ASSURED RETIREMENT
HELPING SECURE YOUR FUTURE

Means Tested Benefits and New Pensions Flexibility- A Warning

The pension reforms which came into force on 6 April 2015, will give savers far greater control over their pensions than ever before.

But if you are receiving means-tested benefits - such as housing benefit, council tax deductions, pension credit, income support, income-based jobseeker's allowance and employment and support allowance - you could find payments cut or stopped completely if you take too much cash or income from your pension in any one year. Not only could you push yourself into a higher tax band than you normally pay and therefore pay additional and unnecessary income tax, these cash withdrawals (tax free or taxable) could push your assets above the threshold for some means-tested benefits.

If you are under State Pension age, pensions that you have not touched are not taken into account by the Department for Work and Pensions when assessing benefit claims but as soon as you access your pension, those 'crystallised' assets will be included in your assessment and benefits could be cut as a result.

The housing benefit rules apply to anyone below State Pension age - if you have capital up to £16,000 you can apply for housing benefit to help pay part or all of your rent. If your capital goes above £6,000 you will start to see your benefit reduce, and if you go over £16,000 it will stop completely. Council tax reductions are affected in a similar way but can vary between different local authorities.

If you are in receipt of means tested benefits, it is essential that you consider the impact that pension withdrawals may have, as it would be very easy to inadvertently sacrifice the benefits you receive. This is because the maximum you can hold in capital, in a bank account, ISA or other savings product, before becoming ineligible for many benefits is £16,000. Taking out a large amount from your pension to invest in a bank account or in another investment product could easily push you over this limit and mean your benefits cease.

Your capital is not the only issue, benefits are also assessed against your income and rent payments, and are dependent on where you live. Pension credit, for example, may top up a Single person's pension income to £159.35 a week if you have no other income. However, as soon as you start adding income from a private pension it begins to count against you for this means-tested benefit.

You also need to be aware that if you spend, transfer or give away any money that you take from your pension pot, the Department for Work & Pensions will consider whether you have deliberately deprived yourself of that money in order to secure (or increase) your entitlement to benefits. If it is decided that you have deliberately deprived yourself, you will be treated as still having that money and it will be taken into account as income or capital when your benefit entitlement is worked out.

You will need to fully explore and understand your benefit entitlements and the impact of withdrawing money from your pension fund under the new pension freedoms. If you have any doubt about your position you should seek advice.

IMPORTANT NOTE

This information is based upon our understanding of current Department of Work and Pensions practice. This information is not advice and if you are unsure about the suitability of an investment, you should seek Independent Financial Advice.

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