How retirement will look in 2015

On 21 July 2014, the government released their response to the 'Freedom and Choice in Pensions' consultation, effectively giving the go-ahead for the sweeping pension changes that were proposed as part of the 2014 Budget in March. These changes could radically alter your plans for retirement.

From April 2015, we will see more freedom in ways people can take their pension benefits when they reach 55. Few would vote against choice and flexibility for their pension, but what do the changes mean if you are planning your retirement? Here we give you five areas for consideration.

More freedom in how you draw your income

In theory, the flexibility will allow you to treat your pension fund in the same way as any other investment: you will be able to take withdrawals whenever you want.

From April 2015, if you are a member of a defined contribution pension scheme and aged 55 or over, you will be able to draw money from it as you see fit. You can receive a tax free cash sum of up to 25% of the amount you take, then you will have the freedom to access some or all of the remaining fund as income, taxable at your marginal rate of income tax. So if you want to access all of the money from your pension, you will be able to take it as a lump sum.

As tempting as it sounds to get hold of your money when you want it, in practice, the tax treatment may discourage you from extracting large sums in a single year. So unless you really need the extra income, you may want to withdraw your pension savings at a slower rate that is more tax-efficient.

Although the new pension freedoms mean you will no longer be compelled to buy an annuity, if you are looking to secure a guaranteed income for the rest of your life, an annuity will still be an appropriate option for you, especially as it's impossible to tell how long you will live.

Changes to how much you can contribute

From April 2015, if you are drawing an income from your pension (after taking tax free cash) and wish to make contributions to a defined contribution scheme, you can continue to do so, but the amount on which you can receive tax relief (the 'Annual Allowance') will be cut from £40,000 to £10,000 a year. This could be via employer or personal contributions.

The £10,000 Annual Allowance will be introduced for those already in 'flexible drawdown'. This provides a potential advantage as the existing rules prohibit tax-relievable contributions if you are already taking income from Flexible Drawdown.

In some circumstances the Annual Allowance will not apply, but the rules can be complex. For example, you will be able to take income from a maximum of three smaller personal pension pots, or an unlimited number of smaller occupational pension pots (in both cases, worth less than £10,000), without being subject to the Annual Allowance restriction. Similarly, if you enter Capped Drawdown before April 2015 and take income within your income limit after this date, the Annual Allowance will remain at £40,000 a year in these cases.

Transferring defined benefit schemes

Transfers from private sector defined benefit to defined contribution schemes will continue to be allowed. The government is also consulting further on allowing full or partial withdrawals direct from private sector defined benefit schemes, to remove the need to transfer out to a defined contribution scheme before taking benefits. If you are a member of a defined benefit scheme that is already in payment and you wish to transfer out, this will continue to be prohibited.

Transfers from unfunded public service defined benefit schemes will not be allowed. Transfers from funded public service defined benefit to defined contribution schemes will be permitted.

Taxation on death to be reviewed

The tax position on death under the current rules is that lump sum payments from any money remaining in drawdown is subject to a death tax charge of 55%. The same tax rate also applies to any remaining pension fund not being used to provide benefits, if the death occurs from age 75 onwards. As part of the new reforms, the government intends to abolish the 55% tax charge for money inherited from pension funds, regardless of the age of death. It has also extended the same generosity to money in drawdown, if the death of the holder occurs before age 75. For deaths after age 75, the tax rate for money inherited from drawdown will reduce to 45%.

The new rules are effective from April 2015 but importantly, it is the date the claim is settled rather than the date of death, which determines if the money is paid at the new rates.

Guidance or advice?

From April 2015, the government will introduce a new right to impartial financial guidance at the point of retirement, for anyone with a defined contribution pension scheme. The guidance will be delivered through the Pensions Advisory Service and the Citizens Advice Bureau. But it's important to understand that what will be on offer is just *guidance* – not *advice* - so while guidance will explain the impact of these new rules and let you know what you *could* do, it won't tell you what you *should* do. Advice, therefore, remains essential.

To receive a complimentary guide covering Wealth Management, Retirement planning or Inheritance Tax planning, produced by St. James's Place Wealth Management, contact Chris de Mellow of de Mellow & Co Wealth Management on 02392 595922 or email chris.demellow@sjpp.co.uk.

The levels and bases of taxation and reliefs from taxation can change at any time and are dependent on individual circumstances.