PENSION CHANGES

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THE GOVERNMENT IS INTRODUCING RADICAL CHANGES TO PENSIONS IN APRIL 2015. FIND OUT HOW THE CHANGES COULD AFFECT YOU.

FLEXIBLE ACCESS TO PENSION INCOME FROM AGE 55

Investors with defined contribution pensions (commonly known as Money Purchase or Personal Pension Plans), who are aged 55+, will have total freedom over how they take an income from their pension. There will be three options:

1. Take the whole fund as cash
2. Take smaller lump sums when required (ie, treat the pension as a 'cash machine')
3. Take a regular income. This can be achieved by:
   - income drawdown: money is drawn directly from the pension fund which remains invested
   - purchasing an annuity which provides a regular income

BEWARE!

Any withdrawals in excess of the tax-free amount will be taxed as income at your marginal rate of income tax:

For basic-rate taxpayers (paying tax at a rate of 20%), income you draw from your pension will be added to other income you receive and this might result in you falling into a higher income tax bracket (paying at a rate of 40%+). ***Remember that HMRC will include your state pension and all other sources of income in the calculation.***

DEFINED BENEFITS PENSIONS

People who have benefits in defined benefit pensions (commonly known as Final Salary Pension Schemes) will be able to take advantage of the new rules by transferring their entitlement to a defined contribution pension.

WARNING

You should take professional advice before transferring out of a defined benefit arrangement.

FREEDOM OVER HOW TAX-FREE CASH CAN BE TAKEN

Currently, you can take up to 25% of your pension as tax-free cash. From April 2015, you will still be able to take the tax-free cash all at once, or have a portion of any withdrawals paid tax free – but only until the tax free component is exhausted.

PENSION OPTIONS

Here is an example of the options available for someone who has a pension fund worth £100,000:

- £25,000 (25%) can be taken tax-free all at once. Any subsequent withdrawals will be taxed as income as outlined above.

- Make withdrawals when required and receive part of each withdrawal tax free until the tax-free component is exhausted.

Whilst money remains invested in the pension plan, it will perform according to investment conditions, what asset classes it is invested in and the plan's charges. Good performance may result in more money being available to withdraw whereas bad performance will lead to less money being available to withdraw.

NEW RESTRICTIONS ON HOW MUCH YOU CAN CONTRIBUTE TO PRIVATE PENSIONS

A maximum of £10,000 a year can be invested into a pension plan by people who make withdrawals from a defined contribution pension under the new rules. This is in addition to taking tax-free cash.

BE CLEAR!

The Annual Allowance of £40,000 for pension contributions will continue after April 2015. However, investors who start to withdraw tax-free cash from their defined contribution pensions after April 2015 and seek to re-invest it in a pension will be subject to a limit of £10,000.

WARNING

This is a complex area that requires professional advice.

BEWARE!

People who make withdrawals from their pensions as outlined above will be required to notify their pension provider within 91 days of any contributions that are subsequently paid or face a £300 fine - plus £60 for each subsequent day beyond that.

EXCEPTIONS

There are three exceptions to this change in the Annual Allowance:

1. **Pensions worth less than £10,000:** you will be able to make withdrawals from three small personal pots and unlimited small occupational pots worth less than £10,000 each without being subject to the new £10,000 allowance
2. **Capped drawdown:** people who were in capped drawdown before April 2015 and who make withdrawals after April 2015 but remain within their capped drawdown income limit.
3. **Lifetime annuity:** people who take their pension as a lifetime annuity (other than a flexible annuity) or scheme pension (except when fewer than 12 people are entitled to one under that scheme).

ACCESS TO IMPARTIAL GUIDANCE

Pension investors will be entitled to free guidance to help them make sense of their options at retirement. It is intended that this service will be provided by the Citizens Advice Bureau and the Pensions Advisory Service, and your pension provider will be required to tell you about it.

BEWARE!

Guidance is different to advice. Only fully qualified financial advisors can provide detailed investment advice.

'DEATH TAX' IS TO BE ABOLISHED

The 55% tax charge for money paid out as a lump sum from a pension fund on the policyholder's death will be abolished.

UNDER OR OVER 75

Under the new rules, the beneficiaries of a pension investor who dies before age 75 can take the whole pension fund as a tax-free lump sum or draw an income from it, also tax free, by using income drawdown.

For pension investors who die after age 75, their beneficiaries will have three options:

1. **Take the whole fund as cash in one go:** the pension fund will be subject to 45% tax. However, it has been proposed this should be changed to the beneficiaries' marginal rate of income tax from the tax year of 2016/17.
2. **Take a regular income through an annuity or income drawdown:** the income will be subject to tax at each beneficiary's marginal rate of income tax.
3. **Take periodical lump sums through income drawdown:** the lump-sum payments will be treated as income, subject to income tax at your beneficiary's or beneficiaries' marginal rate of income tax.

IMPORTANCE OF ADVICE

The changes to pensions announced by the Government are widely regarded as being the most substantial for a generation. If you are considering making changes to your pension arrangements, you should seek independent and qualified advice.

IMPORTANT NOTE – THIS SUMMARY IS BASED ON OUR UNDERSTANDING OF THE PENSION SCHEMES BILL AND THE AUTUMN 2014 STATEMENT. IT IS A BROAD SUMMARY AND YOU SHOULD NOT TAKE, OR REFRAIN FROM TAKING, ANY ACTION BASED ON THIS INFORMATION. TAX TREATMENT CAN CHANGE AND DEPENDS ON YOUR CIRCUMSTANCES.

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