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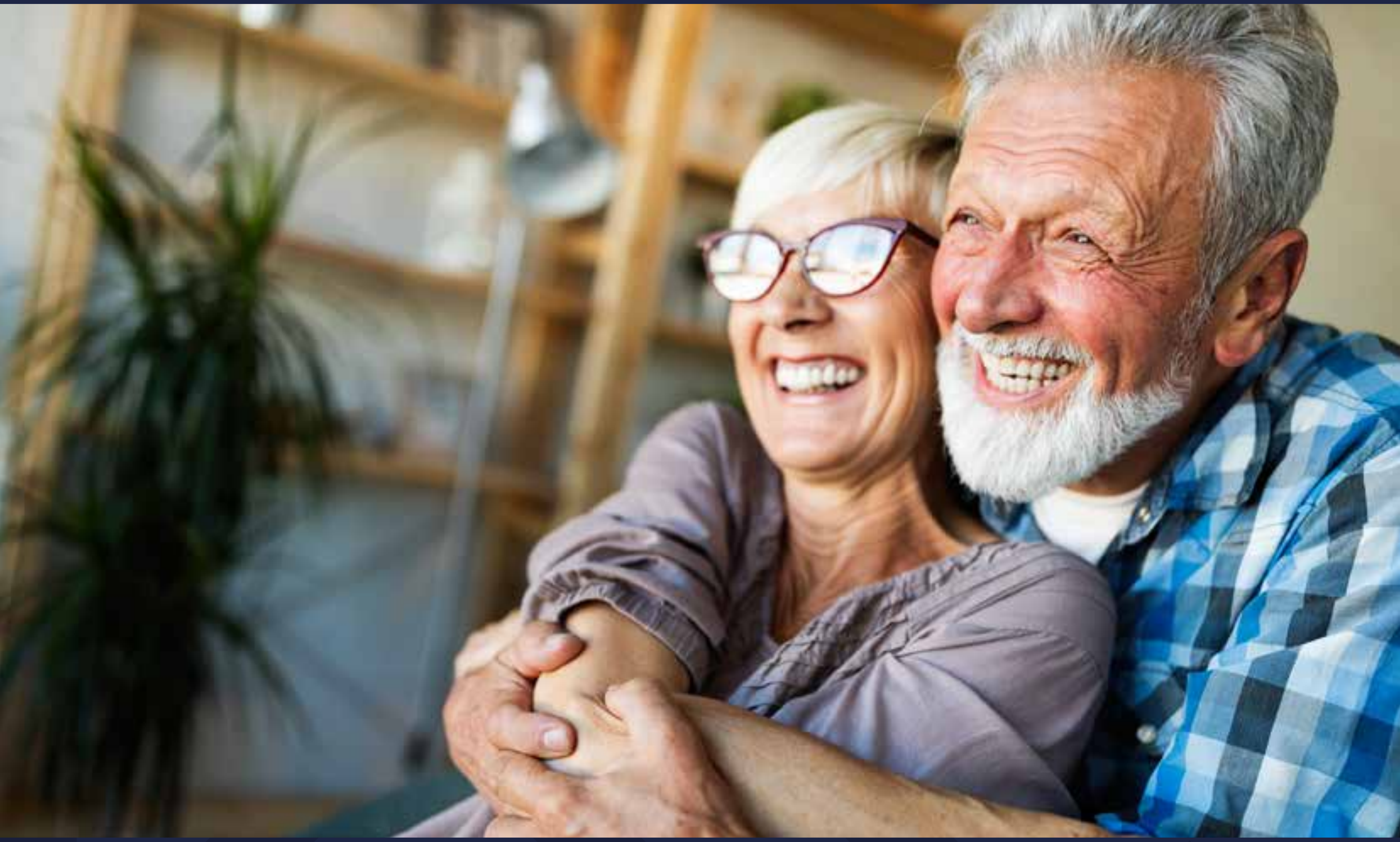

THE RECENT PENSION CHANGES WHAT DO THEY MEAN FOR YOU?

