WARWICK + FINANCIAL = SOLUTIONS
Tel: 01926 400441
Email
info@warwickfs.co.uk
www.warwickfs.co.uk

# Pensions

## A brief overview – but which one is right for you?

### About Pensions

Pensions are, of course, designed to enable you to save sufficient money during your working life to provide an income stream for you to live comfortably after you have retired.

There are many different 'tools' used to save for retirement and the taxation and investment elements of pensions can appear baffling. We specialise in explaining, recommending and monitoring pensions for you. Below are the most common sources of pension to fund for your retirement.

**Single Tier State Pension**

The new State Pension will be a regular payment from the government that you can claim if you reach State Pension Age (SPA) on or after 6 April 2016.

You'll be able to get the new State Pension if you are eligible and:

- a man born on or after 6 April 1951
- a woman born on or after 6 April 1953

If you reach State Pension age before 6 April 2016, you'll get the State Pension under the Basic State Pension and Additional State benefits headers as shown below.

The full new State Pension will be around £170-180 per week. Your National Insurance record is used to calculate your new State Pension. You'll usually need 10 qualifying years to get any new State Pension. 35 years qualifies for the full amount.

The amount you get can be higher or lower depending on your National Insurance record.

**The Basic State Pension** (Prior to 2016/2017) – for people who have paid sufficient National Insurance contributions while at work or have been credited with enough contributions. **

**Additional State Pension** (Prior to 2016/2017) – referred to as the State Second Pension (S2P) but before 6 April 2002, it was known as the State Earnings Related Pension Scheme (SERPS). From 6 April 2002, S2P was reformed to provide a more generous additional State Pension for low and moderate earners, carers and people with a long-term illness or disability and is based upon earnings on which standard rate Class 1 National Insurance contributions are paid or treated as having been paid. Additional State Pension is not available in respect of self-employed income. From April 2016 both the basic rate pension and additional

Tel: 01926 400441
Email
info@warwickfs.co.uk
www.warwickfs.co.uk

state pension will be combined to offer a simple single tier flat rate pension. **

**An Occupational Pension** (through an employer's pension scheme) – This could be a Final Salary Scheme (sometimes referred to as a Defined Benefit scheme) or a Money Purchase scheme (usually referred to as Defined Contribution). Pensions deriving from Final Salary schemes are usually based on your years of service and final salary multiplied by an accrual rate, commonly 60ths. The benefits from a Money Purchase scheme are based on the amount of contributions paid in and how well the investments in the scheme perform.

**Personal Pensions Scheme** (including Stakeholder schemes) – these are also Money Purchase schemes and are open to everyone and especially useful if you are self-employed or just for topping up existing arrangements. From October 2012, the Government introduced reforms and all employers have to offer their employees, who meet certain criteria, automatic enrolment into a workplace pension. Employers can use the Government backed scheme, National Employment Savings Trust (NEST), or offer an alternative 'Qualifying' work-place pension scheme such as a Group Personal Pension, providing it 'ticks' certain boxes. Employers are required to contribute a minimum of 3% of salary with Employees making a personal contribution of 4% with tax relief of 1% added on top, which again, is being phased in gradually.

**Retirement Options** – there are now a vast array of different products that may be used at retirement to provide benefits from the traditional form of annuity that provides a regular income stream to Flexi-access drawdown which enables lump sums of benefits to be taken either as a one off payment or over a given number of years. Given the complexity and choice all individuals now have it is important to seek independent financial advice before making any decisions.

State Pensions may not produce the same level of income that you will have been accustomed to whilst working. It's important to start thinking early about how best to build up an additional retirement fund. You're never too young to start a pension - the longer you leave it the more you will have to pay in to build up a decent fund in later life.

***** For those who reach state pension age on or after 6th April 2016, these no longer apply.***

## Personal and Stakeholder Pensions

**Personal Pensions represent a popular and attractive way of saving for your retirement.**

All monies invested into your fund grow free of capital gains tax, and the contributions you make are enhanced by income tax relief at source. For example, if you invest £80, the government adds on tax relief (currently 20%) to enhance your contribution to £100! If you are a higher rate tax payer you can claim additional relief through your PAYE coding. An annual allowance of up to £40,000 (2016/2017) is available as well as the possibility of utilising potential carry forward of unused annual allowances.

A personal pension is an arrangement made in your name over which you have personal control. You can alter your contributions, suspend them, or stop them completely.

You will be eligible to take 25% of your accumulated fund tax-free when you retire, the earliest age being from 55 (Under current Government policy, it will increase the minimum age at which people can tap their

Tel: 01926 400441
Email
info@warwickfs.co.uk
www.warwickfs.co.uk

private pension from 55 to 57 in 2028). There are a range of options when you decide to take benefits such as purchasing annuity or electing capped or flexible drawdown.

Personal Pensions usually offer a range of investment mediums to suit your attitude to investment risk, and you can change your investment at any time.

Stakeholder pensions are similar to personal pensions but have their charges capped at 1.5% for the first 10 years reducing to 1% thereafter. Whilst Stakeholders are generally considered a little cheaper than Personal Pensions, investment choices may be restricted.

