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Finance

KEEPING UP WITH THE PENSION CHANGES

Since George Osborne's budget in March 2014 further details of the changes to pensions from April 2015 have been released. Understanding how these changes may affect you at retirement is important and taking independent advice is key. Here's a guide to the main changes which have already been announced.

Until April 2015, two forms of drawdown exist

- Capped drawdown, income is restricted to a percentage of the current annuity rate.
- Flexible drawdown, there is no income limit but the investors must have 'secure' pension income of £12k per annum.

The Osborne changes: the first iteration

2014 Budget: Capped and Flexible drawdown to be replaced by Flexi-access drawdown ('FAD') from April 2015:

- The whole of a defined contribution pension pot can be drawn as cash from age 55, with no need to purchase an annuity.
- 25% can be drawn tax-free and the excess will be subject to income tax at the investor's marginal rate.

The second iteration: UFPLS

July 2014: an alternative variant of drawdown, Uncrystallised Fund Pension Lump Sum (UFPLS)

- each withdrawal must be taken as 25% tax-free cash (TFC) and the remaining 75% is subject to income tax.
- in theory there is no requirement for a new plan to be created to take benefits under UFPLS.

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Iteration 3: Taxation of Pensions Bill

- Both FAD and UFPLS funds will pass free of tax on death before age 75 up to the value of the £1.25m lifetime allowance (or higher if protection is available).

Tax on death after age 75

For both FAD and UFPLS:

- Beneficiaries can draw out the fund as an income subject to their marginal rates of income tax OR
- Beneficiaries can draw out the entire remaining fund value subject to tax at a flat 45% until 2016/17 tax year when all withdrawals, even the entire fund, will be subject to the beneficiaries' marginal rate of tax.

There is further detail to be announced and it must be remembered pensions are designed to provide an income for the whole of retirement and whilst these new rules are all around drawdown plans annuities still have a place to provide a secure income.

Obtaining independent financial advice when deciding upon retirement benefits is more important than ever. If you would like to review your retirement options and the best route for accessing an income in retirement please contact me at james.wright@scruttonbland.co.uk or on 01473 267000. Scrutton Bland Ltd is authorised and regulated by the Financial Conduct Authority.