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PENSION REFORM: WHAT YOU NEED TO KNOW

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Retirement should be an exciting time, and these days there's now more scope than ever to arrange your finances the way you want them. For example, you could continue to work and take your pension benefits. That flexibility is great, but it does mean that the financial decisions coming up need careful consideration.

FREEDOM TO TRANSFER YOUR PENSION

Following the new rules for pensions published by the Government people will now not face a ban on certain pension transfers. If you're in a private sector defined benefit scheme (for example, a company pension that will pay an income linked to your years of service and salary), if appropriate you'll still have the choice to transfer it to a more flexible kind of pension. That choice applies before you start taking the pension.

The option to transfer is also available for people who are in public sector schemes that are 'funded', which includes the Local Government Pension Scheme and Universities Superannuation Scheme.

OBTAIN PROFESSIONAL ADVICE

There's an important safeguard here – before you proceed with this kind of transfer, you should obtain professional advice from an adviser who is not associated with the pension scheme and who is authorised by the regulator. There's a lot to weigh up when considering whether to transfer your guaranteed pension.

As the Government has said, 'for the majority of people, but not all, it will remain in their best interest to stay in their defined benefit scheme.'

ANNUAL ALLOWANCE OF £10,000 ONCE YOU'RE TAKING A FLEXIBLE INCOME

The new rules commencing from 6 April 2015 will apply to people who are in a 'give and take' situation. In other words, people who are still paying into a private or workplace pension and who are also taking a flexible income from a pension (an annuity or State Pension will not count).

These rules don't apply if you've just taken your tax-free cash – they apply when you start to take a flexible income beyond that. In this situation, the amount you'll be able to pay into your pension will drop to £10,000 a year.

55% PENSION DEATH BENEFIT TAX CHARGE

The announcement on the tax charge that applies to certain individuals' pensions on their death has been brought forward. The new rules will simplify the existing regime and come into force from 6 April 2015, abolishing the 55% tax that applies to untouched defined contribution pension pots of people aged 75 or over, and to pensions from which money has already been withdrawn.

AGE 55 BECOMES AGE 57 IN 2028

Under the new tax rules, the Government will increase the minimum age at which people can access their private pension from age 55 to 57 in 2028. This affects those born from March 1973 onwards and means people will need to wait until their 57th rather than 55th birthday to take money out of their private pension.

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This change is also being extended to public sector schemes, except the Police, Fire Service and Armed Forces pension schemes, where the qualifying age isn't changing.

25% TAX-FREE CASH

From 6 April 2015, people will be allowed full freedom to access their pension savings at retirement. Pension Freedom Day, as it has been named, is the day that savers can access their pension savings when they want. Each time they do, 25% of what they take out will be tax-free. Under current rules, a 25% withdrawal must be taken as a single lump sum on retirement to be free of tax.

PROFESSIONAL FINANCIAL ADVICE YOU CAN TRUST

Saving for your retirement is one of the most important things you can do, and it's essential to make sure you review your pension regularly and stay on track for the retirement you want. To review your situation, please contact us for further information. We look forward to hearing from you.