## Advanced Pensions

**In recent years the pensions industry has become more advanced in terms of the flexibility of investments available and the structure of the actual pension arrangements.**

It is an area of constant change and you should consult us/me regularly to make preparations for a secure and enjoyable retirement.

### Self-invested Personal Pensions (SIPPs)

A Self Invested Personal Pension (SIPP) is a tax-efficient wrapper within which a wide range of investments can be held. A new SIPP must appoint a scheme administrator, usually the recognised product provider. SIPPs have the same tax benefits and regulations as conventional personal pension plans but you and / or your advisers have control over the investment choice - each SIPP is unique to the individual. Otherwise, it operates in the same way as a conventional personal pension in respect of contributions and eligibility, for Her Majesty's Revenue & Customs (HMRC) purposes.

The complex nature of a SIPP means that it is not suitable for all investors. Often, the benefits of 'self investment' are only advantageous to people with very large funds and / or investors with some level of sophistication when it comes to investment decisions. Often, there are additional charges for arranging and dealing within a SIPP and these charges would erode smaller funds quickly.

The benefits of using a SIPP include being able to invest in:

- Stocks and shares listed or dealt on an Inland Revenue recognised stock exchange, including The Alternative Investment **Market** (**AIM**)
- Stock exchanges that are not recognised by HMRC, e.g. Off Exchange (OFEX).
- Unit trusts, open ended investment companies (OEICs)
- Warrants, covered warrants
- Government stock and fixed interest stock
- Unquoted shares
- Commercial property
- Property funds

*We will be able to provide more details and make a recommendation based on your own circumstances.*

WARWICK + FINANCIAL = SOLUTIONS

Tel: 01926 400441
Email
info@warwickfs.co.uk
www.warwickfs.co.uk

## Pensions Simplification

'A' Day (the Appointed day) arrived on 6th April 2006 and brought with it sweeping and radical changes in relation to pension legislation.

This has created a single universal regime that replaced the previous eight tax regimes and the changes affect all savers in occupational and personal pension schemes, employers and financial advisers.

Pension simplification introduced two new controls, the pension Lifetime Allowance (LA) and pension Annual Allowance (AA).

From April 2006, there is now just one set of tax rules for all types of pension, with an individual LA of £1.55million (2020/2021) and an individual AA of £40,000 (2020/2021). Most individuals are able to fund up to these limits with the possibility to also carrying forward unused AA from the previous 3 years. Exceeding the LA or the AA will simply trigger a tax charge.

**Other changes included:**

- Early retirement age available from age 55
- Full concurrency (i.e. being able to pay into any array of plans you wish), subject to the annual allowance and potential for carry forward
- Wide investment flexibility
- Up to 25% Tax Free Cash
- The ability to commute 'small' funds as a one off lump sum as opposed to having to draw a regular income from age 55 (subject to part of the fund being taxed)
- Flexible options at retirement when deciding to take benefits such as Flexi-access Drawdown
- No need to 'have to' secure benefits at age 75 via an annuity

In addition another raft of changes introduced in April 2016 also gives individuals further and greater flexibility to access their pension savings from age 55 Under current Government policy, it will increase the minimum age at which people can tap their private pension from 55 to 57 in 2028).

**The changes also include:**

- To increase the flexibility of the drawdown rules by removing the maximum 'cap' on withdrawal and minimum income requirements for all new drawdown funds from 6 April 2015;
- To enable those with 'capped' drawdown to convert to a new Flexi-access Drawdown fund once arranged with their scheme
- To enable pension schemes to make payments directly from pension savings with 25 per cent taken tax-free, known as the Uncrystallised Fund Pension Lump Sum (UFPLS) option
- To remove restrictions on lifetime annuity payments;
- To ensure that individuals do not exploit the new system to gain unintended tax advantages by introducing a reduced annual allowance (£10,000 2016/2017) for money purchase savings where the individual has flexibly accessed their savings; and,
- To increase the maximum value and scope of trivial commutation lump sum death benefits.

Tel: 01926 400441
Email
info@warwickfs.co.uk
www.warwickfs.co.uk

**Your Options at Retirement**
From age 55 Under current Government policy, it will increase the minimum age at which people can tap their private pension from 55 to 57 in 2028), there are a number of options available to you including:-

- Draw your benefits available from the existing provider.
- Purchase an annuity with a different provider on the Open Market. This could potentially increase the payments to you.
- Move to Flexi-access Drawdown (or Third Way Plan)
- Use the Uncrystallised Fund Pension Lump Sum (UFPLS) rules
- Move to Phased retirement
- Move to a combination of the above

**Draw your benefits from your current scheme.**
Pension arrangements can usually provide an immediate Tax Free Cash (TFC) sum of 25% with the remaining fund generating an income which is subject to income tax.

**Purchase an annuity with a different provider on the Open Market**

Often taking the funds from the existing provider and shopping around on the open market can considerably increase the level of your income. This is because some providers offer better rates than others.

