PENSION GUIDE

MILSTED LANGDON
Financial Services

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PENSION FREEDOMS

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PENSION FREEDOMS: GIVING YOU GREATER FLEXIBILITY

Pension freedoms can give you greater flexibility over how you choose to manage your income during retirement.

Such freedoms can allow over-55s to set up an income drawdown in order to receive a regular income, or to take lump sums from your pension pot – which may sometimes be tax-free.

Under radical changes made in April 2015, the variety and freedom in the pensions world is now greater than ever, but it is important to seek specialist advice to make an informed decision on how you can best plan for your retirement.

WHAT ARE PENSION FREEDOMS?

Put simply, pension freedoms allow any UK resident aged 55 and above to take the whole amount of their pension as a lump sum without having to pay any tax on the first 25 per cent of it. The remainder will then be taxed at marginal income tax rates – just as if it were a continued salary.

Previously, most people would have needed to purchase an 'annuity' product in order for their pension to effectively pay them an annual income between them leaving work and their eventual death. But as of 2015, pension freedoms are open to all over-55s who have a private pension.

Private pensions include 'defined contribution' and 'money purchase' pensions. These variations of pension are usually built up from contributions made by either yourself, your employer or both of you throughout your working life.

DIFFERENT METHODS OF MANAGING OR WITHDRAWING YOUR PENSION FUNDS

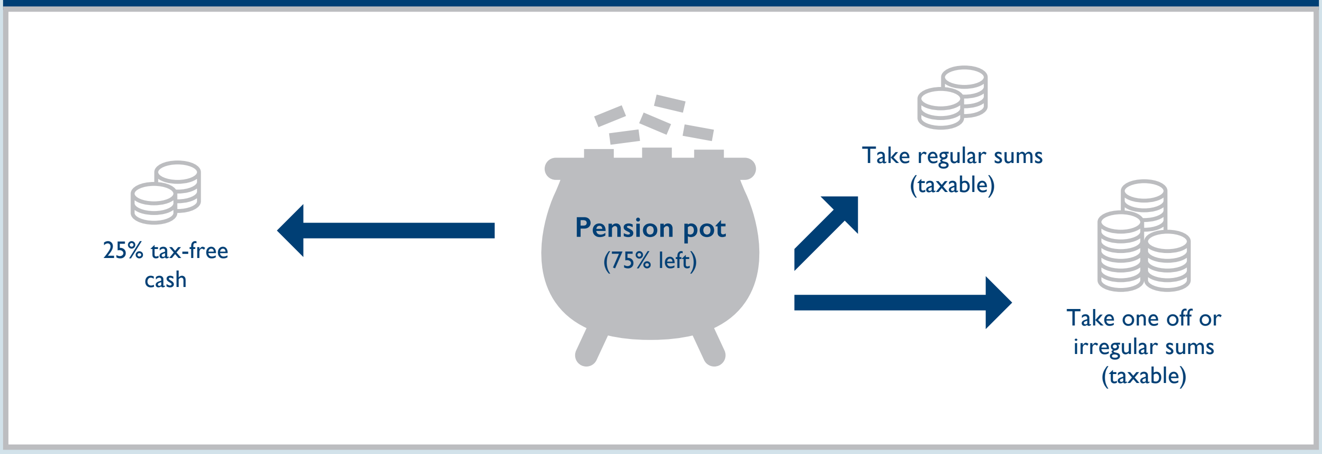
Pension funds can be managed, accessed and withdrawn in a range of different ways. Milsted Langdon has put together this brief summary to help you understand the options that are available to you. However, it is important to remember that while useful, this is only a basic guide and it is important to seek specialist advice before making any major financial decisions.

FLEXI-ACCESS DRAWDOWN

This allows you to take the 25 per cent tax-fee part of your pension pot as an initial lump sum and enjoy the remainder of your pension in regular payments taxed similarly at the basic rate of income tax (20 per cent).

With this method, you are able to access these payments as and when you need them – and you are still entitled to make additional payments into your pension pot each year up to your Annual Allowance. This allowance will fall from £40,000 to £10,000 once you have already taken your 25 per cent tax-free lump sum and have already begun extracting taxable payments from your pot.

