2015 PENSION CHANGES

HARGREAVES LANSDOWN

WHAT ARE THE PENSION FREEDOMS?

"The most radical changes to pensions in almost a century"

"This government believes in the principle of freedom. Individuals who have worked hard and saved responsibly throughout their adult life should be trusted to make their own decisions with their pension savings" **GEORGE OSBORNE**

On 6 April 2015, "the most radical changes to pensions for almost a century" took effect. They have been widely referred to as the pension freedoms. The changes were first announced in the March 2014 Budget. Here we give the basic facts and explain how they might affect you. We also explain changes announced in the July 2015 Budget and further changes announced in 2017.

CHANGE 1: FLEXIBLE ACCESS TO PENSIONS FROM AGE 55

What has changed: Most pension investors aged at least 55 now have total freedom over how they take an income or a lump sum from their pension. They can choose to:

a. Take the whole fund as cash in one go – 25% tax free and the rest taxed as income;

b. Take smaller lump sums, as and when they like with 25% of each withdrawal tax free and the rest taxed as income;

c. Take up to 25% tax free and a regular taxable income from the rest (via drawdown – where they draw directly from the pension fund, which remains invested – or via an annuity – where they receive a secure income for life).

Any withdrawals in excess of the tax-free amount will be taxed as income. So, if you are a basic-rate (20%) taxpayer, any income you draw from your pension will be added to any other income you receive (e.g. your salary) and this could push you into the higher (40%) or even top-rate (45%) income tax bracket.

It should also be possible to take the tax-free cash straightaway and the taxable income via drawdown at a later date.

Who is affected: Anybody with a defined contribution pension – e.g. individual or group personal or stakeholder pensions, self-invested personal pensions (SIPPs), some Additional Voluntary Contribution (AVC) schemes, etc. – could benefit. Investors aged 55 or over should be able to take advantage of the increased flexibility now.

CHANGE 2: NEW RESTRICTIONS ON HOW MUCH YOU CAN CONTRIBUTE TO PRIVATE PENSIONS AFTER YOU MAKE WITHDRAWALS

What has changed: Pension contributions are subject to a £40,000 allowance for most people and specific contribution rules. A new money purchase allowance was introduced for people who have flexibly accessed their pension. This was £10,000 in 2016/17 and became £4,000 from 6 April 2017.

When you flexibly access benefits you must, within 91 days, inform any of your pension providers to which contributions are subsequently paid, or face a £300 fine. The pension provider with whom you flexibly access benefits should usually inform you if this applies.

Who is affected: Anybody who has flexibly accessed a pension since 6 April 2015 might be affected. Flexibly accessing a pension includes:

- Taking an uncrystallised funds pension lump sum (UFPLS) or a standalone lump sum
- Having flexible drawdown before 6 April 2015 (prior to 6 April 2015 you were unable to make contributions, but now you can)
- Taking an income payment from drawdown set up or converted to flexible drawdown after 5 April 2015
- Exceeding income limits from drawdown set up before 6 April 2015
- Taking an income payment from a scheme pension with 12 or fewer members or from a flexible annuity

Flexibly accessing a pension does not include:

- Taking tax-free cash and no income
- Taking a pension as a small pot due to it being worth less than £10,000
- Taking income from capped drawdown set up before 6 April 2015 which remains within capped drawdown limits
- Taking a pension as an annuity or scheme pension other than as described above

This £4,000 limit applies to contributions you and your employer make to money purchase pensions (e.g. personal pensions). It does not apply to any defined benefit pension (e.g. final salary) you are building up.

To find out more about these allowances, call us to request our Annual Allowance Factsheet.

CHANGE 3: 55% PENSION 'DEATH TAX' ABOLISHED

What has changed: Prior to 6 April 2015, it was normally only possible to pass a pension on as a tax-free lump sum if you died before age 75 and you had not taken any tax-free cash or income. Otherwise, any lump sum paid from the fund was subject to a 55% tax charge.

This tax charge was abolished and now the tax treatment of any defined contribution pension you pass on, which you do not use to purchase a lifetime annuity or scheme pension, will depend on your age when you die.

