



The Chancellor announced some fundamental changes to the UK pension system in the 2014 Budget announcement. These changes will be phased in; some applied from 27 March 2014 with others scheduled for April 2015. The overall effect of the changes is to give more flexibility in drawing pension benefits, with the hope of making pension saving more attractive.

This note gives you a brief outline of the changes and some pointers as to how you might be affected. It is for general information only and specific advice should be sought on your own position. If you would like to discuss your own situation, please contact one of our wealth planners.

What was the pre-Budget position?

- Currently at retirement you can take 25% of your pension pot tax-free. The remaining 75% of the fund must be used to provide you with an income. Usually this income comes from either an annuity or from drawdown. With an annuity, you give up the fund in return for a guaranteed lifetime income. From drawdown, you retain the fund but the income you receive is not guaranteed and can go up or down.
- To complicate matters, drawdown comes in 2 forms:
- Capped Drawdown – your income can be between £0 and about 20% more than the highest annuity basis (a single life, level income) and can be varied between these limits.
- Flexible Drawdown – your income can be between £0 and your entire fund but you must have at least £20,000 a year guaranteed for life.
- In all of these cases, the income you receive is subject to income tax.
- For those with very little pensions savings, less than £18,000 then you could receive it all as a lump sum. Payment of the balance in excess of the 25% tax free sum is subject to income tax.
- Your pension fund at retirement is tested against the lifetime allowance, presently £1,250,000 (higher if you have primary, fixed or flexible protection) and additional tax is levied on any excess above this amount.
- If you die whilst in drawdown, your spouse is able to continue the drawdown arrangement or use other options. The fund can be passed to your spouse or family as a lump sum but there is likely to be a tax charge of 55%.

So what is changing now?

From 27 March 2014

- You can still take 25% of your pension pot tax-free. The remaining 75% of the fund must still be used to provide you with an income either from an annuity or from drawdown.
- Capped Drawdown – your income limits have now been increased to between £0 and about 50% more than the highest annuity basis (a single life, level income) and can be varied between these limits.
- Flexible Drawdown – your income can be between £0 and your entire fund but your guaranteed lifetime income requirement has reduced to £12,000 a year.
- In all of these cases, the income you receive is subject to income tax.
- For those with very little pensions savings the limit has increased to £30,000 and you may take it all as a lump sum. Payment of the balance in excess of the 25% tax free sum is subject to income tax.
- The Government is consulting with a view to reducing the tax charges for passing your fund to your family on your death.

So what is changing in April 2015?

From April 2015

- 25% of your pension pot is still available tax-free.
- Everyone is effectively eligible for Flexible Drawdown. The minimum guaranteed lifetime income limit will be removed.
- You can withdraw between £0 and your entire fund. Your withdrawals will be subject to income tax.
- If you are looking for secure income for life, you can still buy an annuity, as before.

Any other changes?

- There is always a catch, the earliest age for accessing benefits is currently 55. Initially this will move to age 57 in 2028 and increase in line with the State Pension Age from then on. This could affect those around age 40 and under.
- Members of public sector final salary schemes are excluded from the new flexibility.
- Private sector final salary schemes, not that there are many left, are still allowed to transfer for now but the Government is consulting as to whether to exclude these members too.

What if I am retiring soon?

- You and your wealth planner should take the new rules into account when considering your options.

What if you have already retired?

- If you purchased an annuity a while ago then you remain under the rules that were in force when you bought the plan. You should contact your wealth planner if you want to discuss your options but it likely that the new rules will not apply to you.
- If you have a drawdown plan, even if you are not taking any income just now but have received your lump sum, then the new income limits will apply to you. You should contact a wealth planner if you wish to discuss how the changes will impact you.

Will I still be able to buy an annuity?

- Yes. For many people, guaranteed income for life will still be the most suitable option. Others may want to take a larger lump sum than the tax free amount and still buy an annuity with the fund left over. The changes give people more flexibility and options to consider with their wealth planner.

A final word of warning. The ability for pensioners to access large amounts of cash has alerted many unscrupulous characters. Remember, no matter how you structure your retirement, this fund still has to provide for you for the rest of your life.

Wright, Johnston & Mackenzie LLP Wealth Planning

0141 248 3434 / 0131 524 1500

Graham N Murray

Wealth Planner

[**gnm@wjm.co.uk**](mailto:gnm@wjm.co.uk)

Grant Johnston

Wealth Planner

[**wgi@wjm.co.uk**](mailto:wgi@wjm.co.uk)

Ron Nicolson

Wealth Planner

[**rn@wjm.co.uk**](mailto:rn@wjm.co.uk)