HILLS-HOWSON
FINANCIAL SERVICES

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FACTSHEET

Pension freedoms – what could they mean to you?

Accessing your pension safely, without unnecessary costs and a potential tax bill

Recent changes mean that you now have more flexibility with your pension fund than ever before. It is crucial to understand your options in order to maximise your income in retirement. The wide media coverage that followed the 2014 Budget announcements talked of pensions in the future being used as bank accounts and new pension freedoms leading to long waiting lists for Lamborghinis.

The changes to the pension tax rules were initially announced in the 2014 Budget to give individuals greater flexibility to access their Defined Contribution (DC) pension savings. They were subsequently confirmed in the Taxation of Pensions Bill published on 14 October last year and took effect from 6 April 2015, which some commentators called 'Pensions Freedom Day'.

However, according to Standard Life, nearly half of adults aged 50 to 65 are indifferent to the pension reforms, and almost one in five are confused about what it all means and how the changes could affect them. If you were aged 55 or over from 6 April 2015, you could take advantage of this increased flexibility, but obtaining professional advice is essential to make sure you get an informed analysis of your particular situation.

TAX-FREE CASH FROM YOUR PENSION ON RETIREMENT

If applicable to your particular situation, from 6 April there is the option to withdraw up to 25% of the fund as tax-free cash from your pension on retirement or at anytime from age 55 whether retired or not. This can either be taken all at once or you could make a series of withdrawals and have a portion of it paid tax-free.

In this instance, someone with a pension worth £100,000 could withdraw £25,000 cash tax-free in one lump sum and have subsequent withdrawals taxed as income, or alternatively make a series of withdrawals over time and receive 25% of each withdrawal tax-free.

If this person withdrew five lump-sum withdrawals of £20,000, they would receive £5,000 tax-free with each withdrawal, equating to £25,000 tax-free cash overall. Withdrawals of £1,000 a month would receive £250 of each payment tax-free, with the remainder taxed as income. Although this example would enable the person to manage their tax liability, it is not available if they use their pension fund to purchase an annuity.

WITHDRAWING YOUR PENSION

If you were 55 and over from 6 April 2015, you'll also now have the freedom to decide how you choose to withdraw your pension, in excess of any tax-free cash. However, if you choose to take an Uncrystallised Funds Pension Lump Sum(s) (UFPLS), it wouldn't be 'in excess of any tax-free cash.' The choices are to take the entire fund as cash in one single go, withdrawing differing lump sum amounts when you choose or taking a regular income utilising income drawdown where you are able to withdraw directly from your pension fund. The last two options mean that your pension remains invested. Alternatively, you can purchase an annuity to secure an income for the rest of your life.

Depending on your particular situation, if you withdraw your pension in stages rather than all at the same time, this may enable you to manage your tax liability, as any withdrawals in excess of the tax-free amount will be taxed as income at your marginal rate.

There are three primary options for you to consider in terms of taking benefits for the first time on or after 6 April 2015. If you were not in capped drawdown prior to 6 April 2015, there is no option to move into capped drawdown after this date. Capped drawdown is the current form of drawdown that allows you to draw an income from your pension subject to an annual limit.

MAXIMUM VALUE OF PENSION SAVINGS

The Annual Allowance is the maximum value of pension savings on which you receive tax relief each year. The Annual Allowance is £40,000 for the 2015/16 tax year. Your pension contributions

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after 6 April 2015 are still subject to this and other specific contribution rules. Contributions to DC pension savings could also be restricted to £10,000 if you make any withdrawals from a DC pension in addition to any tax-free cash after 6 April 2015 via the flexi access drawdown route. In the event that you had already entered flexible drawdown before 6 April 2015, you can make contributions of up to £10,000 a year, something not previously permitted. The £10,000 reduced allowance also applies to any withdrawal of a UFPLS which wouldn't be 'in addition to any tax-free cash'.

If you were to have a pension worth £10,000 or less and took it as a 'small pot', the reduced £10,000 annual allowance will not apply. You could take pensions as small pots up to three times from personal pensions and unlimited times from occupational ones. The reduced annual allowance will also not apply if you entered capped drawdown before 6 April 2015, and your withdrawals thereafter remain within the maximum GAD income current drawdown limit, even if you move more funds into the same plan. Other scenarios where the reduced annual allowance does not apply are if you withdraw your pension as a lifetime annuity (excluding flexible annuities) or a scheme pension (except when fewer than 12 people are entitled to one under that scheme).

BENEFICIARY PENSION PAYMENTS

From 6 April 2015, the previous 55% tax charge on lump sums paid from your pension funds if you died before age 75 were abolished. The tax rules were also changed to allow joint life annuities to be paid to any beneficiary.

If you died after age 75, your beneficiaries have the options of taking the entire pension fund as cash in one go, subject to 45% tax, or receive a regular income through income drawdown or an annuity. This income will be subject to Income Tax at their marginal rate, and if they receive periodical lump sums through income drawdown, these will be treated as income, so subject to Income Tax at their marginal rate.

MAKING UNLIMITED WITHDRAWALS

Anyone with a Defined Benefit (DB) pension, such as a final salary pension, will be able to make unlimited withdrawals. But in order to do so, they will have to transfer to a DC pension such as a Self-Invested Personal Pension (SIPP).

As you could lose very valuable benefits, this is rarely a suitable course of action, and you will be required to receive professional financial advice first. It will also no longer be possible to transfer from most public sector pension schemes.

The age at which you can draw your pension currently (55) will increase to 57 from 2028 and remain ten years below the State Pension age and then increase in line with it thereafter. This will not apply to Public Sector Pension Schemes for Firefighters, Police and Armed Forces.

ACCESS YOUR PENSION SAFELY, WITHOUT UNNECESSARY COSTS AND A POTENTIAL TAX BILL

The pensions reform bring about a new level of flexibility and choice. For some, an annuity may still be the right option. Others may want to withdraw their entire tax-free lump sum and convert the rest to drawdown. It's essential to obtain the right professional financial advice to ensure that you access your pension safely, without unnecessary costs and a potential tax bill. To discuss your situation, don't leave it to chance. Please contact us.

The value of pensions and the income they produce can fall as well as rise. You may get back less than you invested.

Tax treatment varies according to individual circumstances and is subject to change.

Information is based on our current understanding of taxation legislation and regulations. Any levels and bases of, and reliefs from, taxation are subject to change. Although endeavours have been made to provide accurate and timely information, we cannot guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough review of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions.

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