ASSURED RETIREMENT
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# "THE MOST RADICAL CHANGES TO PENSIONS IN ALMOST A CENTURY"

The Taxation of Pensions Act 2014 is now law and HMRC have published guidance regarding the new pensions flexibility which came into effect from 6 April 2015, please find below a summary of the changes:

## Pension options on or after 6 April 2015

From 6 April 2015, there will be four options available to individuals taking benefits from their money purchase fun d for the first time.

- Flexi-access drawdown – this is the new form of income drawdown which will allow individuals to take taxable income from their pension fund with no upper limit.
- Taking one or more lump sums from uncrystallised funds, known as uncrystallised funds pension lump sum (UFPLS).
- Purchase a lifetime annuity.
- Scheme pension.

Individuals will be able to choose any combination of the above.

Capped drawdown will not be available from 6 April 2015 for those taking benefits for the first time.

## Option 1 - Flexi-access drawdown

- Available from age 55 or earlier in the case of ill health.
- Customers will be able to take a pension commencement lump sum (PCLS) of 25% of their fund tax free as per the current rules.
- The remainder of the fund can be taken as taxable income (with no upper limit).
- Taking an income under flexi-access drawdown will trigger the Money Purchase Annual Allowance (MPAA) which restricts the annual allowance from £40,000 to £4,000.

## Option 2 - Uncrystallised funds pension lump sum (UFPLS)

- Available from age 55 or earlier in the case of ill health.
- Customers take a series of withdrawals and receive 25% of each withdrawal tax free.
- Taking any UFPLS will trigger the MPAA.

## Option 3 - Purchasing a lifetime annuity

- Under the new rules, lifetime annuities will be able to go down as well as up.
- The restriction of a maximum 10 year guarantee period will be removed and the guarantee may be for any period.

## Option 4 - A Scheme pension

- A scheme pension is simply where a pension scheme pays an income to an individual from the assets of the pension scheme rather than purchasing an annuity.

- Scheme pensions are normally paid to members of defined benefit arrangements although they can be paid from money purchase arrangements. In both cases, the level of pension payable is determined by the pension scheme Actuary.

## New restrictions on how much you can contribute to pensions

- Pension contributions are subject to a £40,000 annual allowance. However, if you make any withdrawals from a defined contribution pension scheme in addition to any PCLS, contributions could be restricted to a new lower allowance of £4,000 per annum, called the Money Purchase Annual Allowance (MPAA).
- There are exceptions to this new restriction, for example if you were in capped drawdown prior to 6 April 2015 and your withdrawals after that remain within your current drawdown limit, you withdraw PCLS only or if you use your pension fund to purchase a lifetime annuity.

## 55% Pension ‘death tax’ abolished

- From 6 April 2015, this tax charge will be abolished.
- If you die before age 75, your beneficiaries can take the whole pension fund as a tax free lump sum or draw a tax free income from it.
- If you die after age 75, your beneficiaries can take the whole pension fund as a lump sum or draw an income from it, subject to tax at their marginal rate of income tax.

## Access to impartial guidance

- Every individual who wishes to take advantage of this new pension flexibility will have access to impartial guidance from ‘Pension Wise’, a free service backed by HM Government.

- There will be no charge to individuals for this guidance and it will be available to anybody planning to take retirement benefits from 6 April 2015.

## Transferring a defined benefit pension

- Anyone with a private sector defined benefit pension (i.e. final salary) will be able to take advantage of the new rules. To do so they will have to transfer to a defined contribution pension (e.g. a SIPP). Transfers from public sector defined benefit schemes will no longer be allowed.

- An individual who transfers from a defined benefit pension could lose very valuable benefits and will need to take Independent Financial Advice before considering this.

## Trivial commutation lump sums and small pot lump sums

- The age at which individuals will be able to access their pensions under the triviality and small pot rules will reduce from age 60 to age 55 on 6 April 2015.

- From 6 April 2015, the triviality rules will only be available for defined benefit schemes. The small pots rules will continue to apply to both defined benefit and money purchase schemes.

- Taking trivial commutation lump sums or small pot lump sums will not trigger the MPPA.

## Recycling of a tax free cash lump sum

- Pension legislation already restricts individuals, in a number of circumstances, from using the value of any PCLS to reinvest in a pension scheme and create 'artificial' tax relief. If the rules are breached, a tax charge of up to 70% may be applied by HMRC.

- From 6 April 2015, these recycling restrictions will apply when an individual's total PCLS exceeds £10,000 (including any other lump sums taken in the previous 12 month period).

## What if you have already retired?

- If you are receiving an annuity income from all of your pensions, you will be unaffected by these changes.

- If you are in income drawdown (capped or flexible) you should be able to benefit from the new rules.

**IMPORTANT NOTE**

This summary is based on our understanding of the Taxation of Pensions Act, which became law on 17 December 2014. It is a summary and is not intended to cover every situation. You should not take, or refrain from taking, any action based on this information. Tax treatment can change and depends upon your circumstances. Please remember that taking money out of a pension will impact your standard of living later in retirement. This information is not advice and if you are unsure about the suitability of an investment, you should seek Independent Financial Advice.

Issued by Assured Retirement Limited, Registered Office - 23 Westfield Park, Redland, Bristol, BS6 6LT, Company No. 9265346.

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