been used in this booklet. Others are technical terms we try to avoid using at Nest, but you might come across them when you're looking into your retirement options.

Lifetime allowance

The government puts a limit on the total amount you can accumulate in all of your pension savings without paying extra tax.

This limit is called the lifetime allowance. The standard lifetime allowance is currently set at £1.055 million.

It's not designed to have an impact on the vast majority of pension savers. It's designed to limit the tax breaks that wealthy individuals receive.

This £1.055 million limit doesn't include your State Pension or state benefits. Most people won't go over this limit.

If the total value of someone's pension savings does go over the lifetime allowance limit, they'll have to pay a tax charge on the amount that goes over £1.055 million. This charge is known as the lifetime allowance charge. You can find out more about your lifetime allowance from HMRC at **gov.uk/tax-on-your-private-pension/lifetime-allowance**

Enhanced lifetime allowance

A lifetime allowance set at a higher amount than the standard lifetime allowance of £1.055 million. It's sometimes referred to as a personal lifetime allowance. Only a small number of people have this. To get one you would have had to register with HMRC requesting a higher limit.

Annual allowance

The annual allowance is a limit to the total amount of tax-free contributions that can be paid into a pension scheme each year. The standard annual allowance is currently set at £40,000 a year, but it's reduced to £4,000 if you access any of your pension pots 'flexibly'.

If the total amount you pay into pension pots in one tax year goes over the annual allowance you may have to pay a tax charge on the amount that exceeds the limit. This is known as the annual allowance charge.

At Nest, contributions count towards the annual allowance based on when we received them. That's the case even if they're deducted from your pay earlier and passed onto us by your employer. So sometimes contributions deducted from your pay in March or early April will count towards the annual allowance in the next tax year.

Flexible access drawdown

This is when you take a retirement income by transferring your Nest pot to another provider and using it in any of the following ways:

- taking some of your pot as cash without buying a retirement income, unless you take your entire pension pot and it's worth less than £10,000
- transferring your Nest pot to a retirement income provider to buy a special type of retirement income called a 'flexible annuity'. The insurance company you buy the income from will tell you if it's a flexible annuity
- transferring your Nest pot to another provider to use some of your retirement income for 'flexi-access drawdown'.

Your provider will tell you if you've accessed your retirement savings flexibly.

If you access any of your pension pots flexibly then any future contributions you make will be subject to the lower annual allowance of £4,000, applicable for the current tax year. So, before you choose to use flexible access, it's worth thinking about whether you'll want to contribute more than this in future.

Annuities

Annuity

An annuity is an agreement with an insurance company that they'll pay you a certain level of income for the rest of your life. It's a way of insuring against running out of money before you die. You pay some or all of your retirement pot to the insurance company and in return they guarantee your income.

You can buy a lifetime annuity or a fixed term annuity from an insurance company of your choice. A lifetime annuity is paid for life, whereas a fixed term annuity is paid for an agreed period of time.

Annuity rates

The rate used by insurance companies to convert a lump sum of money into a series of regular payments.

The actual rate used depends on a number of factors. These can include your age, whether the income is guaranteed or increases over time, and sometimes other things, such as health and lifestyle.

Escalating annuity

A retirement income that increases each year rather than staying the same, for example, to keep pace with the cost of living, known as inflation. This is why you may hear an escalating annuity referred to as an inflation-linked annuity. These types of retirement income tend to either follow changes to the retail price index (for example CPI) or increase by a fixed percentage each year. With some products, income could reduce in times of falling prices.

Flexible annuity

A type of annuity that pays you an income for life and allows you to choose the method of investment as well as the amount of money to be received every month. This annuity can also be used to provide money to your beneficiaries and dependants.

Guaranteed annuity

A retirement income that's paid out for the rest of your life, but is also guaranteed to be paid out for a fixed period of time if you die within that time. If you die within the fixed period, your income will continue to be paid out until the fixed period ends. If you live longer than the guaranteed period, you'll still get your retirement income for the rest of your life.

Inflation-linked annuity

An annuity where the payments increase in line with inflation.

Impaired life annuity

These are a type of lifetime annuity offered by some insurance companies/annuity providers that are designed for people that suffer from, or have suffered from, a medical condition that results in a reduced life expectancy. To qualify for an impaired life annuity, you'll need to complete a questionnaire on your medical history. The annuity provider may also ask for further information from your doctor and/ or ask you to attend a medical examination. The annuity rate that you're offered is based on an estimate of your personal life expectancy calculated using the medical information supplied.

Joint-life annuity

A retirement income that's paid out to your spouse or partner if you die before they do. They'll usually get an agreed percentage of the income you were receiving. For more information on annuities, see *Your Pension it's time to choose* available at **moneyadviceservice.org.uk/en/articles/free-printed-guides#pensions-and-retirement**

Other terms

Consumer price index (CPI)

This measures changes in the price level of a market basket of consumer goods and services purchased by households. The annual percentage change in CPI is used as a measure of inflation.

Defined contribution pension scheme

A type of pension scheme where you pay in a set amount each month to build up a retirement pot. You can use this money to buy an income or take it as cash when you retire. The amount you save can also depend on investment returns and the amount of charges over time.

Deflation

When the cost of living goes down.

Fund

Funds are usually made up of shares and other financial products and are a way of investing a member's retirement pot in lots of different ways.

Inflation

How we measure rising prices, often expressed as consumer price index (CPI) or retail price index (RPI).

Incapacity

Under Nest's rules this is a physical or mental condition that means a member is incapable of work and incapable of carrying on any occupation. Confirmation from a doctor is needed to declare that someone is incapable of work.

Nest Retirement Date Funds

Unless you choose a different investment option, this is where your retirement pot will be invested throughout your time saving in Nest. The money will be put into a fund designed to be ready for the year we expect you to take your money out. If your retirement date is 2020, your money will be invested in the Nest 2020 Retirement Fund. You can change your retirement date any time by logging in at **nestpensions.org.uk/login**

Nominated beneficiary

A person or number of people, trust, charity, club or society that you can choose to give your retirement pot to if you die before taking your money out of the scheme.

Open market option

Shopping around for a retirement income. It gives you complete flexibility to choose how you take an income in retirement.

Retirement pot

Nest's name for the money you save through a pension scheme. It includes your contributions and any contributions from your employer as well as tax relief and any investment returns.

Retirement pack

Your retirement pack includes this booklet, as well as your retirement letter, which tells you which choices apply to you and the forms you'll need to take your money out of Nest.

Retail Price Index (RPI)

This measures inflation by tracking the prices of everyday things we buy, such as food, clothes, bus fares and petrol. If the price of these items goes up, this is called inflation. If it goes down, this is called deflation.

State Pension

The amount of money you could receive from the government when you reach State Pension age. The figure for the full flat rate State Pension in the 2019/20 tax year is £168.60 per week. The flat rate State Pension replaces the basic State Pension and the State Second Pension for those people reaching their State Pension age on or after April 2016.

State Pension age

The age when people normally start getting their State Pension. You can find out what your State Pension age is by visiting **gov.uk/state-pension-age**

Tax-registered pension scheme

For a pension scheme to qualify for tax relief, it must be registered with HMRC for that purpose and comply with limits set out in the Finance Act 2004.

Tax relief

The money Nest claims from the government based on what you pay into your retirement pot and HMRC rules.

Some of the areas this booklet covers are set out in the legal framework that governs Nest, known as the order and rules. We've taken care to make sure that where this booklet summarises the order and rules it's as accurate as possible. It doesn't cover everything, and the order and rules will always take priority. You can read the full order and rules at **nestpensions.org.uk/library**

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