PHOENIX WEALTH

# UNDERSTANDING INVESTMENT PATHWAYS

Since 2015, the Government has made changes to pension legislation with the aim of giving you more flexibility. You now have more choice as to how you can best use your pension pot to meet your retirement income needs. And you can make these decisions without taking advice from a financial adviser.

As a result, the Financial Conduct Authority (FCA) has found many people are focused on taking tax-free cash from their pensions through drawdown. But they're doing this without being fully aware of how they should invest their remaining funds to meet their retirement objectives.

## Why is this a problem?

After someone takes a tax-free amount, their remaining funds move into drawdown and stay invested. This means they need to make a further decision on how to invest those funds.

FCA research has found that many customers are either unaware or have only a broad idea of how their drawdown fund is invested. This suggests that customers may be holding investments that may not meet their objectives for how they want to use that money in retirement.

In fact, in their Retirement Outcome review (June 2018), the FCA estimate that:

- Over half of these consumers are likely to be losing out on income in retirement by holding cash.
- Someone who wants to drawdown their pot over a 20 year period could increase their expected annual income by as much as 37% by investing in a mix of assets rather than just cash.

So, it's important to make informed decisions about where best to invest. And if you do want to invest in cash, like all your investment choices, this should be an informed, active, not default, decision.

To help, they have introduced **'Investment Pathways'**. These are investment choices aimed at people entering drawdown who don't have an adviser.

### Typically, lower risk funds - investing in something like cash:

- Tend to go up and down less than higher risk funds that invest in shares for example.
- May not keep up with inflation* so the buying power of your pension savings could be reduced.
- May miss out on future growth if financial markets perform well.

*Inflation is the rise in prices for goods and services over a period of time. If the inflation rate is 3%, it means you're paying 3% more for something than you did this time last year.

So, if your pension pot doesn't grow by 3% in the same period, it isn't keeping up with the increased cost of goods and services.

## How will Investment Pathways help?

The idea is simple enough. If you want to access your pension savings through drawdown, you now have the option to select a provider that offers four Investment Pathways. You can choose to put some, or all, of your money in one, or more, pathway.

Each will include investment funds, chosen specifically for that pathway, that meet the following retirement objectives:

| OPTION 1 | OPTION 2 | OPTION 3 | OPTION 4 |
|---|---|---|---|
| **I have no plans to touch my money in the next five years** | **I plan to use my money to set up a guaranteed income (annuity) within the next five years** | **I plan to start taking my money as a long-term income within the next five years** | **I plan to take out all my money within the next five years** |
| **What this means:**<br>• I want to invest my money for at least five years.<br>• If my plans change, I can still make withdrawals but I'll have to consider if this investment option is still the right choice. | **What this means:**<br>• I want a guaranteed income for life or a set period.<br>• I intend to buy a guaranteed income (annuity) within 5 years.<br>• If my plans change I'll have to consider if this investment option is still the right choice, but once I buy an annuity I can't change my mind. | **What this means:**<br>• I want to set up regular or occasional withdrawals straight away or within the next five years.<br>• I want to take these withdrawals over a longer time period or through retirement.<br>• This income isn't guaranteed. If I want a guaranteed income I can buy an annuity.<br>• If my plans change, I'll have to consider if this investment option is still the right choice. | **What this means:**<br>• If my plans change, I don't have to take all my money out within the next five years, but I'll need to consider if the investment option is still the right choice. |

## Do I have any other choices?

Yes, you don't have to select an Investment Pathway. They have been introduced to make it easier for you to decide how to invest your drawdown fund once you have taken your tax-free cash. Once you've entered drawdown you can still:

- Select investment funds without using the Investment Pathways.
- Stay invested in your current investment funds.

## What do I do when I've made a decision?

This depends on whether you want to:

**A. Invest using Investment Pathways**

You can choose investment pathways by transferring your pension money to another pension plan, as investment pathway funds are not available directly through your existing plan.

You can transfer to another pension plan provided by Phoenix Group, which Phoenix Wealth is part of, or to any other provider. You can learn more about how to shop around by visiting the MoneyHelper website at: www.moneyhelper.org.uk/pathways

**If you're interested in using Investment Pathways, please contact us.**

**B. Invest without using the Investment Pathways**

You'll need to send us a completed **Flexi-access drawdown** or **Capped drawdown – benefit options** form. This lets us know how much of your pension pot you want to use. You will also need to tell us how you would like to invest your drawdown fund by completing the **Investment instructions** form.

We offer a range of funds to invest in, each with its own investment objective. We have fund lists and fact sheets in the 'Literature library' at: www.phoenixwealth.co.uk.

**C. Stay invested as you are**

If you don't want to change your investments you still need to send us a completed **Flexi-access drawdown** or **Capped drawdown – benefit options** form to let us know.

You should still review your current investments to make sure they meet your retirement objectives. If you haven't made changes to your investments then your most recent annual statement will show you this. If you're still not sure what they are, please contact us.

Please remember, you don't have to take your pension benefits through us. You can shop around and switch your provider before taking your money.

## Where can I get help?

We always recommend you get financial advice when deciding which option is best for you. MoneyHelper gives you more information about the types of support that are available at www.moneyhelper.org.uk/types-of-support-and-guidance.

While we can't give you any advice, you can contact us to discuss your next steps.

- Call us on **0345 129 9993**. We're available 8.30am – 5.30pm, Monday, Tuesday, Thursday and Friday. And from 9.30am – 5.30pm on Wednesday.

As part of our commitment to quality service and security, telephone calls may be recorded.

- Email us at:
  - **customerservices@phoenixwealth.co.uk** if you have a **Phoenix Wealth Pension Funds only** plan
  - **sippenquiries@sipp-phoenixwealth.co.uk** if you have a **Self-invested** plan

Please be aware, emails are not secure as they can be intercepted, so think carefully before sharing personal or confidential information in this way.

We've also included more information about how Investment Pathways may be relevant to you in our leaflet **Choosing an Investment Pathway**. This is available in our literature library at www.phoenixwealth.co.uk

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