PATTERSON-MILLS

INDEPENDENT FINANCIAL ADVISERS & CHARTERED FINANCIAL PLANNERS

FINANCIAL GUIDE

A GUIDE TO THE 2014 BUDGET PENSION RULE CHANGES

THE MOST FAR-REACHING REFORM TO PENSIONS SINCE THE REGIME WAS INTRODUCED

A GUIDE TO THE 2014 BUDGET PENSION RULE CHANGES

The most far-reaching reform to pensions since the regime was introduced

Fundamental plans to redesign the UK defined contribution pension system (as opposed to workplace final salary schemes) were announced as part of the Budget 2014 speech. This is the most far-reaching reform to the taxation of pensions since the regime was introduced in 1921, introducing new flexibility to the pensions system.

By removing the effective requirement to buy an annuity which will be introduced from April 2015, people will have greater flexibility and choice about how they can access their pensions. Those who want to guarantee a regular income for life will still be able to purchase an annuity.

The changes affect those over 55 who have savings in a defined contribution (DC) pension scheme, such as a personal pension. In a DC scheme, the pension depends on the amount of money you, and perhaps your employer, have saved in the scheme.

The position for those in defined benefit (DB) – or final salary – pensions is unlikely to change, although there may be a restriction preventing people in public service pension schemes from transferring into a DC scheme.

PROPOSED REFORMS

There are some temporary rules until the full proposed reforms come into force. These run from 27 March 2014 to 6 April 2015.

If you are aged over 60 and have not touched your pension pot, and your total pension savings are no more than £30,000, you can withdraw all of the savings.

TAKING PENSION SAVINGS

This announcement means that people will be in a position to choose how they take their pension savings: for example, they could take all their pension savings as a lump sum, draw them down over time or buy an annuity.

The Government also intends to explore with interested parties whether those tax rules that prevent individuals aged 75 and over from claiming tax relief on their pension contributions should also be amended or abolished.

IF YOU ARE AGED OVER 60 AND HAVE NOT TOUCHED YOUR PENSION POT, AND YOUR TOTAL PENSION SAVINGS ARE NO MORE THAN £30,000, YOU CAN WITHDRAW ALL OF THE SAVINGS.

In the meantime, as a first step towards this reform, a number of changes have been announced to the rules. These came into effect from March 27, and now allow people greater freedom and choice over accessing their defined contribution pension savings at retirement.

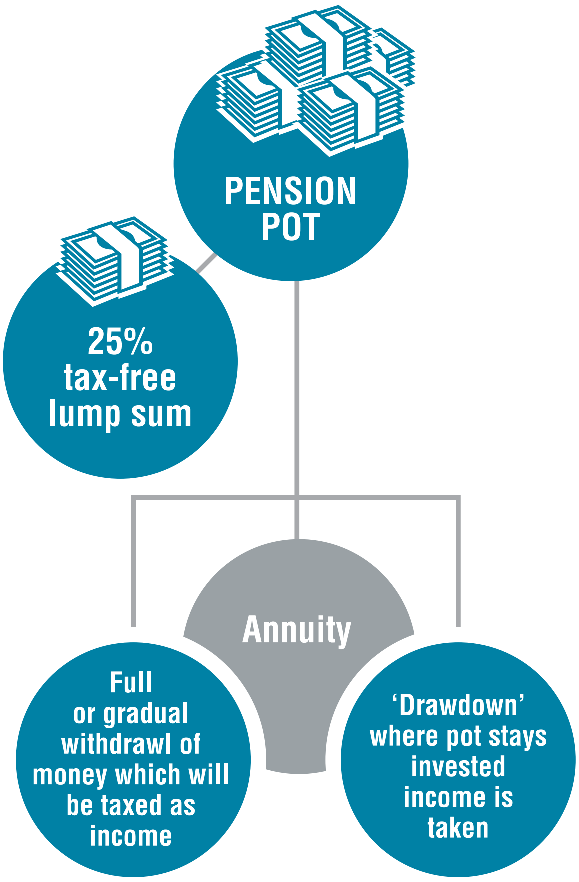
From this date, savers whose total pension savings amount to £30,000 – rather than £18,000 – will be able to take the entirety as cash ('trivial commutation'). This will be taxed at marginal rates.

Savers with larger amounts in pension savings will be able to take up to three pensions worth £10,000 each as cash, rather than two worth £2,000.

Savers who use 'income drawdown' will be allowed to take larger sums as income.

An individual will need just £12,000 of secured pension income from

Savers who use 'income drawdown' will be allowed to take larger sums as income.



other sources to make unlimited withdrawals through 'flexible drawdown'.

The changes are:

- reducing the amount of guaranteed income people need in retirement to access their savings flexibly, from £20,000 to £12,000
- increasing the amount of total pension savings that can be taken as a lump sum, from £18,000 to £30,000
- increasing the capped drawdown withdrawal limit from 120% to 150% of an equivalent annuity
- increasing the maximum size of a small pension pot which can be taken as a lump sum (regardless of total pension wealth) from £2,000 to £10,000, and increasing the number of personal pots that can be taken under these rules from two to three

PENSION ACCESS

From April 2015, savers will be able to access the entirety of their pension at any time after age 55, subject to income tax at marginal rates on three quarters of the money.

