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More pension uncertainty

No sooner has the ink dried on the dramatic Budget proposals to remove the requirement to buy annuities with accrued pension monies than Ministers start talking about other possible changes – notably reducing the amount of tax relief available on pension contributions.

According to figures published by HM Revenue & Customs, higher-rate taxpayers will by 2015 shoulder two-thirds of the total amount of income tax paid, though they represent only 16% of the population. Nevertheless, the fact that they also receive around 70% of the benefit of tax relief on pension contributions goes down badly in some quarters.

The suggestion which has been made is that pension tax relief should be standardised at a flat rate of say 30%, thus limiting the relief available to those who pay tax at 40% or 45%. However, the proponents of this change would mitigate its impact by removing the lifetime allowance, which currently limits to £1.25 million the total pension savings which can be accumulated without attracting a tax charge.

Standard rate 20% tax payers would clearly benefit from flat rate relief of 30% because they would gain 10% on their contributions, but critics of the proposal have suggested that because there are so many more standard rate than higher-rate taxpayers, there might be little net benefit to the Government.

Others suggest that a flat rate would be complicated to administer if it applied to employers' contributions as well as personal contributions.

Another suggestion has been that tax relief on contributions should be scrapped altogether and replaced by a 50p Treasury contribution for every £1 saved for retirement and that the cherished entitlement to draw 25% of the fund in the form of tax-free cash should be removed.

In the run-up to a general election politicians need to be seen to be floating ideas with apparent populist appeal, and it is hardly surprising that others should jump on the bandwagon. However, meddling with pensions tax-free cash would be political suicide and as far as pensions generally are concerned, surely enough is enough. What is required after years of change is stability and certainty.

Life expectancy

Having successfully accumulated a pensions pot, the time eventually arrives for de-cumulation – spending the hard-earned savings.

The question then arises of how long the savings will need to last, and the answer might necessitate a change of plan – for example delaying retirement from work, or taking part-time work.

Figures produced recently by the Office for National Statistics show that average life expectancy varies between different parts of the country. Those living in the South of England and East Anglia have the highest life expectancy, followed by the Midlands. However, they reduce in the north and Scotland.

In the South a man aged 65 has an average life expectancy of 19 years, and a woman of 21 and a half years, whereas in Scotland these figures fall to 17 years and 19 and a half years.

The government intends to make life expectancy information available to everyone as part of its retirement guidance scheme, and financial planners can complete the picture by advising how long a given pension pot is likely to last, assuming different levels of income and/ or capital withdrawal and taking account of variables such as inflation.

The requirement for income in retirement often takes the form of a tick, with expenditure starting high as a result of the cost of retirement projects, and then reducing before rising again as the cost of deteriorating health increases. It is estimated that the cost of care could be as much as £85,000 per year.

The problem with retirement savings is that if they run out, there is usually no way of replenishing them. So caution is the watchword. However, keeping funds in cash over prolonged periods is unwise because cash is unlikely to stay ahead of inflation.

Stock market investment is likely to show better returns but has a risk attached. So for many people the idea of buying an annuity to secure a guaranteed income with at least the first slice of the funds will still appeal despite the Chancellor's changes.

Co-habitation problems

For the first time ever, the number of people living together in the UK exceeds the number of married couples; and around half the number of new-born children are born outside marriage.

This situation is giving rise to an increasing number of property disputes, particularly where one party dies without having made a Will. It appears that many unmarried couples do not realise that the concept of common law marriage does not exist, and that their partners are not necessarily entitled to assets which they may currently share.

The situation becomes even more complicated in the case of older couples who are living together but have property or children from previous relationships.

The main problems result from intestacy and will be avoided by each party executing a Will, and ensuring that this is kept up-to-date as circumstances change. Standard Wills are now available on-line and some non-lawyers offer to draft Wills. But for larger estates, where tax efficiency is all-important, the best advice is to see a solicitor.

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