

## Pension freedoms

On 6 April 2015 the rules changed as to how you can take funds out of your pension. Set out below is information about these new options and how they could apply to you. **For more information, please contact a financial adviser.**

Guidance on these options is also available from the Government-backed 'Pension Wise' service. This is a free and impartial service available online, over the phone from The Pensions Advisory Service, and face-to-face from the Citizens Advice Bureau. Though this may be valuable for certain individuals, the Pension Wise service is not intended to be a substitute for full financial advice. More information can be found at [www.pensionwise.gov.uk](http://www.pensionwise.gov.uk)

### Flexi-access drawdown

The first of the new options, 'flexi-access drawdown', places no limit on the amount of income you can take. This means it is possible to take your entire pension fund in one go, although it may not be sustainable, or tax-efficient, to do so. If you are reliant on your pension to support you, you may need to consider taking a lower level of income that is sustainable for your lifetime.

You can take 25% of your fund as a tax-free lump sum if you haven't previously used that fund for drawdown. The rest of your fund stays in your pension to provide you with an income.

The amount of the flexi-access drawdown fund withdrawn to provide you with an income will be taxed at your marginal rate of Income Tax. If you take too much income this may put you into the next tax bracket, meaning you pay a higher rate of tax.

### Uncrystallised funds pension lump sum

The other new option introduced by the Government is the uncrystallised funds pension lump sum (UFPLS). This provides flexibility, for funds not already in drawdown, as it allows you to take a one-off payment from your pension or take a series of lump sums, keeping the remainder of your pension invested.

The first 25% of each UFPLS is tax-free, with the remainder subject to tax. So, for example, if you withdraw £10,000 from your pension, the first £2,500 will be tax-free and the remaining £7,500 will be taxed at your marginal rate of Income Tax.

You can only take a UFPLS up to the 'lifetime allowance', which is currently £1 million, and the UFPLS is not available from any part of your pension already in drawdown. There are also restrictions on access to UFPLS if you hold certain types of protection of pension benefits.

### Changes to annuities

You will continue to have the option of using your pension fund to purchase a traditional lifetime annuity. This will pay you an income for life and can pay a level amount or increase over time.

New, more flexible annuities are now also available. The income level can decrease as well as increase, provided that this is stated in the contract when you start the annuity.

### How can you access the new pension freedoms?

All those who were in drawdown on 6 April 2015 will have either been in capped or flexible drawdown. Access to the new pension freedoms differs depending on which option applies to you.

#### Capped drawdown

Under capped drawdown you have a maximum level of income that you can take from your pension each year. This is reviewed every three years up until you are 75, and annually thereafter.

After 6 April 2015 you can continue taking capped drawdown and your review dates will remain unchanged. You also have the option of moving to the new flexi-access drawdown, which will mean the amount of income you can take is unlimited and there are no maximum income reviews.

To move to flexi-access drawdown you can take income above your current 'income cap' or you can write to us requesting the move and then take any income payment.

Although there is no limit on the amount of income you can take under flexi-access drawdown, it may not be tax-efficient to draw significantly higher levels. If you are reliant on your pension to support you, you may need to consider taking a lower level of income that is sustainable for your lifetime.

If you move from capped drawdown to flexi-access drawdown the amount you can contribute to your pension each year will be reduced – see below (**Accessing the pension freedoms and contributions**).

#### Flexible drawdown

If you were previously taking flexible drawdown you will have automatically been moved to flexi-access drawdown on 6 April 2015.

This makes no difference to how you take your benefits, but you can now make tax-relieved contributions to your pension. See below for more information.

## Accessing the pension freedoms and contributions

The Government is concerned that people do not abuse the new freedoms by taking higher levels of income to fund further pension contributions which attract tax relief.

Restrictions are being put in place on the amount you can contribute to your pensions once you have flexibly accessed your pension benefits.

### Existing annual allowance

The annual allowance is the maximum amount you can contribute to all your pensions for tax relief purposes each tax year. This is currently set at £40,000.

It is also possible to make use of any unused annual allowance from the previous three years, provided you were a member of a pension scheme in those tax years. This is known as 'carrying forward' your annual allowance.

### Money purchase annual allowance (MPAA)

Once you have flexibly accessed your pension benefits the amount you can contribute to all money purchase pensions each tax year is restricted. The lower limit is called the money purchase annual allowance (MPAA).

The MPAA is set at £10,000 and it is not possible to use MPAA from previous tax years.

The existing annual allowance of £40,000 still applies to final salary schemes (also known as a defined benefit scheme) so you can continue to accrue benefits up to £40,000 per tax year in total without facing tax charges, as long as the amount you contribute to all your money purchase pensions does not exceed £10,000.

### Triggering the MPAA

The MPAA is triggered:

- When you take an uncrystallised funds pension lump sum (UFPLS).
- When you take any income under flexi-access drawdown.
- When you exceed your income cap in capped drawdown.
- When you take an income payment after you have told your scheme administrator you want to move from capped drawdown to flexi-access drawdown.
- When you purchase a flexible annuity that allows income to decrease.
- On 6 April 2015 if you have previously been taking flexible drawdown.

The MPAA is **not** triggered:

- When you take a pension commencement lump sum (PCLS) only.
- If you continue to take income below your income cap in capped drawdown.
- When you purchase a traditional lifetime annuity.

- When you take lump sum death benefits as a beneficiary of someone else's pension.
- When you take flexi-access drawdown as a beneficiary of someone else's pension.

## New death benefit rules

### Who can receive the death benefits?

You can nominate whoever you like to receive your death benefits. This could be your spouse, children or grandchildren, or you can nominate someone unrelated to you, if you wish. You can also leave some, or all, of your pension fund to charity.

If you do not tell us who you want to leave your fund to we will normally pay it to your dependant(s), if you have any.

### How are death benefits paid?

Beneficiaries of your pension can choose to take the fund as a lump sum or leave the fund invested and take an income under the new flexi-access drawdown rules.

If they choose drawdown they can take income as and when required, or leave the funds invested indefinitely. Any funds left invested will continue to benefit from being in the tax-advantaged pension.

### How will death benefits be taxed?

The tax treatment of your death benefits depends on two factors:

- your age when you die; and
- whether or not the funds are designated to your beneficiaries within two years.

If you die before your 75<sup>th</sup> birthday and your pension funds are designated to your beneficiaries within two years they will be paid tax-free. Designating the funds just means moving them into the beneficiaries' names; they do not have to take the money out within the two-year period.

If you live beyond your 75<sup>th</sup> birthday, or if you die earlier but your pension funds are not designated within the two-year period, then the death benefits will be taxed.

The funds will typically be taxed at the beneficiaries' marginal rates of Income Tax.

### What happens to the fund when the beneficiary dies?

If your beneficiary has not withdrawn the entire fund before their death then the funds can be passed on again. Your beneficiary will be able to nominate successors who they want the funds to go to following their death.

The successors will have the option of taking the funds as a lump sum or taking an income under flexi-access drawdown.

The tax treatment of the death benefits will depend on the age of the beneficiary at their death, not on how old you were at your death.

It is possible to have unlimited successors, so your pension fund could be passed on for generations if it is not all taken out.

## **Important note**

This information is based on our current understanding of the pension changes. This is provided for information only, we do not provide advice. If you have any questions regarding this information, please contact a financial adviser or the Pension Wise service. Tax rules can change in the future and the tax treatment depends on your personal circumstances. The value of investments, and any income from them, can go down as well as up, and you may not get back your original investment.