The ability to take the whole pension as one lump of income would mean someone with a £100,000 pension could take £25,000 tax-free and then withdraw the remaining £75,000 to spend or invest as they saw fit.

The £75,000 would be treated as income for that tax year, pushing the individual into the higher-rate tax band for the year.

VARIED INCOME

Individuals will be able to take the money in annual lump sums. This might mean keeping the money invested in the stock market and going into 'income drawdown'. From April 2015, there will be no cap on the amount of money that savers can withdraw from this arrangement, so income can be varied to stay within the basic-rate tax or even nil-rate threshold for the year if desired.

Those who want to guarantee an income for life will still be able to purchase an annuity. The difference is that they will now do so on their own terms, rather than effectively being pushed down this route due to the restrictions on accessing small pots and the high costs and caps on income drawdown.

MAKE SURE YOU MAKE THE MOST OF YOUR PENSION POT

This radical announcement to give retirees more choice as to how they take the income from their pension fund will mean that other options may now be given more consideration. These changes make it even more important for those approaching retirement to seek professional advice in order to make the most of their pension pot. If you would like to find out how the changes could affect your future retirement plans, please contact us.

Additional update – important further pensions change in Treasury announcement of October 2014

In addition to the announcements in the April budget already referred to in previous pages amendment to the 55% tax that applies to money which remains within a pension plan at the member's death. The Chancellor is to abolish the 55% tax on pension funds on death as from April 2015.

All pension savings will pass on tax-free for the under 75s, making it easier for children and grandchildren to inherit savings. For the over 75s, the tax charge will be reduced to the marginal rate payable by the beneficiary (which could include 20%, 40% and 45% rates, dependent upon taxable income in that year of inheritance.

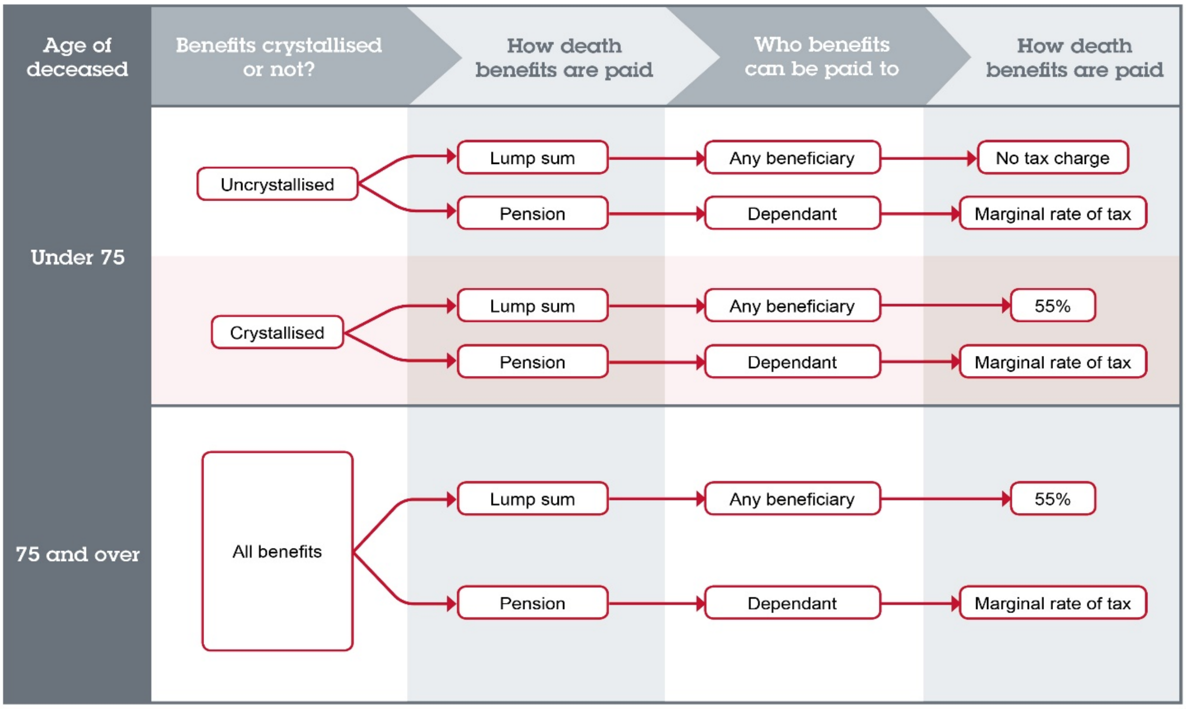
The changes as we know them

The changes relate to a separate tax on inherited pension plans. There is no change to "ordinary" inheritance tax (IHT), which will remain payable at 40% on estates worth more than the exempt amount, £325,000 (or £650,000 for couples).

Current Legislation

If someone dies aged 75 or over, without having taken (i.e. "crystallised") all their defined contribution pension funds (e.g. from their Personal Pension or SIPP), the money is currently taxed at 55% (unless a spouse or civil partner or dependent child under 23 takes an income from it, then it is taxed at that individual's own rate as income).

