Fidelius
Wealth Management

talking money

JULY/AUGUST 2014

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AUTOMATIC ENROLMENT WORKPLACE PENSION REFORM

Encouraging more people to save towards their retirement

ASSET ALLOCATION

Achieving the right balance of cash, fixed income and equities

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Automatic enrolment workplace pension reform

Encouraging more people to save towards their retirement

The Government's flagship scheme to encourage more people to save towards their retirement is well underway – but there's still a distance to go.

Under the workplace pension reform, also known as automatic enrolment, all UK businesses will legally have to offer pensions to workers eligible for auto enrolment by 2018. Employers will also have to contribute towards their workers' retirement savings, although workers can choose to opt out of the scheme.

The introduction of automatic enrolment commenced in July 2012 and will eventually affect 1.35 million employers (the vast majority of whom will be small- and medium-sized employers), according to The Pensions Regulator[1].

Smaller businesses with between 50 to 249 employees have between 1 April 2014 and 1 April 2015 to automatically enrol all eligible workers into a workplace pension.

Employer checklist

If you haven't done so already, you may want to:

- Create a plan of action
- Consider setting up a dedicated project team to help co-ordinate the transition
- Select a pension provider
- Communicate with your workers about what's going to happen

Source:
[1] Automatic enrolment: commentary and analysis 2013 published: July 2013.

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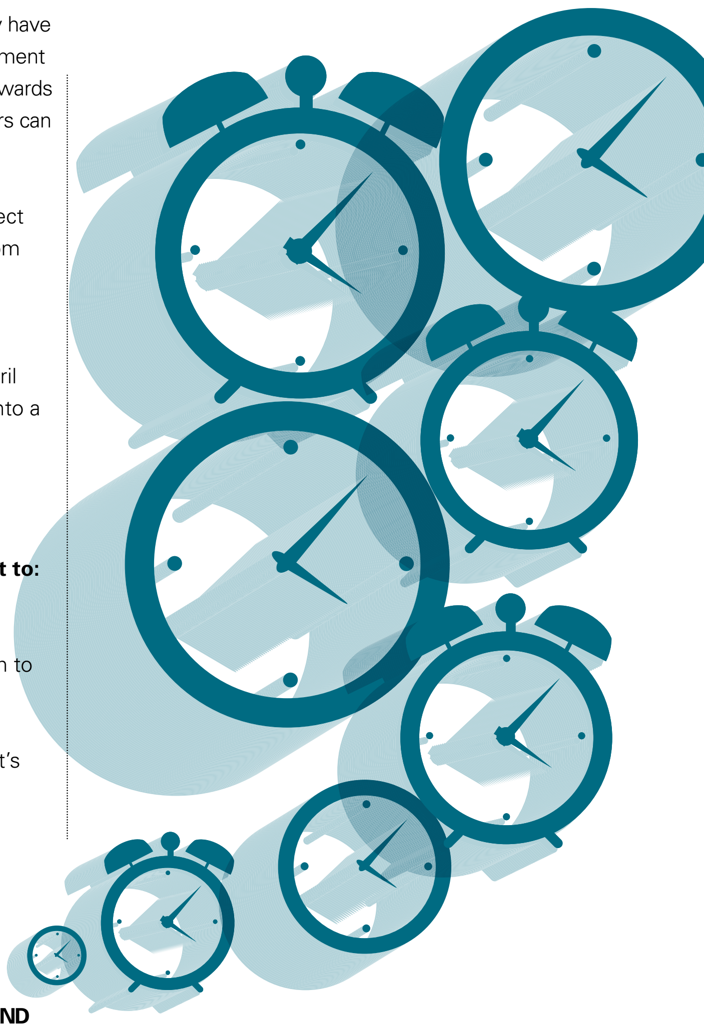

IF YOU ARE AN EMPLOYER, FOLLOW OUR CHECKLIST OR FIND OUT MORE ABOUT YOUR EMPLOYER RESPONSIBILITIES BY CONTACTING US.

WELCOME

Welcome to the latest issue of our magazine designed to help you protect and grow your wealth. This year is best described as the year of the pension. After grabbing the headlines following the Chancellor's Budget 2014 speech, pensions were once again top of the agenda. On page 05 we look at how pensions took centre stage in an 11-bill programme, with major changes to annuities and workplace schemes also announced.

Investing for income is not simply about establishing a portfolio of income generating investments. It's also about the strategies you use to withdraw income from your portfolio. To do this effectively, without prematurely depleting your portfolio, there are three key areas you need to consider. To find out more, turn to page 08.

How you choose to allocate your wealth between different asset classes will be one of the most important investment decisions you ever make. Read the full article on page 09.

A full list of all the articles featured in this edition appears on page 03.

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INSIDE THIS **ISSUE**

WE HOPE YOU ENJOY READING THIS ISSUE. TO DISCUSS YOUR FINANCIAL PLANNING REQUIREMENTS OR TO OBTAIN FURTHER INFORMATION, PLEASE CONTACT US.

