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Pensions Reform

Whose money is it anyway?

"The most fundamental reform to pensions in almost a century, giving people much greater freedom over how they access their pension savings"

George Osborne

This leaflet provides an overview of the key changes and aims to answer some of your questions.

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Ways to access your pension pot

1. Income with guarantees

- 25% tax-free cash
- Annuity (guaranteed income for life)
- Taxed as income

2. Income without guarantees

- 25% tax-free cash
- Flexi access drawdown (regular income)
- Taxed as income

3. Cash out

- Ad-hoc withdrawals
  - 25% tax-free
  - balance taxed as income

Please note:

1. Any combination of the above can be used.

When you die

Who can receive benefits?

Pension savings can be paid to anyone without restrictions

Income with guarantees (annuity*)

- Tax-free if you die before age of 75
- Taxable if you die after age of 75

Income without guarantees

- Tax-free if you die before age of 75
- Taxable if you die after age of 75

Cash out

- Tax-free if you die before age of 75
- Taxable if you die after age of 75

*Which has spouse's pension and/or guarantees built in.

Most frequently asked questions

Q – Can I really take all my pension in one go and buy a Lamborghini?

A – Yes, but there are a few very good reasons why you might not want to. First, you'll likely need to generate an income stream in retirement to sustain your desired lifestyle and, while a Lamborghini would be extremely exciting, it won't help pay the bills or fund your holidays. Secondly, by taking the whole fund out in one go you could end up paying a considerable amount of tax, which can be substantially reduced with careful planning. Lastly, whatever is left in the pension when you die is passed to whomever you wish free of inheritance tax. This is a substantial benefit, allowing a greater proportion of your wealth to be passed on without suffering inheritance tax.

Q – How much of my pension can I access without paying tax?

A – You are still able to withdraw 25% of your pension tax-free. Anything beyond this is taxed as income and will suffer either 45%, 40%, 20% or possibly 0% tax depending on what other sources of income you have.

Q – If I draw all my pension out in one lump sum what income tax do I pay?

A – The first 25% is tax-free. Thereafter the tax will depend on what your other income is. So the remaining proportion of your fund could be subject to tax. Also, watch out for the loss of your personal allowance if your total income in a particular tax year, exceeds £1.25m for tax year 15/16 & £1m from tax year 16/17 onwards then you may also have some tax at 55% to pay.

Q – Do I have to take all my tax-free cash out in one go?

A – No, you are able to structure the withdrawal of your tax-free cash to suit your own individual circumstances, meaning that your first few years of income could be received free from any income tax.

Q – Am I restricted to who I can pass my pension to on my death?

A – No, you can choose whoever you wish and it doesn't have to be just one person. One area we will be considering with clients is whether to leave some or all of their pension funds to their grandchildren as part of a larger planning strategy to reduce inheritance tax. The new pension rules really do allow us to achieve true generational planning.

Q – Will my children pay tax when they inherit my pension?

A – Regardless of when you die they will receive the pension free from inheritance tax. What does change is the tax they pay when they access the fund and this depends on when you die. If you die before you reach 75, they can access your pension without paying any income tax at all, regardless of their own income tax situation. If you die after 75, then they will pay income tax at their own marginal rate of tax, so this could be 0%, 20%, 40% or 45% depending on their own income situation.

Q – I can't access my pension until I'm 55; will my children also have to wait until they are 55 to access my pension?

A – No, they will be able to access your pension regardless of their age (legal guardians will act for minors). This means that they can withdraw the money whenever it suits their own circumstances.

Q: What happens to a pension fund which has been passed to a beneficiary (but remains within the pension wrapper), who subsequently dies?

A: The fund can, again, pass to whoever the deceased has nominated as their fund inheritor, and without inheritance tax becoming payable. In this way, pension funds can cascade down the generations free from inheritance tax.

Q – Once I access my pension am I then restricted as to how much I can continue to pay into my pension?

A – Yes. When building up your pension the maximum you are able to contribute is £40,000 per tax year, assuming certain criteria are met. Once you access your pension this will be restricted to £10,000 per tax year.

Q: How do the new rules impact my pension if I'm already taking an income, sometimes referred to as 'drawdown'?

A: You should be able to continue drawing an income as you currently do, but your income will no longer be limited to a percentage of the pension fund value. You might, however, want to keep your income from the pension plan within current limits. This is relevant if you intend to continue making pension contributions because, if you keep your income within your current limits, it means that the amount you can contribute to your pension will not be restricted to £10,000 (see previous question).

Q. Do the new rules apply to final salary schemes?

The only way to access the new freedoms will be to give up the promised pension for a lump sum, which can be transferred to a new pension provider. Only some pension schemes will allow transfers and publicly funded final salary schemes will not.

Q. Is an annuity a bad option?

A. No, as for many people a guaranteed income for life will be very important

Q. Will I run out of money?

A. With careful planning there is no reason why this will happen. It is our role to ensure that the necessary structure and disciplines are put in place to ensure that you never run out of money.

Q Are all pension providers obliged to offer the new freedoms?

A. No, we are likely to see a number of older style pensions where individuals will not be able to access the flexibility of the new pension rules and will have to transfer their pensions to an alternative pension to benefit from the new rules.

Retirement Planning

As you will now have greater freedom and control than ever before, it is vitally important to get good quality independent financial advice and guidance to ensure you make good decisions about how to best pay for your retirement.

The starting point should be a long-term financial plan which takes into account income, expenditure and savings.

Retirement planning is about spending time to understand your own personal objectives and aspirations and developing a robust plan, taking into account your complete financial situation now and in the future.

By building a financial plan, we can help you to identify how much you should invest, for how long, and the return you need from these investments to make sure you never run out of money.

Once you have established that you have enough money, then it is time to start spending as much as the plan allows!

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