



PENSION FLEXIBILITY

From 6 April 2015 there are some significant changes being made to the way you can access pension savings which are held in money purchase arrangements (SSAS and SIPP schemes) and also to the tax treatment of pension scheme death benefits.

ACCESSING BENEFITS

Anyone age 55 and over will now be able to access their pension savings without being subject to any HM Revenue & Customs (HMRC) limits. You will be able to take as little or as much of your pension savings as you require. Once taken out of the pension environment, any funds would then form part of your estate for inheritance tax purposes.

There is no requirement to buy an annuity. However, annuities will still be the right option for some members. You should always seek financial advice before making any decision about accessing your pension benefits.

Flexi-access drawdown

Anyone taking benefits for the first time can take 25% of their fund as a tax-free lump sum, with the remaining fund being designated to provide income. The income is taxed at your marginal rate, but is not subject to National Insurance. From April 2015 there will no longer be any restrictions on the amount of income you can draw from the fund, so you can have as little or as much as you require.

Uncrystallised funds pension lump sum (UFPLS)

A new way to access your benefits would be to draw your funds as a UFPLS. Effectively this is drawn directly from your 'uncrystallised' pot and is paid 25% tax-free with the remaining 75% taxed as income. A UFPLS removes the need for

a pension provider to run separate pots for crystallised and uncrystallised funds.

Whether you take your pension savings as flexi-access drawdown or a UFPLS, you can draw down your savings in tranches, i.e. you do not have to take all of your savings in one go.

Money purchase annual allowance

Anyone accessing their pension savings via flexi-access drawdown (taking an income) or UFPLS will be subject to a new money purchase annual allowance. Effectively this will reduce the amount of money you can contribute into a pension scheme during each pension input period, from £40,000 (the annual allowance for 2015/2016) to £10,000. However, under the flexi-access drawdown option, if just taking the tax-free lump sum, £40,000 contributions per pension input period will be allowed under money purchase schemes. If you require any further information on this please contact your account manager at City Trustees.

Existing capped drawdown

Anyone who is already taking benefits from their pension scheme can continue to take benefits in the same way, i.e. subject to the HMRC GAD maximum, with three-yearly reviews. Existing capped drawdown clients will be able to continue to take income up to the maximum and also to pay the maximum contributions of £40,000 (the annual allowance for 2015/2016).

Existing flexible drawdown

Anyone currently taking benefits under flexible drawdown rules will, with effect from the 6 April 2015, convert to the new flexi-access drawdown rules and will be subject to the new money purchase annual allowance limit of £10,000. The minimum income requirement limit will be removed. Anyone who is now in flexible



drawdown cannot currently make contributions without incurring tax charges.

Death benefits

After April 2015, if you die before age 75, any lump sum can be paid to your nominated beneficiary tax-free. This is whether or not you have taken benefits. Any funds left within the pension scheme to provide an income can now be paid to any nominated beneficiary (not just dependents) and again will be paid tax-free if the member dies before age 75.

If you die age 75 or over, any lump sum will be paid subject to a 45% tax charge (reducing to marginal rates of income tax for 2016/2017). Any income paid from the scheme to beneficiaries will be taxed at the recipient's marginal rate of tax. These new rules apply to joint-life and guaranteed annuities, or annuity-protected lump sums.

In order to benefit from tax-free payments, HMRC require payments to start within two years of notification of death, unless benefits are retained in the scheme to provide an income and these benefits derive from a previously crystallised fund.

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Financial advice

Advice is a key part of protecting yourself and your family when making an important and irreversible decision. If you wish to further discuss the financial planning opportunities available following the changes to pension legislation, please contact your financial adviser for more information.

The Chancellor of the Exchequer announced in the 2014 Budget, when these changes were introduced, that everyone with a pension arrangement should have access to free and impartial advice. Pension Wise (www.pensionwise.gov.uk), a free and impartial governmental service, has been established that helps individuals to understand the options available.

Should you wish to proceed with flexi-access drawdown, further information (including full details relating to Pension Wise) will be issued detailing the risks and options available to you, in order for you to make an informed decision.