HART GREAVES

Pension Freedoms – lifetime benefits

From the 6th April 2015, Pension regulations have changed to offer greater freedom in how you can take money out of a pension. These changes apply to 'Defined Contribution' pensions (e.g. Personal Pensions and SIPPs) *not* 'Defined Benefit' pensions (e.g. most public sector pensions).

The minimum age at which most people can draw money out of their pension remains at 55 although it is planned to be increased to age 57 in 2028 and to be 10 years before State Pension Age (which is also planned to increase over time) thereafter.

<u>Flexi-Access Drawdown</u>

Up to 25% of the fund can usually be taken as a tax-free lump sum (also known as a 'Pension Commencement Lump Sum or PCLS.) The rest of the fund stays in the pension and can be drawn out under 'flexi-access drawdown'. Unlike the pre April 2015 'capped drawdown' there are no limits on the proportion of the fund that is withdrawn – the whole fund could be drawn out in one go.

However, the payments are taxable at your marginal rate and depending on other income, could result in a higher rate of tax being paid. (E.g. an otherwise 20% taxpayer could find some of their pension fund payment taxable at 40%.)

<u>Uncrystallised Funds pension lump sum (UFPLS)</u>

This option offers the flexibility to take a lump sum or a series of lump sums from a pension that is not in drawdown.

The first 25% is tax free, the remainder of the fund subject to income tax at your marginal rate.

<u>Annual Allowance and 'Money Purchase Annual Allowance' (MPAA)</u>

Tax relief is normally available on pension contributions of up to 100% of 'UK Relevant Earnings' made on a personal basis in addition to any employer contributions, subject to an overall limit of the 'Annual Allowance' (currently £40,000) which is the maximum annual contribution that can be made to a pension with tax relief on the contribution.

Unused Annual Allowance from the previous 3 years can be carried forward if you are a member of an existing scheme.

In order to limit people from taking money from a pension and 'recycling' it to get more tax relief, once money has been withdrawn from a pension using flexi-access drawdown or UFPLS, this triggers a reduced 'Money Purchase Annual Allowance' (MPAA) of £10,000. Unused MPAA cannot be carried forward.

The MPAA only applies to Money Purchase (i.e. Defined Contribution) Pension Schemes, not Defined Benefit Pension Schemes.

Drawing a tax free cash sum alone, e.g. not using flexi-access drawdown to draw a income at the same time will not trigger the MPAA.

Flexible Annuity Options

Greater flexibility in annuity options will be available. However if you set up an annuity with the flexibility to reduce payments, that will also trigger the MPAA.

Existing Options

The option to provide a guaranteed income through an annuity still remains. A new conventional annuity will not trigger the MPAA.

Existing 'capped drawdown' arrangements that were in place prior to the 6th April 2015 can continue without triggering the MPAA. However, if the maximum income is exceeded, or the capped drawdown is converted to a flexi-access drawdown, this will trigger the MPAA outlined above.

Important Note

This information is a summary only, based on our current understanding of the pension changes which may be subject to change. It is not advice. Tax rules can change and tax treatment depends on your individual circumstances. The value of investments and income from them can go down as well as up and you may not get back your original investment.

There is a separate note on the changes to death benefits.

For specific advice please contact Hart Greaves on 01225 316416 or info@hartgreaves.co.uk.