This communication is for general information only and is not intended to be individual advice. It represents our understanding of law and HM Revenue & Customs practice. You are recommended to seek competent professional advice before taking any action.

INTRODUCTION

In 2014, Chancellor George Osborne announced the biggest changes to pension rules in a generation. While completely unexpected, the changes were welcomed with open arms by the vast majority of pension savers.

Never before have individuals had such freedom to decide how and when to access their pension savings. As with any changes of this magnitude, the devil often lies in the detail. With increased freedom, comes increased uncertainty and thorough planning is vital.

This guide will help you to understand the changes and how they could impact on your retirement.

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RETIREMENT HAS CHANGED FOREVER

When the chancellor stood up to deliver his Budget speech in 2014, he did not just change pension rules, he changed the retirements of millions of people at the same time. Individuals now have more freedom, control and responsibility over their own retirements than ever before.

The new rules open up a whole world of new possibilities. Not just in terms of new cars and holidays, but in terms of a new way to actually live retirement.

Already, we have seen people decide to stop work for a 5 year 'career break' while they are in their 50's, using some of their (now accessible) pension funds to fund the extended holiday, with the intention to return to work again afterwards.

Others have used the new freedoms to fulfil other lifetime ambitions such as writing a book or travelling.

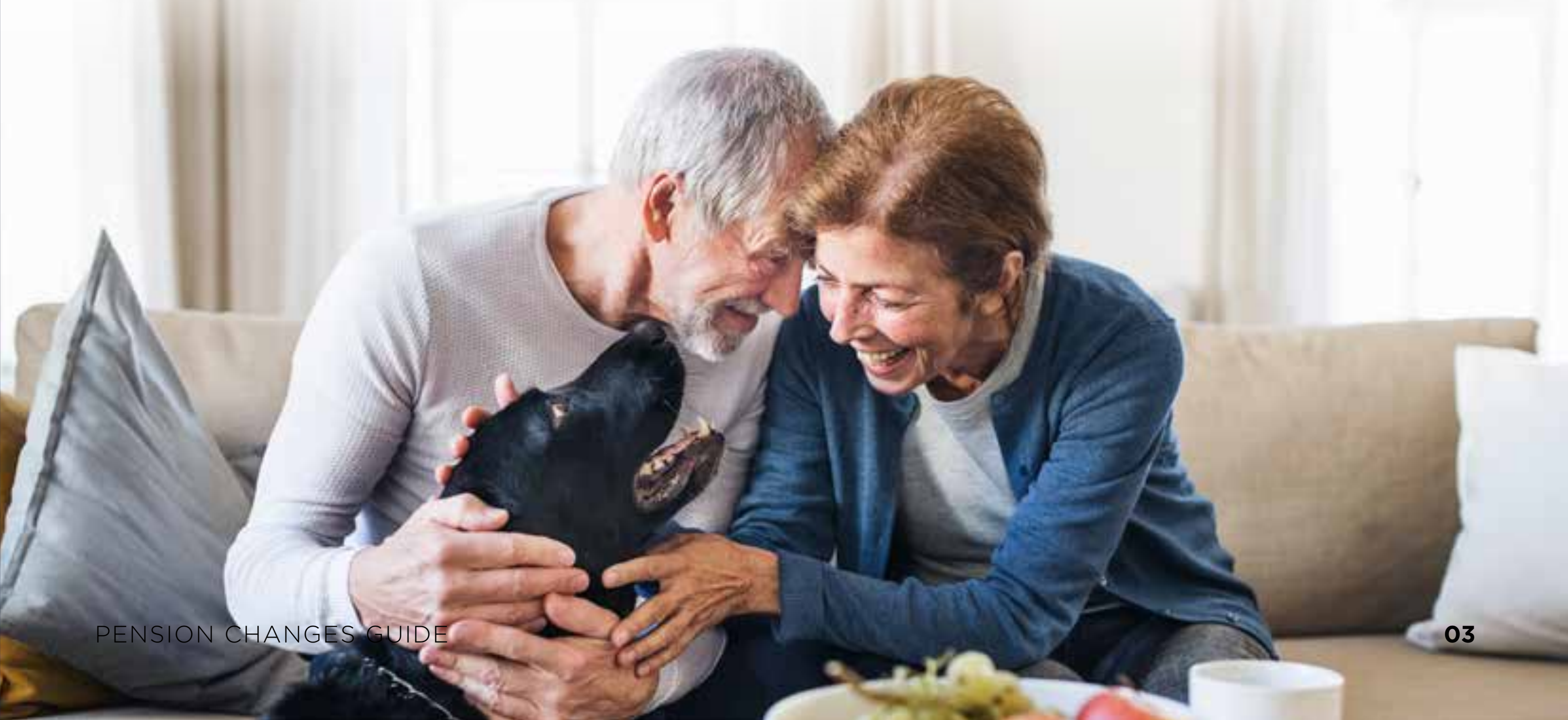
All of these new found freedoms do come with a health warning however. As individuals, we now have more responsibility than ever for our own retirements. It is clear that the level of state support is reducing, and the government is taking a 'when it's gone it's gone' approach meaning the onus is now firmly on the individual to manage their pension savings prudently for their entire lifetime. This is something that takes far more skill and experience than people think.

