

PENSION FREEDOM – CHANGES FROM 6 APRIL 2015

From 6 April 2015 there will be new options available for taking funds out of your pension. Set out below is a summary of these options and how they could apply to you. For more information, please contact us on 01784 608100.

Guidance on these options will be available from 'Pension Wise', a Government-backed free and impartial service which will be available online, by telephone from The Pensions Advisory Service, or face-to-face at the Citizens Advice Bureau. Please note this service is not intended to be a substitute for full financial advice. For more information, please go to www.gov.uk/pensionwise.

The following information is based on our current understanding of the proposed changes, based on analysis of draft legislation and guidance. This may change prior to April 2015.

PENSION OPTIONS FROM 6 APRIL 2015

1. FLEXI-ACCESS DRAWDOWN

The 'flexi-access drawdown' option places no limit on the amount of income that you can take from your pension. This means that it is possible to take your entire pension fund in one go, although it may not be sustainable or tax-efficient for you to do so. If you are reliant on your pension to support you, you may need to consider taking a lower level of income that would be more sustainable for your lifetime.

If you have not previously used your pension fund for drawdown, you will be able to take 25% of your fund as a tax-free lump sum. The rest of your fund would stay in your pension to provide you with an income. This part of your fund will be taxed at your marginal rate of Income Tax when it is withdrawn. If you take too much income this may put you into the next tax bracket, meaning you will pay a higher rate of tax.

2. PARTIAL PENSION ENCASHMENT ('UNCRYSTALLISED FUNDS PENSION LUMP SUM')

If your funds are not already in drawdown, this option allows you to take a one-off payment from your pension (or a series of lump sum payments) and keep the rest of your pension fund invested.

The first 25% of each lump sum is tax free, with the remainder subject to Income Tax. For example, if you take a £10,000 payment from your pension, the first £2,500 will be tax-free and the remaining £7,500 will be taxed at your marginal rate.

It is only possible to take an uncrystallised funds pension lump sum up to the Lifetime Allowance (currently £1.25 million) and this option will not be available for any pension funds already in drawdown, or if you hold certain protections on your pension benefits.

3. ANNUITIES

You will continue to have the option of using your pension fund to purchase a traditional lifetime annuity, which pays an income for life and can pay a fixed amount or increase over time.

From 6 April 2015, new flexible annuities will also be available. The income level can decrease or increase in the future, provided this is stated in the contract when you first purchase the annuity.

4. CAPPED DRAWDOWN

Under capped drawdown you are able to take a maximum level of income from your pension each year. The maximum amount is reviewed every three years up to age 75, and annually thereafter.

From 6 April 2015 you will be able to continue taking capped drawdown and your review dates will remain unchanged. Alternatively, you will have the option to move to flexi-access drawdown where the maximum income level will not apply. Please note it may not be tax efficient for you to take significantly more income than your current maximum level. If you are reliant on your pension to support you, you may need to consider taking a lower level of income that would be more sustainable for your lifetime.

If you move from capped drawdown to flexi-access drawdown, the amount you can contribute to pensions each year will reduce (please refer to the Reduced Annual Allowance section below).

5. FLEXIBLE DRAWDOWN

If you are already taking flexible drawdown you will automatically move to flexi-access drawdown from 6 April 2015. This will make no difference to how you take income, but you will be able to make tax-relieved contributions to your pension (subject to certain limits - see below for more information).

REDUCED ANNUAL ALLOWANCE

The Government is keen to ensure that people do not abuse the new pension freedoms by taking higher levels of income to fund further pension contributions which attract tax relief.

Restrictions will be put in place on the amount that you can continue to contribute to UK pensions once you have flexibly accessed your pension benefits.

The maximum amount that you can contribute to all your pensions each year and obtain tax relief (the 'annual allowance') is currently £40,000. It is possible to make use of any unused allowance from the three previous tax years, if you were a member of a pension scheme in those tax years. This is known as 'carrying forward' your annual allowance.

Once you have flexibly accessed your pension benefits, the amount you can contribute to all money-purchase pensions each year will be restricted to £10,000. The new lower limit is referred to as the Money Purchase Annual Allowance (MPAA). It will not be possible to carry forward unused MPAA from previous tax years.

The current £40,000 annual allowance will continue to apply to final salary schemes (also known as a defined benefit scheme), so you can continue to accrue benefits up to £40,000 per tax year without facing tax charges - as

long as you do not contribute more than £10,000 across all of your money purchase schemes (defined contribution schemes).

The £10,000 MPAA is triggered:

- When you take an uncrystallised funds pension lump sum.
- When you take income under flexi-access drawdown.
- When you exceed your maximum income level in capped drawdown.
- When you take income after switching from capped drawdown to flexi-access drawdown.
- When you purchase a flexible annuity.
- On 6 April 2015 if you have previously been using flexible drawdown.

The £10,000 MPAA is not triggered:

- When you take your tax free cash lump sum only.
- If you continue to take income below the maximum income level in capped drawdown.
- When you purchase a traditional lifetime annuity.
- When you take lump sum death benefits as a beneficiary of someone else's pension.
- When you take flexi-access drawdown as a beneficiary of someone else's pension.

NEW DEATH BENEFIT RULES

You can nominate whoever you wish to receive your death benefits, including your spouse, children, grandchildren or someone unrelated to you. You can also choose to leave some or all of your pension fund to a charity.

Beneficiaries of your pension fund can choose to:

- Take the fund as a lump sum
- Leave the fund invested and take an income through flexi-access drawdown
- Leave the fund invested indefinitely and benefit from pension tax advantages

How your death benefits are taxed will depend on your age when you die. If you die before your 75th birthday, the benefits will be paid tax-free (as long as the funds are designated to your beneficiaries within two years). If you live beyond your 75th birthday, the funds will typically be taxed at the beneficiaries' marginal rate of Income Tax. However, if they choose the lump sum option prior to 6 April 2016, it will be taxed at 45%.

If your beneficiary has not withdrawn all of the funds before their own death, the funds can be passed on again to a person or persons of their choosing. The nominated successor(s) will have the same options as above.

Important Note

This information is based on our current understanding of the pension changes. This is provided for information only and does not constitute financial advice. If you have any questions regarding this information, please contact us on 01784 608100. Tax rules can change in the future and the tax treatment depends on your personal circumstances. The value of investments, and any income from them, can go down as well as up, and you may not get back your original investment.