ALLIOTT GRAHAM BROWN FINANCIAL PLANNING LTD

Friary Court, 13-21 High Street, Guildford GU1 3DL

T: 01483 508580 **F:** 01483 537339

E: enquiries@agbfp.com

W: www.agbfp.com

AGB

Alliott Graham Brown

FINANCIAL PLANNING LTD

A GUIDE TO THE PENSIONS CHANGES DUE IN APRIL 2015

THE NEW PENSION RULES – WHAT THEY MEAN FOR YOU

In his March 2014 Budget, Chancellor George Osborne introduced the most radical shake-up of the pension industry for almost a century. The new measures have far-reaching implications for an estimated 18 million people in the UK who have pension plans.

These changes came with an explicit 'health warning'; George Osborne clearly underlined in his speech the need for expert advice to make the most of the new choices available.

More choice means more opportunity, but comes with more responsibility – it is important to make the right decisions for your financial future.

ACTION POINT:

Whatever your stage of life, it's never been as important as it is now to take professional advice about your pension. To benefit from the changes and enjoy a comfortable retirement (especially if you plan to retire early), you need to have saved enough to make this a reality. The tax breaks available on pension contributions (subject to the annual and lifetime allowances) act as a clear incentive to save as much as you can comfortably afford.

BACKGROUND TO THE NEW LEGISLATION

Over the last few years, employers had begun to find funding final salary (defined benefit) pension schemes too financially onerous, leading to the introduction of more defined contribution schemes ('contributions' based on a percentage of employees' earnings).

Traditionally those retiring with defined contribution pension funds purchased annuities. Over the last few years, although the open market option provided the opportunity to shop around for the best annuity rate, returns had been falling dramatically. This was due in part to the rise in life expectancy but latterly it was a reflection of the lowering of interest rates during the recession. Whilst those with larger pension funds had more options, such as flexible drawdown, restrictions still applied.

The general feeling was that change was long overdue.

THE CHANGES HAVE BEGUN

Some changes have come into effect already. The limits on how much people can draw each year have been relaxed for the 2014-2015 tax year. In order to access Flexible drawdown, you need to have a secured annual income of £12,000 (previously £20,000). This requirement will be abolished altogether from April 2015.

ACTION POINT:

If you are considering retiring during the 2014-2015 tax year, it's important to discuss your options. Equally, if you have put your plans on hold ahead of the changes in legislation, a discussion with an adviser will help you to clarify your position.

CHANGES FROM APRIL 2015

Flexible access from age 55

With effect from April 2015, those with defined contribution pensions who are aged at least 55 (rising to 57 from 2028) will be able to access their whole pension fund as a lump sum if they wish.

It will be up to them whether to spend or invest it. Up to 25% will be tax-free; the rest will be subject to income tax at your marginal income tax rate. However, the Chancellor has said that the 25% tax-free amount will no longer have to be taken as a lump sum; smaller amounts may be drawn over time, each with 25% tax-free.

Basic-rate tax payers need to be aware that any drawdown from their pension other than the tax-free 25% will be added to their other income and could result in them paying tax at 40% or even 45% that tax year.

You can choose to take your pension in stages, rather than in one go, which can help manage your tax liability by taking advantage of several years' income tax allowances and basic rate bands.

ACTION POINT:

Those in defined contribution schemes, e.g. individual or group personal or stakeholder pensions, Self-Invested Personal Pensions (SIPPs), and some Additional Contribution (AVCs) all stand to benefit and should consider their options now, especially if they plan to retire early.

Pension income drawdown restrictions to be relaxed

One of the options available to those with larger pension pots has been the ability to draw an income from their fund. Using income drawdown means you can choose how much income to take, and leaves your options open. The rest of the fund remains invested and gives your money the opportunity for further growth.

From April 2015, some current restrictions will be scrapped. Fully flexible drawdown will offer considerable freedom but highlights the need for expert planning. Capped drawdown arrangements will continue, though currently limited to 150% of a benchmark annuity rate.

ACTION POINT:

This change can apply to those in defined contribution schemes, e.g. individual or group personal or stakeholder pensions, Self-Invested Personal Pensions (SIPPs), and some Additional Contribution (AVCs). Those already in flexible drawdown prior to 6 April 2015 will be able to move to the new unlimited regime and draw more income than the current maximum. Capped drawdown continues: a formula limits the amount that can be taken out each year.

Transferring a final salary scheme

Anyone with a defined benefit (e.g. final salary) pension fund will be able to take advantage of the change of rules from April 2015. In order to make unlimited withdrawals, they will need to transfer to a defined contribution pension, such as a SIPP. This facility will not be open to those in unfunded public sector schemes.

Before **transferring benefits**, you should always seek financial advice, as the move could result in the loss of other valuable benefits attached to a final salary scheme.

ACTION POINT:

Those in defined benefit schemes who want more flexibility of access to their funds must speak to an adviser in order to fully appreciate the implications of such a move.

REVIEW YOUR RETIREMENT PLANS NOW

The new rules give considerable freedom of choice and there are further alterations to legislation in the pipeline. The pensions industry is currently developing more flexible products in response to new market and consumer needs.

Annuities remain an option. Under the new rules, whilst nobody will be forced to buy an annuity at any age, those who wish to can do so, as at present. Providing a secure, guaranteed source of income to cover regular bills – from food and heating to the cost of running a car and paying council tax – will still be a major financial requirement for many. They may want to purchase an annuity to cover that portion of their living costs not covered by their State Pension.

It has never been more important to ensure that people make the right choices about their pension pot, as these decisions will affect them for the rest of their lives. The individual pension advice originally promised by the Chancellor has had to be reduced in scope and is now to be offered as guidance only, so it's essential that those nearing retirement take professional advice which looks not only at their pension fund, but also takes into account all other assets they may have, and considers their wider financial objectives.

April 2015 changes in summary

- Flexible access to pensions from age 55
- Pension drawdown restrictions relaxed; and tax-free 25% may be spread over time
- Final salary pensions can be switched to defined contribution, but some transfers from public sector schemes no longer allowed
- Retirement age set to increase from 55 to 57 from 2028 (and set to remain at 10 years below State Pension age)
- Death benefits paid to beneficiaries on death before age 75 will be completely tax free
- Death benefits after death over 75 subject to 45% income tax in 2015-16 and beneficiary's marginal rate thereafter

From April 2016

- New State Pension – around £148.40 p/w
- Death benefits payable after age 75 subject only to beneficiary's marginal rate

This information is based on our understanding of the legislation and does not constitute advice. Further proposals under consultation. Oct 2014.