TAYLOR PATTERSON

SIPP & SSAS
A SPECIAL BULLETIN ON FREEDOM & CHOICE IN PENSIONS

Royal Assent has now been given to the Pensions Bill 2014 bringing into force radical pension changes. The purpose of this communication is to give you a reference point for these changes to allow you to consider how they may affect you.

You should seek independent advice in relation to your circumstances.

Freedom and Flexibility

At present you are generally able to take 25% as a tax free lump sum from your fund and then you have an option with how to take income from the rest of the pot:

- This is done via capped drawdown for those who already have this facility, which has recently changed to approximately 150% of an equivalent annuity.

- By the purchase of an annuity which are now more flexible.

- Via the new method Flexi Access Drawdown where there are no limits and funds are withdrawn subject to tax at your highest marginal rate. Flexi Access Drawdown will be the method adopted by all individuals going into drawdown for the first time after 5th April 2015, as capped drawdown will not be available to these individuals.

  With Flexi Access Drawdown, individuals will be able to take their tax free cash, generally a 25% lump sum and the remaining pension fund will be used to provide the individual with a pension income from the scheme assets. There is no limit to the amount that can be withdrawn (subject to the size of the pension fund assets), with the income payment being taxed at the individual's highest marginal rate of income tax.

- Via Uncrystallised Funds Pension Lump Sums which is also a new option where a tranche or all of the benefits are withdrawn taking 25% tax free and the rest taxed at the individual's highest marginal rate. It allows access to pension funds without designating them for drawdown. This might be useful where a provider is not offering Flexi Access Drawdown.

Anyone in receipt of flexible drawdown before 6th April 2015 will automatically be converted to Flexi Access Drawdown at 6th April 2015. Anyone in Capped Drawdown before 6th April 2015 may apply to convert to Flexi Access Drawdown.

Annual Allowance

For individuals who remain on capped drawdown and are under age 75, contributions can continue to be made (subject to reviewing any Lifetime Allowance protection). These individuals will be subject to the full annual allowance of currently £40,000, with the option to carry forward unused allowance from the three previous tax years.

For individuals who have accessed their pension income via Flexi Access Drawdown, they are subject to a lower annual allowance (the Money Purchase Annual Allowance - MPAA). The reduced annual allowance is £10,000.

Individuals who were previously on flexible drawdown will also be subject to the reduced MPAA, as previously they were not entitled to contribute. Again consideration should be taken into account for Lifetime Allowance protection.

For individuals subject to the MPAA there is no ability to carry forward any unused allowance from previous years.

New Limits

It should be noted that the "Lifetime Allowance", the amount an individual can build up within pensions without further tax charges is now £1.25 million unless individuals have some form of historic protection. It is proposed this will reduce to £1 million with effect from 6th April 2016 but will then be index linked from 6th April 2018.

For those with funds over £1.25 million as at 5th April 2014 it may be possible to apply for Individual Protection. You should consult your financial adviser if this is appropriate for you. With the reduction in the lifetime allowance in 2016 a new form of protection is likely to become available.

Death Benefits

If death occurs prior to age 75 regardless as to whether you have drawn any benefits the fund may be passed on tax free to your nominated beneficiary as a lump sum or to be taken as income.

Post 75 nominated beneficiaries will be able to access the funds in a flexible manner paying income tax on any withdrawals at their marginal rate of income tax. Alternatively it can be taken as a lump sum less 45% tax, dropping to marginal rate of income tax from 2016/17. If this is a large lump sum which is over the higher rate tax threshold, the tax will be 45% anyway. It should also be noted that it isn't just dependants that can receive income but beneficiaries too. In other words not just offspring under 18 or 21 in full time education but those that have left home and for example have families of their own. This allows for wealth to be passed down through the generations and extracted at flexible rates of tax.

With this much flexibility it is essential that your Expression of Wishes is up to date. This will assist your pension provider in dealing with your affairs on your death expediting payments to your loved ones.

Money Advice Guarantee – Pension Wise

The Chancellor, George Osborne, announced in July 2014 with a follow up announcement in October that people who were looking to retire would get free, impartial guidance (not advice) on what to do with the money in their pension pots. This would relate to defined contribution (DC) schemes, (where your money has been invested and you decide what to do with it at retirement), as part of the freedom and choice changes taking effect from April 2015.

The new service providing this guidance will be called Pension Wise www.pensionwise.gov.uk and will be delivered by The Pensions Advisory Service (TPAS) and Citizens Advice, as these are independent organisations and will start being provided in April 2015. The Money Advice Service (MAS) will offer related options including a directory for consumers who would like to find a regulated financial adviser.

<u>How is the guidance likely to work?</u>

As the guidance is being offered by TPAS and Citizens Advice, these organisations cannot give advice, only regulated financial advisers are authorised to provide advice and there will be a charge for this. With regard to the guidance from the two organisations, they will give tailored help, and highlight the options available to each individual, but the guidance will not include specific product or provider recommendations.

<u>What guidance can you expect to receive from TPAS and Citizens Advice?</u>

Inform consumers of the scope, purpose and limitations of the session	Request information from the consumer about their accumulated pension pots
Request information about the consumer's financial and personal circumstances	Alert consumers to other sources of information and advice
Identify options relevant to the consumer	Point out tax implications and debt obligations
Set out the next steps for consumers to take	Provide consumers with a record of their guidance session

<u>How will you be able to obtain guidance?</u>

Guidance will be available either face-to-face or via telephone. Citizens Advice will provide face-to-face guidance while TPAS will provide telephone guidance.

Minimum Pension Age

The government has confirmed that they will increase the minimum age at which people can access their pensions under the new legislation from 55 to 57 in 2028, this is in line with the increase in the state pension age. The minimum age will then follow the increasing state pension age, but will remain at 10 years below state pension age. The exceptions are public sector schemes that do not link their normal pension age to the state pension age such as the fire brigade, police and armed forces.

Defined Benefit/Final Salary Transfers

There has already been much debate about the restrictions that were to apply to the transfer of defined benefit schemes. The government has confirmed that they will allow transfers to the new flexible arrangements for defined benefit schemes with the exception of those government schemes which are unfunded.

They have introduced two new safeguards to protect individuals who may consider transfers and give up valuable guarantees. The first is that an individual must take advice from a professional financial adviser who is independent from the defined benefit scheme and authorised by the Financial Conduct Authority (FCA) before a transfer can be accepted. There will also be new guidance to scheme trustees on the use of their existing powers to delay transfer payments and take account of scheme funding levels when deciding on transfer values.

For certain individuals such as those to whom death benefits are very important defined benefit transfers could still be appropriate, but receiving financial advice will be vital in making the decision.

Small Pots

Pots of up to £10,000 each can also be taken as a lump sum (up to three such pots). These lump sums are known as 'trivial commutation'.

If you do choose to take your entire pension pot or pots as a lump sum, this will not increase your tax-free entitlement. Therefore your tax-free entitlement will remain at 25%.

Funds up to £10,000 will not be tested against the lifetime allowance. Further the £10,000 annual allowance will not apply to an individual who receives a small pot lump sum.

The legislation is to be overriding in so much that it is not essential that your scheme rules are updated to accommodate these changes. It should however be noted that some providers of pensions as already mentioned may not offer this flexibility.

All information in this Pensions Bulletin is based on our understanding as at 26th March 2015.

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