In this guide we will consider the changes in the context of the three main areas of pension planning; making contributions, taking benefits and death benefits.

It is important to note that this guide is designed to give you an overview of the changes. It does not cover all of the complexities and intricacies hidden in the details of the new legislation. This guide is not designed to represent, nor should it be taken as, personal advice or recommendations. If you have questions about your own circumstances, you should talk to an Independent Chartered Financial Planner who can analyse your own circumstances and make a personal recommendation.

MAKING CONTRIBUTIONS

The 2014 Budget did relatively little to change the way in which we make pension contributions. With that said, the contributions regime contains many hidden complexities and it can be easy to get caught unawares.



The main limit that governs pension contributions is the Annual Allowance (AA). For most individuals the Annual Allowance will be £40,000 per annum. This is the maximum level of pension contributions that an individual can make and still receive tax relief. Any contributions made over this limit will attract a tax charge at the individuals highest marginal rate.

If any Annual Allowance remains unused, this can be carried forward for up to 3 further years. It is important to note, that the annual allowance is measured by reference to a 'pension input period' or PIP, which as of the 16/17 tax year, has been aligned to the tax year.

The position for those with money purchase, or defined contribution pensions (those where you build up a fund value) is fairly simple. If you make a £10,000 gross pension contribution, this will use up £10,000 of your annual allowance.

For those lucky enough to enjoy a final salary or defined benefit pension, the position is more complicated and the calculations are beyond the scope of this guide. People in final salary pensions are far more vulnerable to the annual allowance and should carefully monitor their situation. A Chartered Financial Planner can help here if you are unsure.

For those who make use of the new flexibilities, there will be a new, lower Money Purchase Annual Allowance of £4,000. This is one of the major drawback of using the new pensions flexibility and so careful consideration should be given to the decisions taken when using pension funds.

For the 2021/22 tax year, if your 'adjusted income' is over £240,000 your annual allowance in the same year will be reduced.

But it won't be reduced if your 'threshold income' for that year is £200,000 or less - no matter what your adjusted income is.

For every £2 your adjusted income goes over £240,000, your annual allowance for that year drops by £1. The drop is limited so that the minimum tapered annual allowance you can have is £4,000.

The rules surrounding both 'adjusted income' and 'threshold income' are very complex and you should seek advice if you are unsure.

TAKING BENEFITS

Although the pension changes came as a bit of a surprise and were hailed as a revolution by the media, when it comes to taking benefits, the fundamental choices remain fairly similar. While the options vary from scheme to scheme, in broad terms, individuals have three choices when collecting pension benefits from a money purchase scheme:

ANNUITY PURCHASE

While annuities have certainly seen some bad press over the years, they remain one of the only ways to secure a guaranteed income for the whole of your life. For those whose state pension will not be sufficient to cover even the basic standard of living, an annuity might be a consideration to at least secure them a level of income that will sustain their lifestyle.

