

# GREATER CHOICE FOR RETIREES

## *Proposals to fundamentally redesign the UK private pensions system*

Fundamental plans proposed to redesign the UK defined contribution pension system (as opposed to workplace final salary schemes) were announced as part of the Budget 2014 speech. This is the most far-reaching reform to the taxation of pensions since the regime was introduced in 1921, introducing new flexibility to the pensions system.

By further relaxing the rules around income withdrawals from pension funds, which will be introduced from 6 April 2015, people will have greater flexibility and choice about how they can access their money. Those who want to guarantee a regular income for life will still be able to purchase an annuity, of course.

### **TAKING PENSION SAVINGS**

This announcement means that people will be in a position to choose how they take their pension savings: for example, they could take all their pension savings as a lump sum, draw them down over time or buy an annuity.

The Government also intends to explore with interested parties whether those tax rules that prevent individuals aged 75 and over from claiming tax relief on their pension contributions should be amended or abolished.

### **SAVINGS FREEDOM**

In the meantime, as a first step towards this reform, a number of changes have been announced to the rules. These commenced from 27 March and now allow people greater freedom and choice over accessing their defined contribution pension savings at retirement.

#### **The changes are:**

- Reducing the amount of guaranteed annual income people need in

retirement to access their savings flexibly, from £20,000 to £12,000

- Increasing the amount of total pension savings that can be taken as a lump sum, from £18,000 to £30,000
- Increasing the capped drawdown withdrawal limit from 120% to 150% of an equivalent annuity income
- Increasing the maximum size of a small pension pot which can be taken as a lump sum (regardless of total pension wealth) from £2,000 to £10,000, and increasing the number of personal pots that can be taken under these rules from two to three

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### **PROFESSIONAL FINANCIAL ADVICE YOU CAN TRUST**

This major announcement to give retirees more choice as to how they take the income from their pension fund will mean that other options may now be given more consideration. These changes make it even more important, if you are approaching retirement, to seek professional financial advice in order to make the most of your pension pot. If you would like to find out how the changes could affect your future retirement plans, please contact us.