Church House Investment Management

Flexible access to your pension

by Daniel Mason, Head of Pensions

There are currently limits on how much most people can draw from their pensions each year, known as the Government Actuary's Department (GAD) maximum. From April 2015, these limits will be scrapped and investors will be able to draw as much income as they like. They can even take the *whole fund* as a lump sum if they so wish. As before, the first 25% can be drawn tax-free. The rest will be subject to income tax at your highest marginal rate.

For example, if you are a basic-rate (20%) taxpayer, any income you draw from your pension will be *added to* any other income you receive (e.g. your salary) and this could push you into the higher (40%) or even top-rate (45%) income tax bracket.

Income drawdown allows you to keep your options open and is very flexible both when you take an income and when it is passed on to heirs. However, with this increased flexibility comes the real risk of running out of money in retirement. It is a higher-risk option as, unlike a secure income (annuity) where the insurance company takes on that risk, with drawdown the responsibility rests with you.

As previously, we work closely with our pension investors to help minimise their tax liability as they take income or make withdrawals, often advising clients to spread withdrawal of their tax-free entitlement to provide "income" in the first few years, while allowing the 75% balance to continue to be invested.

Investors already in income drawdown prior to 6 April 2015 will be able to move to the new unlimited regime (i.e. draw more income than the current GAD maximum). However, this will have an important impact on how much they can contribute to pensions in future.

New restrictions on how much you can contribute to private pensions

Pension contributions will continue to be subject to a £40,000 annual allowance and specific contribution rules. However, if after April 2015 you make any withdrawals from a defined contribution pension in addition to any tax-free cash, contributions to defined contribution plans could also be restricted to £10,000. There are three exceptions:

1. Your pension is worth £10,000 or less and you take it as a 'small pot'. You can do this up to three times from a personal pension and unlimited times from occupational ones. Other conditions apply; or

2. You go into capped drawdown before April 2015 and your withdrawals after that remain within your current drawdown limit, even if you move more funds into the same plan; or

3. You take your pension as a lifetime annuity or scheme pension.

This £10,000 limit does not apply to any benefits you are building up in a final salary pension. Investors already in flexible drawdown before April 2015 will be able to make contributions of up to £10,000 a year (they are not currently allowed to make any contributions).

Investors aged 55 or over in April 2015 should be able to take advantage of the increased flexibility straightaway.

Retirement ages to increase

The age at which you can draw your pension, currently 55, is set to increase to age 57 from 2028. Thereafter, it will increase in line with the rise in the State Pension age, remaining 10 years below the State Pension age. This will not apply to Public Sector Pension Schemes for Firefighters, Police and Armed Forces.

Possible fall in tax paid when you pass on your pension	Old system		New system	
	Die before 75	Die after 75	Die before 75	Die after 75
Pension fund passed on with no money yet withdrawn	Tax free	55% tax	Tax free	Tax free
Pension fund passed on and tax-free cash taken or in 'income drawdown'	55% tax	55% tax	Tax free	Tax free
Tax payable if funds passed on are spent	Income tax	55% tax	Tax free	Income tax

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At Church House, we work closely with our investors to ensure that they are aware of the implications of the income decisions they make but to maximise the options alongside their other non-pension portfolios and savings.

We manage a large number of pension portfolios - primarily SIPPs and SSASs - for private clients and family groups. Taken as pure investment vehicles, they have served as highly tax-efficient and often much lower-cost options to providing for retirement.

Questions

Any of our client relations team listed under the Private Clients tab will be happy to help, so please telephone us on **01935 382 620** or **0207 534 9870;** or email **clientadmin@church-house.co.uk**; or write to**:**

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Important note – The above is based on our current interpretation of the (Draft) Taxation of Pensions Bill published on 6th August 2014. It is a broad summary and does not aim to cover every situation. You should not take, or refrain from taking, any action based on this information. Tax treatment can change and depends on individual circumstances. Please remember, taking money out of a pension may impact standards of living in retirement. This information does not constitute advice. If you are unsure of your pensions options, please feel free to contact us and we can put you in touch with a pensions adviser. Access to impartial guidance will be provided by consumer-facing, impartial organisations such as The Pensions Advisory Service (TPAS) or the Money Advice Service (MAS) from April 2015. The value of investments can fall as well as rise so you may get back less than you invest. Church House Investment Management is the trading name of Church House Investments Limited, which s authorised and regulated by the Financial Conduct Authority.