When you die, your beneficiaries have three options:

a. Take the whole fund as cash in one go.
b. Take a secure income by purchasing an annuity.
c. Take a variable income or lump sums through drawdown.

If you die before age 75, the money the beneficiaries receive should be free of UK income tax. If you die after age 75, the money will be taxed as your beneficiary's income when they take the lump sum or income.

Who is affected: Anybody who has a defined contribution pension – e.g. individual or group personal or stakeholder pensions, self-invested personal pensions, Additional Voluntary Contribution schemes, etc. is affected. See change 4 for details of how the tax cut works for annuities.

CHANGE 4: DEATH AFTER BUYING AN ANNUITY – TAX CUT

What has changed: If you buy an annuity, you can choose for the income to be paid to your spouse or partner after you die (a joint life annuity). You can also choose a guarantee period or value protection – for example, if you buy a 10 year guarantee and die after 2 years, the annuity will be paid for another 8 years to your spouse, partner or beneficiaries.

These payments used to be subject to tax. They are now free of UK income tax if you die before age 75 and the annuity you have is a lifetime annuity (death benefits paid from a scheme pension as value protection, a joint life annuity or as a continuing guarantee period are not tax free. For further details check with your scheme pension provider to see what the implications of the rules are).

A joint life or dependant's annuity can be paid to anyone after you die, subject to any restrictions of your annuity provider. On their subsequent death any value protection or remaining guarantee period can be paid to anyone.

Who is affected: Anybody with a lifetime annuity with joint life, value protection or guarantee period who died on or after 3 December 2014 before turning 75. The first income payment to your partner, spouse or beneficiaries must have been made after 5 April 2015, otherwise it will be taxable.

CHANGE 5: ACCESS TO IMPARTIAL GUIDANCE

What has changed: Everyone can now access free guidance to help them make sense of their options at retirement. This service is called Pension Wise and is provided by Citizens Advice and the Pensions Advisory Service. There is no charge and your pension provider is required to tell you about this impartial guidance.

Who is affected: Anybody taking retirement benefits.

CHANGE 6: TRANSFERRING A DEFINED BENEFIT PENSION (e.g. FINAL SALARY)

What has changed: Most people with a defined benefit (e.g. final salary) pension can take advantage of the pension freedoms and make unlimited withdrawals. To do so, they have to transfer to a defined contribution pension.

But as you could lose very valuable benefits, you may have to receive appropriate advice first.

Who is affected: Anybody with a defined benefit pension, wishing to take advantage of the increased flexibility. It is no longer possible to transfer from most public sector pension schemes. Check with your pension scheme if unsure.

CHANGE 7: RETIREMENT AGES TO INCREASE

What is changing: The government has stated that it intends to increase the earliest age at which you can normally draw your pension, currently 55, to 57 from 2028 (and then increase it in line with the rise in the State Pension age). This will not apply to Public Sector Pension Schemes for Firefighters, Police and Armed Forces.

CHANGE 8: CONTRIBUTION RESTRICTIONS FOR HIGH EARNERS FROM 2016/17

What has changed: Since 6 April 2016, limits have been applied on how much high earners can pay into a pension without facing a tax charge. For some people the £40,000 annual allowance for pension contributions will be tapered down to as little as £10,000.

Who is affected: Anyone with taxable income more than £150,000 in 2018/19 is likely to be affected, although those with lower incomes could also be caught.

WHAT HAPPENS IF YOU HAVE RETIRED ALREADY?

If you are receiving an annuity income from all your pensions, you could only be affected if you have a lifetime annuity with joint life, value protection or guarantee period (see change 4).

If you are in drawdown you should be able to benefit from the pension freedoms. Hargreaves Lansdown's drawdown clients have been able to do so since 6 April 2015.

ANY QUESTIONS?

Our Pensions Helpdesk will be happy to help:

Call: **0117 980 9926**
(Mon-Thurs 8am-7pm, Fri 8am-6pm, Sat 9:30am-12:30pm)

Email: **pensions@hl.co.uk**

Write to: **Freepost HARGREAVES LANSDOWN**