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**Retirement Income Options – Income Drawdown**

Income drawdown, in simple terms, is a personal pension arrangement whereby your retirement savings remain invested (in what depends on your circumstances, risk tolerance and adviser's knowledge).

These investments are assets that produce returns (income and gains/losses) which should be selected to give you the income you need now but also with an eye on the future to control risk while also trying to achieve growth to protect against inflation).

Income drawdown has many advantages for the right person, such as the ability to pass on the full value of your pension plan to your spouse and other dependants, which may be a much better option than the annuity route.

It is also very flexible and can allow you to take an income whilst deferring the ultimate decision to secure a Guaranteed Income for life. This can be useful, because as you get older your health may deteriorate and you can get much higher guaranteed pensions if your health is not perfect. This avoids the risk that you secure a guaranteed income at a relatively low rate, whilst in good health, only to find a few years later that you could have secured a much higher income by waiting.

Also, the flexibility of drawdown means that you can vary the income you take each year from your pension fund. This may be helpful if you retire before the state pension is payable because you could take a higher immediate income from your pension fund than would be available from an annuity until the state pension kicks in, then reduce the income once your total income rises.

There is no minimum income requirement, so you could leave your money invested up to age 75, when, under current legislation you must look to take a minimum income from the fund, or annuities.

However, this great flexibility comes with risks (nothing is ever perfect!).

The extent of the risks largely depend on what assets (investments) you hold within your pension plan. This can range form low risk (cash deposits, government bonds etc) to high risk (such as emerging markets and commodity funds).

Most high quality advisers will recommend a range of investments to diversify risk and to structure the plan to give the income you need. For example, if you needed high income, most of your money would probably be invested in bonds and deposit accounts, which pay interest to your pension fund, which can then be released to you as an income.

However, if you had other sources of income, perhaps from a portfolio of ISAs, Insurance Bonds, or just because you are still working part time, or have a final salary pension in payment, then you may only need to take a small percentage of your fund as an income and therefore the investments may be more geared for growth.

As a general rule, larger, more secure investments offer little opportunity for growth and focus more on income, whereas those that focus on growth may be higher risk. Each investment has to be assessed on its merits (and it should be investigated and researched extensively with a full understanding of what you are buying and whether the price paid matches the current and future prospects).

This is where your adviser must discuss your needs in detail to fully assess the right course of action.
If you get the wrong advice, or go it alone without truly understanding what you are doing with your money, it could be costly.

Have you heard the new phrase "capacity for loss" when assessing what risk you should take in retirement?

It is important you understand that the income drawdown option means you must have the capacity to end up with a lower income than you would have otherwise received (i.e. if asset values fall, or if annuity rates deteriorate – perhaps because open market interest rates fall, or mortality rates improve)?

Do you understand the impact of "mortality drag"? (Explanation: in an annuity fund many people combine their pension funds and an insurance company pays you an income for life. In simple terms, the income they pay is based on the average life expectancy of the group of people in the insurance fund (given future expected investment returns after expenses and profit margin). Some people in the fund will probably live to 100, whereas others will die shortly after retirement.

Because you are the only person in your drawdown plan, you do not get the potential benefit of someone else's mortality rating (i.e. dying a lot sooner than you do). However, it may be that you are the one that dies early and so you have not lost out on mortality drag at all). You may therefore take a view on your lifestyle to date (i.e. did you party a lot when you were younger, or have a very demanding job that put pressure on your physical and/or mental wellbeing etc), your current health and the health of your family (i.e. the health of your mother, father & siblings can give you clues about your DNA and how likely you are to get ill) to assess the chances that you will live a long life (though ultimately, you never know what is round the corner).

So, to try and conclude, it is important that you and your adviser look at all options and consider many factors affecting the right decision. Income Drawdown is an excellent opportunity to enjoy retirement without having to fix yourself to a once only decision (as with a lifetime annuity), but you must consider the risks involved.

You can always de-risk your drawdown investments, so it is also essential than you regularly review investment performance and your situation with your adviser.

If your investments have been exposed to moderate, or higher rates of risk and done well, then that is the cue to start de-risking before values get too high and start to reverse.

The ongoing reviews can add to the cost of this arrangement, but over the long term, the flexibility it offers may well offset the costs involved.

If the costs have not been explained to you then you could have a strong case to make an income drawdown miss-selling claim, to get back any financial loss incurred.

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