Flexi-access drawdown



Source: Pensions Advisory Service

SMALLER SUMS DRAWDOWN

Alternatively, if you decide to take separate smaller sums out of your pension, each withdrawal amount will be 25 per cent tax-free.

The remainder will then be subject to income tax – but if you still wish to pay into your pension pot each year, your Annual Allowance will immediately fall to £10,000 as soon as you drawdown your first payment.

Taking smaller sums of cash

Source: Pensions Advisory Service

GUARANTEED PENSIONS ANNUITY INCOME

Annuities can provide you with the security of always knowing exactly how much you will be able to spend each year.

An Annuity is essentially an insurance policy which will give you a guaranteed fixed income either for the remainder of your life or for a pre-agreed number of years. The level of income you are able to claim will depend on:

- Your age, health and lifestyle.
- The size of your pension pot.
- Whether or not you want the income to increase year-on-year.
- Whether or not you want the annuity to pay out to family members if you die.

There are several types of annuity products on the market and, if you are interested in this option, it is important to seek specialist advice in order to determine which product will best suit you. If you are able to find an annuity at a good rate, this will provide you with a definite, sustainable income for life.

TYPES OF ANNUITY

Type	How it works
Single life	Paid just to you, either for life or for a fixed number of years.
Joint life	Payments continue to your spouse or partner after you die.
Fixed term	Pays an income for a set number of years, then a guaranteed sum which you can invest or use to buy another annuity.
Short term	Stops paying at the end of a set number of years (up to five years) or when you die (whichever comes first).
Guaranteed period	Pays out for a set term even if you die within that term, eg. you get a 10-year annuity and die after seven years, your spouse or partner still gets payments for another three years or a lump sum.
Enhanced or Impaired	May pay more than a standard annuity if you smoke or have a medical condition, eg diabetes or high blood pressure.
Escalating	The amount increases each year to reduce the effect of inflation.
Level	Pays a flat amount of income each year.
Investment linked	Tied to the stock market, the amount it pays can vary and depends on the success of the investments.
Capital protected	Your pot is paid to whoever you leave it to (your ‘beneficiary’) if you die within a set period, subject to tax.

Source: www.pensionwise.gov.uk/guaranteed-income

CASHING IN YOUR ENTIRE PENSIONS POT

Under pension freedoms rules, it is entirely possible to cash in your entire pensions pot in one go. However, it is important to be sure that, if doing so, you will still be able to support yourself well into retirement.

Furthermore, withdrawing a large portion of your pension funds in one go could have unfavourable tax consequences. For example, if you earned £30,000 in one year and decided to take a taxable amount of £15,000 out of your pension pot, only £13,000 of this would be taxed at the standard 20 per cent income tax rate, while the remaining £2,000 would be taxed at 40 per cent. This is because, in this situation, you would have surpassed the £43,000 a year threshold for standard-rate taxpayers in 2016/17.

MONEY PURCHASE ANNUAL ALLOWANCE (MPAA)

Applying to all individuals who have flexibly accessed their pension pots, The Money Purchase Annual Allowance (MPAA) is the annual cash limit that you and your employer (or any other third party) are entitled to pay into your pension as contributions.

As of 2015, the MPAA sits at £10,000 for all those who have taken flexible benefits. However, in 6 April 2017, new legislation will see that the £10,000 allowance falls to £4,000.

HOW CAN MILSTED LANGDON FINANCIAL SERVICES HELP?

Navigating the pensions maze is no easy feat, whereas making the wrong decision can be only too easy. But whatever your situation or savings goals, Milsted Langdon Financial Services are here to help you to fully understand the pensions marketplace and make informed decisions regarding your retirement income.

Our team of independent financial advisers are acknowledged experts in financial services. We help to guide our clients, whether they are private individuals or companies, through the increasingly complex world of financial planning and ensure that they plan properly and sensibly for their retirement.

Whatever your individual needs, our experts are able to provide a full Pensions Review Service and help to advise you on your options well into the foreseeable future.

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