WEALTH MANAGEMENT

Pension Reforms October 2014

The Chancellor of the Exchequer George Osborne, in his 2014 Budget speech on 19th March, proposed the biggest and most radical changes to retirement planning in recent times. Mr Osborne said "People who have worked and saved hard all their lives should be trusted with their own finances". The Government has now delivered on the Chancellor's Budget promise of more pension flexibility as of April 2015.

What are the pension changes being made from April 2015?

The main changes are:

- The removal of income limits from defined contribution schemes
- The introduction of free guidance at retirement
- A reduced annual allowance for those using new flexibilities
- A reduction in tax charge on lump sum death benefits whilst in drawdown or aged over 75
- A ban on transfers from unfunded defined benefit to defined contribution schemes
- More flexibility for new annuities

Flexi-access drawdown – income drawdown will be known as flex-access drawdown. You will be able to draw any amount over whatever period you choose. Existing 'flexible drawdown' funds will automatically convert to flexi-access drawdown from 6 April 2015 – good news as currently those in flexible drawdown have zero annual allowance.

Uncrystallised funds pension lump sums – you will be able to take a single or series of lump sums from your uncrystallised funds, without actually having to designate them for drawdown first. 25% of the amount paid is tax free, with the balance taxable as pension income. However, there are certain conditions which have to be met.

Death Benefits - In September the Chancellor announced that from April 2015 individuals will have the freedom to pass on their unused defined contribution pension to any nominated beneficiary when they die, rather than paying the 55% tax that currently applies to pension funds passed on at death. An individual's age at death will still determine how their pension death benefits are treated. The age 75 threshold remains, but with some very welcome amendments. If you die over the age of 75 whilst taking Income Drawdown, or with uncrystallised pension funds, the beneficiary will have the option of receiving the pension as a lump sum payment, subject to a tax charge of 45%. In the tax year 2016/2017, this tax charge will change to income tax at the beneficiary's marginal rate. If you die before the age of 75 the beneficiary will pay no tax on the money they withdraw from that pension, whether taken as a single lump sum or as income.

Another recent proposal on 14th October, is that to allow individuals to take a series of lump sums from their pension fund, with 25% of each payment tax free and 75% taxed at their marginal rate, without having to enter into a drawdown policy.

Important: Please note that the above article is not a recommendation or a proposal to invest through IFPC Ltd.
We would urge you to contact us to discuss your specific retirement options as the circumstances may vary for each individual.
Sources: Standard Life, HM Treasury, FT.com

CHARTERED FINANCIAL PLANNERS CII

IFPC Limited, Faulkner House, Victoria Street, St Albans, Herts, AL1 3SN
T: 01737 837128 E: info@ifpc.co.uk www.ifpc.co.uk