WANT TO MAKE MORE **OF YOUR MONEY IN 2014?**

FOR MORE INFORMATION PLEASE TICK THE APPROPRIATE BOX OR BOXES BELOW, INCLUDE YOUR PERSONAL DETAILS AND RETURN THIS INFORMATION DIRECTLY TO US.

Name ....

Address ....

....

....

.... Postcode ....

Tel. (home) ....

Tel. (work) ....

Mobile ....

Email ....

- ☐ Arranging a financial wealth check
- ☐ Building an investment portfolio
- ☐ Generating a bigger retirement income
- ☐ Off-shore investments
- ☐ Tax-efficient investments
- ☐ Family protection in the event of premature death
- ☐ Protection against the loss of regular income
- ☐ Providing a capital sum if I'm diagnosed with serious illness
- ☐ Provision for long-term health care
- ☐ School fees/further education funding
- ☐ Protecting my estate from inheritance tax
- ☐ Capital gains tax planning
- ☐ Corporation tax/income tax planning
- ☐ Director and employee benefit schemes
- ☐ Other (please specify)

You voluntarily choose to provide your personal details. Personal information will be treated as confidential by us and held in accordance with the Data Protection Act. You agree that such personal information may be used to provide you with details and products or services in writing or by telephone or email.

FINANCIAL SUPPORT WHEN YOUR FAMILY NEEDS IT MOST

Why reviewing your level of life insurance is time well spent to ensure you look after their future

May 2014 marked the 253rd anniversary of the first life insurance policy being issued in the USA. Life insurance protects your family and anyone else who may depend on you for financial support. If you die prematurely, the people who are dependent upon your income could lose that financial support, which may leave them having to fend for themselves.

Having sufficient life insurance in place will help cover some or all of that loss, depending on the amount of coverage you choose. Of course, there are instances where life insurance can be beneficial even if you don't have any dependents.

So here's a timely reminder why reviewing your level of life insurance is time well spent looking after your family's future.

Five reasons why you might need to review your life cover

1. Childcare costs

If one person is taking a career break to raise a family, have you considered the impact their death would have on childcare? It may mean the other parent has to cut down to part-time hours at work or take on full-time childcare. With part-time childcare now costing on average more than a mortgage, it might be the right time to ensure that both parents are covered with life insurance.

2. Moving jobs

Changing employer could mean you lose any life cover that comes with your job or you receive a different level of cover. This is a valuable work benefit that is often overlooked when switching jobs. Any pay increase could also mean a greater loss of income should you die. Your level of income should always be a factor taken into account when reviewing your life cover.

3. Mortgage

Life insurance policies are often bought when we finalise our mortgage. But with house prices changing frequently, and more families repaying mortgages or switching providers, it's easy to forget about the life cover – check that you have enough.

4. Hopes for your family

Having children makes you more aware of the everyday costs but what about your hopes for your children? If you're saving regularly for their future, you may have a specific goal in mind. Have you considered what happens if you were to die without meeting that saving goal? A policy where the level of cover decreases over time (as you simultaneously increase your savings) could also help protect any shortfall you might have.

5. Inflation

Some life insurance policies do not keep up with inflationary cost of living increases. Would you be happy leaving your family to meet these extra costs if you have a protection shortfall? ■

SHOULD THE UNEXPECTED HAPPEN, IS YOUR FAMILY FULLY PROTECTED?

Life insurance is designed to protect you in different financial and emotional situations and help you – and your family – to be protected should the unexpected happen. To review your particular protection requirements, please contact us for more information.

Pensions grab headlines

Taking centre stage in the Queen's Speech

This year is best described as the year of the pension. After grabbing the headlines following the Chancellor's Budget 2014 speech, pensions were once again top of the agenda. In an 11-bill programme, pensions took centre stage, with major changes to annuities and workplace schemes also announced.

The plans to make significant changes to pensions were also a central theme in the Queen's Speech. The Government abolished the requirement for people to buy an annuity and is considering alternatives whereby workers contribute to 'collective pension' funds, which they would share with thousands of other pensioners.

GIANT POOL

The Collective Defined Contribution (CDC) is based on the Dutch pension system. These schemes work as follows: an employer contributes a fixed level related to your average salary, and this makes up the 'Defined Contribution' part. Members of the pension scheme also pay contributions at a specified level. All contributions go into a giant pool of assets – the 'Collective' element. Over time, a substantial fund is built up which pays out a pension linked to your salary once you reach the scheme's pension age.

The theory is that these schemes are better for employers than traditional final salary schemes (Defined Benefit or DB plans) and better for employees than standard occupational pension schemes – Defined Contribution (DC) plans. For employers, this is a much cheaper option than the gold-plated but fast disappearing DB schemes, as there is no balance sheet risk attached. Employees, meanwhile, receive a level of pension related to their career average salary with discretionary inflation protection.