Headline annuity rates can often appear unattractive, however many people will qualify for enhanced rates because they are a smoker or have a health condition for example.

Other plans have guaranteed annuity rates or other benefits which can make them far more attractive than what is available today.

With most annuity purchases, you will have the option of taking 25% of the fund as a tax free lump sum.

As with all important financial decisions, it is vital to review all of the options, and take advice if you are unsure.

FLEXI- ACCESS DRAWDOWN PENSION

Contrary to popular belief, drawdown pensions have existed in some way for over a decade now. A drawdown pension is where your pension fund remains invested and you take an income directly from the fund.

Historically, these withdrawals have been limited, however with the recent changes, these limits have now been removed, meaning that you can take any level of withdrawal from your pension fund.

It is important to note that all withdrawals (after the 25% tax free cash) will be taxed at the individual's marginal rate. Large levels of withdrawals in a single year can easily push people into the 40% or even the 45% tax rate. Caution is needed when making large withdrawals and careful consideration should be given to the tax consequences.

With a drawdown pension, your funds remain invested and you draw an income out of the fund. As such, the investment strategy used will be a key determinant of how long the money will last and how sustainable a given level of income withdrawals will be. The strategy used during the accumulation phase, is unlikely to be suitable for the drawdown phase of retirement.

A drawdown pension is also not without its risks. Given that the money remains invested, there is of course the possibility that it will fall in value, and this, coupled with large income withdrawals, can deplete the fund faster than imagined. Life expectancy is also a key consideration. Most people significantly underestimate their life expectancy and it is important to be realistic here to ensure that the funds will last long enough.

Drawdown pensions come in many different shapes and sizes and it is important to consider issues such as the level of charges, the investment choice available and the facilities that the chosen provider offers.

"MOST PEOPLE SIGNIFICANTLY UNDERESTIMATE THEIR LIFE EXPECTANCY AND IT IS IMPORTANT TO BE RE-ALISTIC HERE TO ENSURE THAT THE FUNDS WILL LAST LONG ENOUGH."

UNCRYSTALLISED FUNDS PENSION LUMP SUM (UFPLS)

This is the only truly new option available to people to take their pension benefits, and it is also the most extreme. Using this option, people are able to collect their entire pension fund in a single lump sum or as a series of lump sums if this is offered by the scheme. 25% will be paid tax free and the remaining 75% will be added to their taxable income for that year. For those taking large withdrawals, this could push them into higher rate tax bands.

For example, if we consider the case of James, who wants to draw his entire £100,000 pension fund using UFPLS. Let's assume that he has a state pension and a small annuity that exactly uses up his 0% tax band (personal allowance).

The first £25,000 (25%) will be tax free.

In the 20/21 tax year, the next £35,000 would be taxed at 20% = £7,000

The remaining £40,000 would be taxed at 40% = £16,000

As you can see, James has lost £23,000 in tax by taking the withdrawal in a single lump sum. He could have paid significantly less had he spread this withdrawal out over a number of tax years.

