When you're too old to manage your pension.

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With the 2015 pension reforms (Pension Freedom) came empowerment for retirees to manage their life savings. With this change came a whole host of new risks.

Before the reforms the vast majority of people retiring each year simply bought an annuity with their pension provider giving them a guaranteed income for life, in spite of the lack of choice and poor rates.

It was generally only wealthy individuals who kept their pensions invested (drawdown) post retirement (did not purchase an annuity) usually as a result of financial advice.

Drawdown has exploded in popularity post the reforms with a whole new generation of retirees opting for this route in their retirement, with swathes shunning annuities in favour of tax efficiency, and flexibility.

Sounds great, but how does it work when retirees hit their 70's and 80's? Managing one's own pension takes skill, time and serious attention. As we age this will become an on-going challenge. Increased rates of lifestyle diseases, dementia and Alzheimer's which can have a devastating effect on short term memory is starting to make keeping on top of a pension more and more challenging. We are also living through major political change which creates uncertainty and volatility in the markets, making pension management even more difficult.

Some of the key planning considerations and decisions by the retiree regarding their pension are:-

- **Creating a plan for retirement is essential**
- Claiming state pension (take or defer)
- **Annuity, drawdown or Uncrystallised Funds Pension Lump Sum (UFPLS) or combination**
- Tax free cash – how much, when, what to do with the cash lump sum
- **Annuities – buy from existing pension provider or shop around on the open market**
- Drawdown – Choosing how much income, frequency of income payments, choosing investments, investment strategy, regular reviews to make sure income is sustainable.
- **Other savings, investments and assets – considering all 'pots' as a whole to make best use of all resources in retirement – suitable strategy incorporating allowances, reliefs, liability to taxation**
- On-going review of all pots to ensure they remain in line with objectives, risk, and tax position
- **Aging usually means a change in lifestyle – changing and adapting the plan to meet needs, and changes to views, tax and risk. Appetite for risk usually decreases with age**
- Legacy planning, inheritance tax – passing wealth down the generational line

The Reality

Since the reforms data from HMRC has shown pension drawdown numbers hit record numbers and £5.9 billion with some 4.8 million withdrawals made by over 1.3 million people with total value of £21.6 billion (November 2018).

This new generation of "DIY" investors managing their pension without advice must keep a close watch on investment performance, fund manager changes and broader markets in general. Taking too much income at the wrong time can rapidly deplete pots and leave savers short in retirement and creating potential financial hardship.

Tom McPhail, head of retirement policy at Hargreaves Lansdown, said there was an "increasing risk" that people would develop diseases such as Alzheimer's while being responsible for running their money. "We are looking at a future when more and more people retain responsibility for managing their retirement assets later and later in life", he said. "That does present some new challenges for individuals, pension companies and society." One of the most effective ways to guard against these risks is to establish a "lasting power of attorney".

Lasting Power of Attorney or LPA comes in 2 parts: Property & Financial, Health & Welfare. Both do very different things but are equally important. Attorneys are appointed by the donor to make decisions for them if they are unable to do so. The attorneys are typically spouse/partner and or children. The LPA needs to be registered with the Office of Public Guardian (OPG) to become fully operational. The OPG charge £82 per part for registration. For both parts therefore, the cost to register would be £164. Discounts can apply for those on low incomes.

Having a professionally drafted LPA is essential for anyone in drawdown. One of the reasons that many don't have this in place is because Solicitors can charge a lot to arrange this (£1,000 on average per person). This needn't and shouldn't be a barrier.

If there is no LPA in place and a person loses mental capacity and therefore the ability to make decisions for themselves family or friends will have to apply to the Court of Protection (COP) and prove why they are the right person to assume responsibility. This is done by applying to the court for a Deputy Order. This process is expensive, incurs court and legal fees of typically £3,000 plus and can take months to arrange, leaving money locked in accounts until a decision is made by the COP. This is also a highly invasive process with family/friends making the application liable for not only the initial costs but for disclosing their own personal and financial details to the court.

If mental capacity is lost the ability to make on-going pension withdrawals and manage the pension itself will be lost, leaving a person without income until the COP has made their judgement and appointment for someone suitable to step in and take over. This can and usually does involves a local Solicitor and on-going costs associated with the intervention.

There are talks it will be compulsory for retirees entering into drawdown to have a LPA as the risk that this pores to the retiree a their adviser. This will ensure the smooth transition of existing arrangement for the retiree and their spouse/partner and family should they lose capacity, saving them financial hardship, time and a huge amount of hassle.

Beyond Age 75

Decisions about a retiree's pension fund are on-going. These decisions need to be made regardless of whether a person has mental capacity or not. An example of this is the consideration to purchase an annuity. Whilst rates have been disappointingly low, there are two good reasons why buying an annuity later in life could be a prudent move.

Age, health and rates of annuities vary dramatically, and therefore taking advice and shopping around are vitally important to ensure a positive outcome. Lee Robertson, chief executive of wealth manager Investment Quorum, said: "Annuities are not a once-only decision. They might not feel good value at 65 but by 75 they might – and you are taking lots of risk off the table." He added that "as you get older and maybe become less active it is easier to calculate your base living costs".

Another key consideration and decision which will need to be addressed is around the tax treatment of pensions pre and post 75. It becomes less tax-efficient to leave money in drawdown post 75, and therefore managing an invested pension post 75 will involve ascertaining which route is best. This decision needs to be arrived out regardless of mental capacity and therefore having a LPA in place will ensure that this is best assessed with the help of appropriate advice.

If death occurs over the age of 75 drawdown pensions are taxed as income at the marginal income tax rate of the beneficiary, or at 45% if paid out as a lump sum. So the age of 75 is a watershed moment and a good time to reassess whether the risks inherent in investing are still worth it. This again needs to be assessed, addressed and resolved, whether on not the retiree has mental capacity. The existence of a professionally drafted LPA and appointment of appropriate attorneys, and advice will ensure that needs are met and successfully addressed here.

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