FINANCE UPDATES

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Pension freedoms: the new changes and you

An overview of changes to pension rules from 6 April 2015

April 6 2015 saw the highly anticipated pension reforms announced in March 2014 quietly redefine the traditional retirement landscape. Known colloquially as the new 'pension freedoms' these changes will give individuals a much wider range of options on how to access their pension pots when they retire.

Whether you want to guarantee that you will receive a regular income throughout your twilight years or you want to take your money and turn it into some kind of productive assets, these reforms will let you make it easier for your money to do what you want it to.

So, what do these new freedoms mean in practice?

A YouGov survey, published a week after the reforms came into effect, found that:

- **30%** of people surveyed said they planned to exhaust all their savings within a decade
- **16%** would spend some of their funds on a holiday
- **10%** planned to buy a car
- **23%** would make new investments such as ISAs
- **11%** would pay off their mortgage
- **8%** would clear other debts
- **15%** said they would help their children.

Just 12% planned to withdraw all their funds within a year, with 6% intending to take out more than £20,000.

What's your plan?

How about you? What are your plans? There is still a lot of confusion about exactly what people are going to be able to do with their retirement savings.

From 6 April 2015 you can do what you like with your pension pot. You can withdraw all or part of it at any time and you can spend the money how you want, although it's important to remember that you will pay income tax on any withdrawals greater than 25% of your pot.

Before this you had to buy an annuity to turn your retirement funds into an income, or go into drawdown and withdraw an income, which was usually capped, from the investments in your pension. Many complained that annuities offered poor value as once you had bought it, you were stuck with it, no matter what. Now you have the freedom to make your own choices.

Contact us today to talk about your long term plans.

Do the pension reforms apply to everyone?

No. They only apply to people who have a certain type of pension, known as a defined contribution pension. They do not apply to defined benefit pensions.

Defined contribution

These are personal or workplace pensions based on how much money has been paid into your pot and how this money has performed in the investments held in the pension. They are also known as 'money purchase' schemes.

Defined benefit

Also known as final salary pensions, these are a type of workplace pension based on your salary and length of time with your employer. Your scheme (backed by your employer) guarantees a certain amount each year when you retire, which has been calculated under the rules of your pension scheme.

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Essential steps

If you have a defined benefit pension, you need to do nothing. If you have a defined contribution scheme, you can make a start by taking these steps.

- Check how much is in your pension pot. You can get this information from your pension provider either by asking for an up to date figure or looking at your latest pension statement.
- Work out how much money you'll get from your defined contribution pension, your state pension (when you're eligible for it) and any other sources of income.
- Examine the options available to you, and then discuss the effect of those options on your pension pot.

Your pension options

You can now choose one of the following ways to access your pension pot:

- you can leave your pension pot untouched until you need the money - your pot could still grow
- by purchasing an annuity you can ensure a regular income - you can take 25% of your pot tax-free before buying an annuity
- you can get a flexible income by either taking 25% of your whole pot tax-free, or you can take smaller cash lump sums with each one 25% tax-free
- you can take your whole pension pot as cash – the first 25% will be tax-free and the rest will count as taxable income and be charged at your marginal rate.

With the new pension system emphasising freedom of choice for the individual, you will be able to mix and match between these options if you should choose to.

A word of warning

In theory, your pension provider will be able to offer all of these options, but at the time of writing, this doesn't appear to be universal. You'll also need to check on any charges and your personal tax situation.

What if I already have an annuity?

At the moment, you can do nothing but live with it. However, the government has announced that from April 2016, you will be able to sell the income you receive from it without unwinding the original annuity contract. The value you receive will depend on demand in the market.

What about tax?

Only the first 25% is tax-free. The rest is treated as income, which means it will be added to any other income you have for the year, and could be taxed at 20%, 40% or even 45% depending upon the size of your pot. So, taking your whole pension pot as one lump sum may turn out to have significant tax implications. Carefully timing when you take your benefits, and planning the amounts, can help reduce your exposure to tax.

Contact us today to talk about your pension options.

Are annuities dead?

Annuities are still available. There are a variety of different types so getting the right one is important.

Level annuities

Level annuities pay out a flat, or 'level', amount of income every year for the rest of your life.

Escalating annuities

These pay out an increasing amount each year.

Single-life annuities

These pay out to just one person. If you have a partner who might outlive you it can cause problems.

Joint-life annuities

These annuities pay you an income, then after you die, an income to your partner or spouse until they die.

Investment-linked annuities

The payouts from these are tied to the stock market, so the amount they give you varies depending on the success of underlying investments.

Variable or flexible annuities

Like investment-linked annuities, these rise or fall in line with investments.

Fixed term annuities

Fixed term annuities are like standard annuities, in that they pay a set amount each year for the fixed period.

Enhanced annuities

Standard annuities are based on average life expectancy, but if you are in poor health or have other conditions which may be expected to shorten your life, you may get a better deal, in some cases by up to 50% more annuity income.

Still confused?

The great thing is that 6 April was just a starting point, not a deadline. These are major reforms and whilst the financial services industry claims that it is fully equipped to handle demand, recent experience shows that not all pensions providers are coping.

Importantly, these new reforms put you in charge of your money when you retire. The responsibility to examine your options properly based on what you want from your retirement years is going to become an increasingly important one.

The government has launched a free and impartial guidance service to help you understand the options when you come to retire. More information on the service can be found on the Pension Wise website.

Get in touch with us today about your retirement.