

Retirement Options

Pension Simplification is a government reform introduced on the 6th of April 2006, also known as A-Day.

Everyone who is a member of any kind of pension arrangement, be it a company pension scheme or a personal pension plan, is now affected, some people are potential winners, however there are potential losers.

The rules are wide ranging and complicated in their detail. We strongly recommend that if you have not already sought advice concerning your current pension provisions that you do so to ensure that you are one of the potential winners.

As providers of Independent Financial Planning advice we are able to assess your current situation and offer unbiased advice. We will only make recommendations if we feel that you could achieve further benefits from an alternative plan on the market.

In general terms there are five categories to consider;

Advantageous pension tax breaks are now limited to a single 'lifetime allowance' for each person which aggregates across all of your pension funds.

Restriction on the amount of tax-free cash that can be taken at retirement so that everyone will be entitled to the same percentage of their pension fund.

The freedom for people in occupational pension and personal pension schemes to take their retirement benefits while they are still at work.

Removal of restrictions, so that people will be able to contribute to different types of pension schemes at the same time.

Greater flexibility in the types of annuity that may be arranged and when they must be set up.

Lifetime Allowance.
The attractive tax benefits attached to pensions will now be limited to a maximum figure known as the 'lifetime allowance'. This will be a sum total, or aggregate, of all pension funds for each individual. Initially this has been set at £1.5 million, rising to £1.8 million in 2010 which will then be reviewed every five years. Any pension funds in excess of the lifetime allowance may be subject to a 'lifetime allowance charge'. The amount of the charge will be either:

25% of the excess fund if it is to buy additional pension

55% of the excess fund if it is taken as a lump sum

Annual Allowance Contributions
Annual contributions from an individual an/or their employer, and/or benefits under a defined benefits scheme, can go up to a maximum amount called the 'annual

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allowance' without any negative tax implications. This has been set to rise by £10,000 a year until it reaches £255,000 in 2010/2011. This will then be reviewed every five years.

Excess contributions – any contributions that exceed the relevant annual allowance will be taxed. Employees – will qualify for income tax relief on contributions made up to £3,600 a year gross, or 100% of UK relevant earnings, whichever is the higher (subject to the annual allowance limit)
Employers – may make unlimited contributions into employee's pensions and receive tax relief as a business expense, having passed the test set by the HMRC Non-Earners – May contribute up to £3,600 gross a year with basic rate tax relief on their contributions.

Retirement Age rules are as follows: From 2010 the earliest date pension benefits can be taken will rise to 55

The latest date for taking pension benefits will remain at 75

You will no longer need to retire to take pension benefits

Benefits may be phased to allow lesser amounts to be taken in the early years then increased later on'

Immediate retirement due to serious ill-health is allowed

Pension Benefits up to 75.
Taking pension benefits up to age 75 – three types of

benefits will be allowed:

Secured Income – a guaranteed income payable for life, such as an annuity

Unsecured Income – an income up to 120% of the annual income you could have received using approved annuity tables. The maximum amount allowed must be reviewed every five years

A Short Term Annuity – a guaranteed income for a period of up to five years after which another short term annuity purchased and any other pension options chosen.

Pensions benefits from age 75.
Two types of benefit will be allowed:

Secured Income – a guaranteed income payable for life, such as an annuity.

Alternatively Secured Pension – a maximum income of 70% of the income you could have received using approved annuity tables. The maximum income must be reviewed every year.

Tax-Free Cash. Whatever the type of pension plan, the maximum tax-free cash will normally be 25% of the individual's total pension fund, or the lifetime allowance, whichever is the smaller i.e. the maximum tax-free cash allowable to begin with will be 25% of £1.5 million = £375,000

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If any excess over the lifetime allowance is taken as tax-free cash it will incur a lifetime allowance charge of 55%.

Death Benefits. On death before pension benefits are taken – the full value of the individual's pension fund at date of death may be paid to their dependents. Any part paid as a lump sum will be tax-free as long as it does not exceed the deceased individual's lifetime allowance. Any part paid as a dependent's pension will be subject to tax.

On death after pension benefits are taken, but before age 75 –

Secured Pensions – a lump sum equal to the capital used to buy the deceased individual's annuity, less any payments already made, less 35% tax on the remaining lump sum – or – continued payments the deceased was receiving for the balance of the pre-selected period of up to 10 years from when the payments began.

Dependent's pension - a specific income may be provided for a dependent following the individual's death.

Unsecured pensions – the remaining value of the deceased individual's pension fund may be paid as a lump sum less 35% tax – or used to provide a pension for dependents, secured or unsecured, to age 75, and then secured after age 75.

On death after 75 – No lump sums may be paid, but the remaining value of the deceased individual's pension fund may be used to provide dependent's pension benefits, or if no dependents to another individual or the remaining fund may be paid to a charity of the individual's choice. However, if passed to an individual this may incur IHT ability.

In practice most providers will pay remaining benefits to a charity of their choice, in the absence of a dependant.

This is our understanding of current tax law which is subject to change. The above is generic information only and individual advice should be sought before entering into any contract.

To speak to a friendly voice you can call us now on, 02920 301014

Alternatively please feel free to browse the other guides;

- 10 Things to Consider Before Investing
- Inheritance Tax Planning
- Will and Estate Planning

Or send us an email. We would be delighted to provide you with the advice you require.

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