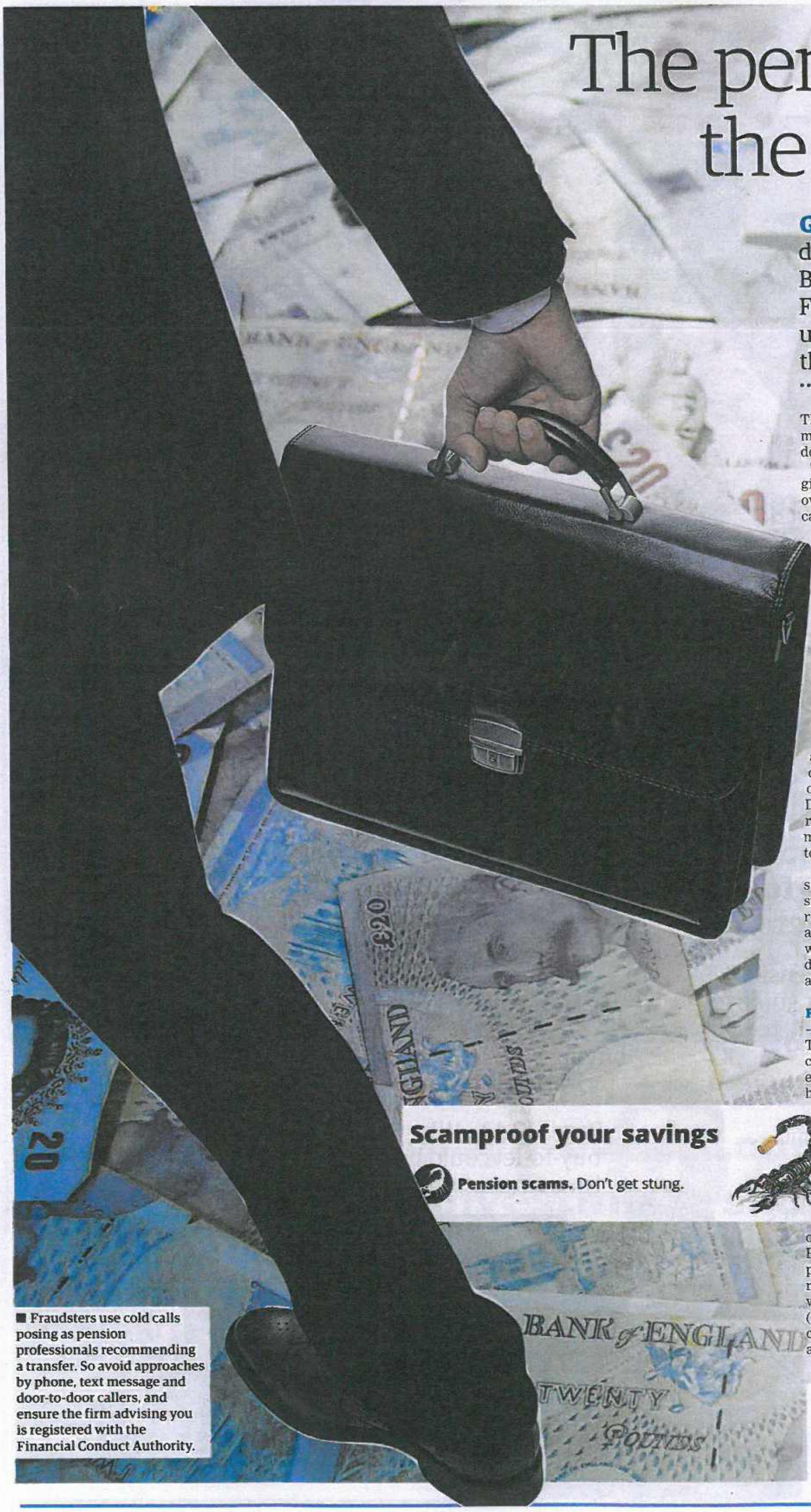

The pension dilemma: the choice is yours

GARY RICHES, IFA director with Scrutton Bland Independent Financial Advisers, weighs up the risks and benefits of the new pensions flexibility.

This month we are going to see the most significant pension reforms for decades.

The new pension flexibility will give further options to those aged over 55, including the option to fully cash in their pensions. Some will be looking to do this, but what are the issues and risks?

The changes bring complexity. The government has introduced a promise of free financial "guidance" for people over age 55 to help, but this is not free advice.

The service is called "Pension Wise" and is by telephone from the Pensions Advisory Service or a limited time face-to-face meeting with the Citizens' Advice Bureau.

This will not give individual advice (for example, whether to cash in or buy an annuity or use options of Flexible Access Drawdown) nor product recommendations. Retirees must make their own decisions on what to do from guidance.

Pensions Wise services will signpost people towards the next steps which may involve seeking regulated independent financial advice. There are questions on whether people will understand the difference between guidance and advice.

Forget the Lamborghini - beware the tax man

There have been suggestions of cashing in pensions to spend on expensive cars, home improvements, holidays or property investment but withdrawing hard-earned pension funds to spend requires careful thought.

Income tax will be deducted. A £100,000 pension, if fully cashed in, would conservatively lose around £21,800 in tax and often more (assumes a basic State Pension in payment and a standard personal allowance). The amount received after tax from the £100,000 would be in the region of £78,000 (including the permitted tax free cash). Some tax will have been paid at 40%.

Another risk associated with pensions is fraudsters. The government has played down mis-selling fears, but there are already examples of people losing all of their pension to frausdsters. Fraudsters use cold calls posing as pension professionals recommending a transfer. So avoid approaches by phone, text message and door-to-door callers. Also ensure the firm advising you is registered with the Financial Conduct Authority (FCA). Check at www.FCA.org.uk/register.

Pensions were originally intended to provide replacement income on retirement and provide some degree of quality standard of living in retirement. Cashing in your pension and spending it will mean no income in retirement. You may intend to live off the state pension but this changes in 2016. It is estimated that in the early years only 45% of new pensioners will be entitled to the full flat rate State Pension of around £150 a week due to insufficient National Insurance contribution records. Some will receive nothing. Also the age to receive the state pension is increasing, and is age 68 for some.

Drawing pension is often irreversible and affects a person's retirement. So getting it right is vital. No one knows how long they are going to need an income in retirement. The average life expectancy of a 65-year-old male is age 86.5 years, but 22% will live to their 95th birthday. Therefore if all men budgeted on the basis of surviving only to age 87, a number of them would run out of money!

Only robust independent financial advice will consider and recommend tailored solutions. Sometimes a combination of solutions may be required.

■ Scrutton Bland Independent Financial Advisers are a firm of Chartered Financial Planners, authorised and regulated by the Financial Conduct Authority, specialising in advising clients before and in retirement. If you need financial advice including pensions advice, contact us for a no obligation meeting to discuss your situation.

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