The Government has confirmed that the radical changes to pensions first announced in the March 2014 Budget, have now been approved.

To help you understand what these changes mean and how you can make the most of the new opportunities that they create, we've summarised the details here.

Those primarily affected by the pension changes are people who:

- Are 55 or over in April 2015; and
- Have a Defined Contribution pension (such as a stakeholder pension or personal pension - group or individual) or a Self Invested Personal Pension; and
- Are in Income Drawdown before 6 April 2015; or
- Are In Flexible Drawdown before April 2015; and/or
- Have Additional Voluntary Contribution schemes worth more than £10,000.

Summary of pension changes

Flexible access to pensions from age 55 – *which comes into effect from April 2015*

From April 2015, those of you who invest in pensions who are 55 or over will have free reign in relation to how you choose to take an income from your pension (including, if you so wish, taking the whole pension fund as a lump sum).

Typically, the first 25% of the pension withdrawal will be tax-free. The remainder being subject to income tax at your highest marginal rate – e.g. if you are a basic-rate taxpayer (20%), the income drawn from your pension will be added to any other income you receive (for example a salary), which could have the effect of moving you into the higher (40%) or top-rate (45%) income tax bracket.

It is of course possible to take your pension in stages, as opposed to one lump sum. Although we cannot give tax advice, it is possible that using a staged process may help you with managing your tax liability. Equally, you should be able to take the tax free cash immediately, subject to the age limit of course, and defer taking pension income until a later date if you so desire.

Restrictions on pension Income Drawdown abolished – *which comes into effect from April 2015*

An option available to those who invest in a pension is to, at retirement, take an income directly from your private pension fund. This process is called income drawdown. Presently, the Government Actuary’s Department (GAD) sets a maximum on how much can be drawn each year for those in capped Income Drawdown. This is commonly known as the GAD maximum.

April 2015 will see these limits abolished – meaning, as a pension investor, you can take as much as you would like from your pension.

Income Drawdown allows you to invest your pension where you choose, subject to the Pension Providers approval, and choose how much income you take. With this comes risk, for example it is possible that your fund may run out of money in retirement. Combinations such as poor investment performance and income withdrawals could see your fund reduce and, in the worst-case scenario, even see your fund run out of money. It is important to point out that Income Drawdown is a higher risk option, especially

when compared to say an annuity where the insurance company takes the risk. With Income Drawdown, the responsibility to manage the fund and the income taken from it lies with you.

In addition to those groups outlined at the start of this document, if you are a pension investor in Income Drawdown prior to 6th April 2015, you will be able to move to the new unlimited regime, but you will be restricted on how much you can contribute to pensions in the future (the next section elaborates further on this).

New restrictions on contributions– *which comes into effect April 2015*

If, in addition to any tax free cash, you choose to take any income from your pension after April 2015, under the new rules you may still be able to make pension contributions, however this would be up to a maximum of £10,000 a year (e.g. a new reduced Annual Allowance). It's important to point out that employer contributions and pension benefits in Final Salary schemes would be included.

Two exceptions are:

- Pension worth less than £10,000. Where this is the case, you will be able to make withdrawals from three small personal pots and unlimited small occupational pots worth less than £10,000 each without being subject to the new £10,000 allowance;

- If you are in capped drawdown before April 2015 and withdrawals after April 2015 remain within your drawdown limit. In this case you will not be subject to the new £10,000 allowance.

Those of you who have protection may wish to consider the implications of making contributions on your protection status.

Investors already in Flexible Drawdown before April 2015 will be positively affected as you will be able to make contributions of up to £10,000 a year - whereas currently you are unable to make any contributions.

This will not affect you if you have not:

- Started drawing your pension; or
- If you buy an annuity.

You will still be subject to the £40,000 annual allowance limit and current pension contribution rules.

Access to impartial guidance – *which comes into effect for anyone taking retirement benefits after April 2015*

The Chancellor, George Osborne, announced in his budget speech that everyone should have free guidance on their retirement options.

Confirmation has now come that this will be provided by organisations such as *The Pensions Advisory Service (TPAS)* or the *Money Advice Service (MAS),* and will be delivered by face-to-face, telephone and via web-based services.

Defined Benefit (DB) pension withdrawals – *comes into effect April 2015*

Anyone with a Defined Benefit scheme will be able to take advantage of the new rules and, should you choose to, make unlimited withdrawals. To enable this, you will have to transfer your Defined Benefit scheme into to a Defined Contribution pension (for example a SIPP).

Final salary benefits are very valuable and it is recommended that anyone considering this should first receive independent financial advice.

For those readers in a public sector scheme it is important to point out that it will no longer be possible to transfer from most of these schemes.

Retirement Age increase – *from April 2015*

The age at which you can start to draw your pension will change to 57 in 2028, and then will increase in line with the State Pension age (i.e. remaining 10 years below the State Pension age).

This does not apply to Public Sector Pension Schemes for Firefighters, Police and Armed Forces.

Tax paid when you pass on your pension - reduced? – *last quarter of 2014*

If you die before:

- Income Drawdown is commenced;
- You buy an annuity; and/or
- Before age 75,

Your entire pension fund can normally be paid to your beneficiaries free of a tax charge

However, If you are:

- In Drawdown; and/or
- Aged 75 or over

Any lump sum paid to your beneficiaries is currently taxed at 55%.

Whilst this is still to be reviewed, the Chancellor believes this is too high and has advised that this will be reviewed later in 2014.