DEATH BENEFITS

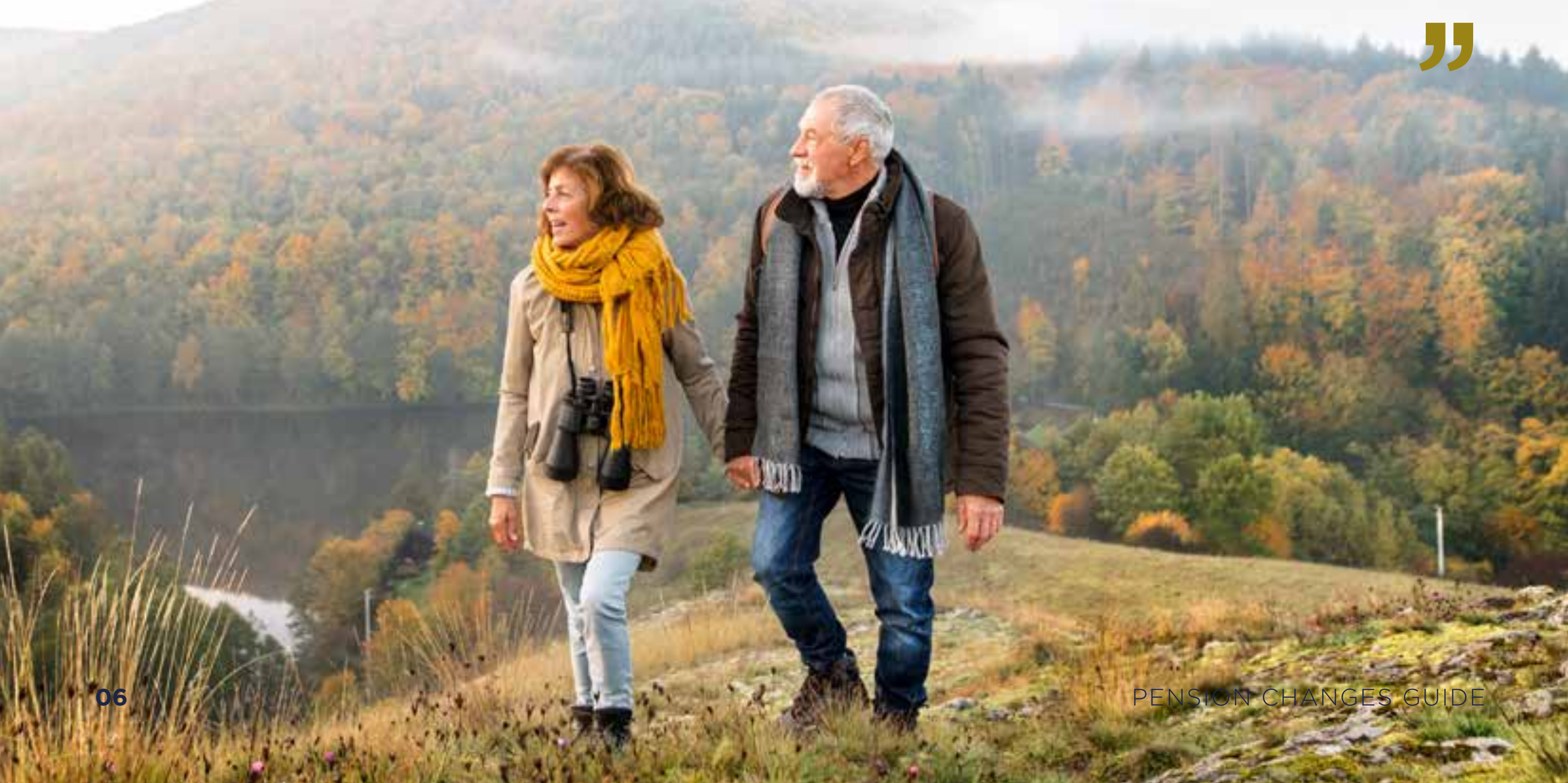
The final main (and arguably most significant) part of the pension changes is the change to the treatment of death benefits. Under the old regime, pension death benefits were treated in a fairly punitive way based on a set of complex rules. The position has now been simplified somewhat and the question of how pension death benefits will be taxed depends on your age when you pass away.

If death occurs before the age of 75, pension death benefits can be passed to any beneficiary of your choosing who can then draw those funds as an income or a lump sum completely tax free.

If death occurs over the age of 75, then the intention is that pension benefits will be taxed at the beneficiaries' marginal rates (just like other earnings).

This new treatment potentially makes pensions one of the best estate planning tools available, given that pension funds are not normally considered to be a part of your inheritance tax estate.

"IN 2014, CHANCELLOR GEORGE OSBORNE ANNOUNCED THE BIGGEST CHANGES TO PENSION RULES IN A GENERATION."



CONCLUSION

The above changes make for a whole new approach to retirement planning in the UK.

As with many changes, the devil really is in the detail and proper consideration should be given to all the options before making what could be once-in-a-lifetime decisions.

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