Buying an annuity means using your built-up pension fund to buy the guarantee of an income for life from a company. Before you buy your annuity with another provider, you will still have the option to receive the TFC from the original pension scheme but the remaining fund value is passed to the new provider to secure your guaranteed income. The value of your pension income in these circumstances depends on several factors such as your age, current interest rates, the value of your pension fund and the type of pension you choose.

**Flexi-access Drawdown (FAD)**

Under the option of FAD you can choose to immediately take 25% tax free cash from your plan. Instead of buying an annuity with the remainder of the fund, the money remains invested and can continue to benefit from investment performance in a tax-efficient environment. There will be no limit on the income taken.

After you have taken your entitlement to the tax free lump sum at outset, you can choose to take as much or as little of the remaining pot as you wish and it will be added to any other income you have in that tax year to determine the income tax rate that will apply. Please note that if you draw any income from this plan, your future money purchase pension contributions will be limited to a £10,000 maximum Annual Allowance.

As the rest of your pension fund remains invested in a tax-efficient environment, your final pension - and the income you may withdraw each year - will be determined by the continued investment management of your funds. Careful attention, therefore, needs to be given to investment management whilst in Flexi-access Drawdown to try to ensure that your income can continue for as long as possible and, if you do finally buy



Registered in England no 06251384
Warwick Financial Solutions Limited
is authorised and regulated by the
Financial Conduct Authority

Tel: 01926 400441
Email
info@warwickfs.co.uk
www.warwickfs.co.uk

an annuity, you would be in a similar situation to that if you had bought an annuity at the start.

You are able to vary your income each year and the level of income you choose to take will have an effect on the value of your invested fund which will influence both future levels of income as well as the amount of any annuity income you may choose to buy.

Whilst in the short term many clients wish to consider drawing large amounts of income from their funds, in the medium to long term, it is important that you balance your income requirements with the investment policy to ensure the annuity purchasing power of your pension fund is maintained.

With this type of contract (together with the UFPLS option shown below):

(1) The capital value of the fund may be eroded;
(2) The investment returns may be less than those shown in the illustrations;
(3) Annuity or scheme pension rates may be at a worse level in the future;
(4) When large amounts of income are taken or the maximum short-term annuity is purchased, high levels of income may not be sustainable.
(5) Benefits are means tested by the DWP.

**Draw your benefits as an UFPLS payment from your current scheme.**

Your current pension arrangement could provide you with multiple or a one off lump sum. 25% of this would be tax free, the remaining pot initially taxed at emergency rate then falling to marginal rate in the future. There is no limit on the size of the lump sum you chose to draw. Please note that this type of payment will limit any future money purchase pension contributions to a £10,000 maximum Annual Allowance.

**Phased Retirement**

This option allows you to retire gradually. It can make the most tax-efficient use of your pension fund and it also allows you to build up the value of your pension when it suits you.

Generally, your pension fund is split up into 1,000 equal segments, and these segments can be phased in over a number of years. Every time you phase in some segments, you can choose to receive a TFC sum of up to 25% of the value of these segments, and the remainder of the fund will be used to buy you an annuity. The pension bought will be guaranteed to be paid to you for life, and you can choose whether to buy a pension to continue for your spouse when you die, or one that increases in value each year. The remaining segments will continue to be invested in a tax-efficient environment, thus providing you with the possibility of higher future income.

**A Combination Plan**

A Phased Flexi-access Drawdown / Combination plan consists of two distinct parts. Firstly, the funds are transferred into the plan. The plan is split into a large number of identical “mini plans”, benefits from which can be taken at different times. This provides a large degree of control over the amount and timing of the income to be taken.

Income is released by “opening” sufficient numbers of these mini plans to produce the required level of

Tel: 01926 400441
Email
info@warwickfs.co.uk
www.warwickfs.co.uk

income. This is achieved by transferring the funds to the FAD element of the plan. When each mini-plan is opened, 25% of its fund value is released as tax-free cash. The residual fund from each mini plan then remains invested in real assets and an income is drawn directly from this remaining fund. The income that is drawn from the FAD funds can be varied. Each income payment that you actually receive is therefore made up of part tax-free cash and part (taxable) income from the FAD element of the plan.

**Important Note:**

HMRC has advised that where an individual flexibly accesses their pension benefits and takes an income stream, that they then have a duty to tell the scheme administrators of any other pension schemes they have or join in the future, that they have done so. This is your own personal responsibility. This is because the Annual Allowance will fall to £10,000 where an UFPSL payment is made and scheme administrators have a duty to inform HMRC if they think someone has paid pension contributions which exceed this limit.

You should note that, if you do not inform other scheme administrators that you have drawn income from your FAD within 91 days, you will be liable for a penalty of up to £300. Where information is not provided after the initial penalty, a further penalty of up to £60 per day may be applied until the information is provided. If incorrect information has been provided a penalty of up to £3,000 may be due where that incorrect information has been negligently or fraudulently provided.

---

***Pensions are a long-term investment. You may get back less than you put in. Pensions can be and are subject to tax and regulatory change therefore the tax treatment of pension benefits can and may change in the future.***