Only if the pension has never been touched – when neither the 25% tax-free lump sum, nor any income from an annuity or "drawdown" plan has been taken – can pensions be inherited tax free (e.g. before 'retirement'), and then only if the pension member dies before the age of 75.



Source: AJ Bell

What will change?

The 55% tax will be removed if the pension member dies before the age of 75, whether or not the pension has been taken (known as having crystallised the fund), and so it can pass to the beneficiaries completely free of tax. There will be no tax on the transfer of the money to the new owner and none to pay when he or she makes any withdrawals from the fund.

If, however, the member dies at the age of 75 or over, there will be some tax to pay, though much less. Where a member dies at age 75 or over, the 55% tax that currently applies when the pension fund is transferred to the beneficiary will be scrapped and replaced by an income tax charge on any money withdrawn from the pension. This charge will be at the new owner's top (or "marginal" rate), whilst we expect this will be changed at some point, as the age 75 rules are now, in the view of Patterson-Mills, anomalous.

Annuities

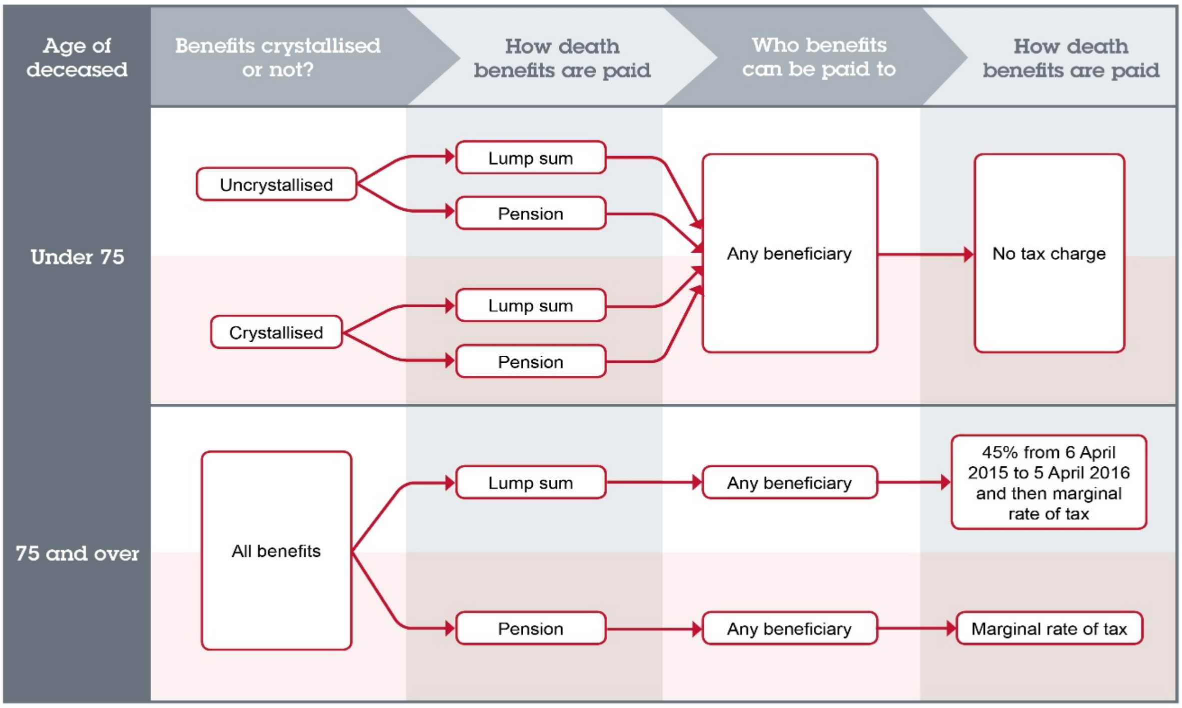
Anyone who has already used all their pension savings to buy an income for life via an annuity will be unaffected, unless the annuity contract provides a lump-sum payment on death. Annuity income will continue to be taxed in accordance with the income tax rules.

The changes take effect - from April 2015.

In Summary

The changes in whole to be introduced from April 2015 make drawdown pension arrangements more attractive, as everything that remains in a member's pension scheme at date of death, even if the member has taken benefits from the pension (crystallised), will be tax free upon death before age 75.

Those members that die after age 75 will be able to pass on pension benefits to their nominated beneficiaries where tax will only be paid at the beneficiaries' marginal rate of income tax. The chart below shows how the new regime will work.



Source: AJ Bell

PATTERSON-MILLS

INDEPENDENT FINANCIAL ADVISERS & CHARTERED FINANCIAL PLANNERS

MAKE SURE YOU MAKE THE MOST OF YOUR PENSION POT

The radical announcements to give retirees more choice as to how they take the income from their pension fund will mean that other options may now be given more consideration. These changes make it even more important for those approaching retirement to seek professional advice in order to make the most of their pension pot. If you would like to find out how the changes could affect your future retirement plans, please contact us.

Goldmine Media, Basepoint Innovation Centre, 110 Butterfield, Great Marlings, Luton, Bedfordshire LU2 8DL