LONGEVITY RISK

Pooling assets can also create economies of scale, which means savings both in managing investments and running the scheme, which in turn enables higher pensions as less money is taken out in fees. As such, CDCs are seen to be particularly beneficial for those on low incomes or saving small amounts of money, as savings are not eroded by individual charges. These schemes also have the benefit of pooling the longevity risk in pensions, much the way an annuity does (but without the guarantees).

Collective Defined Contribution schemes may suit some savers who have no intention of controlling their pension and who don't want to choose where to invest. Once retired, savers in such schemes would also have to accept that their pension income could fall during their retirement. These collective pensions may not allow savers to enjoy the pension freedom announced in the Budget, or if they do, may impose penalties for those who wish to use this flexibility.

These Collective Defined Contribution schemes would be made available through employers if they are ever introduced. In reality, it will be many years before such a scheme becomes available. ■

EXPERT AND PROFESSIONAL ADVICE

Regardless of the life stage you have arrived at, it is important to receive expert and professional advice on your pension plans and requirements. Whether you need to set up or review existing retirement planning strategies, we can provide you with the different options to help you make the most of your retirement opportunities. Please contact us for further information.

WHAT TYPE OF 'PENSION' DO YOU HAVE?

There's a simple way to understand the three different forms of pension – it's as simple as DA, DB and DC:

DB – Defined Benefit – full promise of a guaranteed income – there are fewer of these in the UK now than in the past. These pensions involve paying an income linked to your years of service and former salary.
DC – Defined Contribution – the new flexible rules commencing 6 April 2015 will mean you can generally take what you want when you want, after you reach the minimum pension age. There's no promise of a certain income since that would limit what you can take and when – you're in control.
DA – Defined Ambition – this featured in the Queen's Speech and is a type of halfway house between DB and DC. HM Treasury say a 'promise on part of the pot or income' might exist, but the amount you receive could go up or down, so it's not a full promise.

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What's your number?

Make sure your pension is on track to grow enough to support you in retirement

Do you know how much your pension is worth? Do you know how many you have or where they are? How about the type of funds they're invested in or how much risk is involved?

If the answer to any of these questions is 'no', you need to take stock and plan to review your pension at least once a year and every time your personal circumstances change. Make sure your pension is on track to grow enough to support you in retirement.

Almost three quarters of under 45s with pensions have no idea what their pension pots are currently worth. And nearly 80% say they don't know what income they are expecting when they retire.

Run-up to retirement

The YouGov research shows that many people don't really know the value of their pension until they are older and in the run-up to retirement, despite the fact that they're likely to be receiving annual pension statements.

Alongside your home, your retirement savings are likely to be one of your biggest assets. So by not keeping track of the value of your pension pots and how they are performing, you may be missing out on opportunities to take action and really are leaving yourself vulnerable at a later age.

Multiple pension pots

Keeping track of pension values is not helped by having more than one pension plan, perhaps built up over time as you move jobs. The research highlighted that 43% of people in the UK with pensions have two plans or more. Having multiple pension pots may make it more difficult for some people to get a clear picture of their total value. It could also be a reason for losing touch with a pension provider.

Managing retirement savings

Consolidating your pensions into a single pot could help and, if appropriate, may be something to consider. By the time you have been working for a number of years, you may have accumulated a number of different pensions from previous employers, and it can be hard to keep track of these pots. Having all these separate pension pots may not be the most efficient way of managing your retirement savings. Pension consolidation involves bringing all of your separate pension plans together and combining them into one single pension pot, although care is required.

Professional financial advice

But before moving your existing pensions, you should always obtain professional financial advice to make sure you are not giving up important benefits, such as defined benefits, 'with profits' bonuses, guaranteed annuity rates or enhanced tax-free cash.

Pension consolidation means that you would have only one provider to keep in touch with and one annual statement to look at and review. Potentially it can also mean paying lower charges and possibly having greater choice and buying power when you come to retire too. If you eventually purchase an annuity, you may also be able to obtain a better rate if your money is all in one pension pot. ■

Source:
All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 2,018 adults, of which 1,361 have a pension. Fieldwork was undertaken between 9–12 August 2013. The survey was carried out online. The figures have been weighted and are representative of all GB adults (aged 18+).

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ARE YOU KEEPING A CLOSE EYE ON YOUR PENSION PLANNING?

By not keeping a close eye on your pensions in the earlier years, you could run the risk of falling behind and leaving any top-ups until the last minute, when it may become increasingly difficult to make up any shortfalls. So it pays to keep an eye on your pension pot. If you have any concerns about this subject, please contact us for a full review of your particular situation.

GET YOUR FINANCES IN SHAPE THIS Summer

Review our financial fitness checklist to see how we can help you make more of your money

Utilise personal pension tax relief

When you contribute to a registered pension scheme, you automatically receive basic rate tax relief on your contributions. Your personal pension tax relief depends on your circumstances. These are the current UK pension tax relief rules for the 2014/15 tax year, so don't miss out.

- **Non-taxpayers –** Non-taxpayers receive basic rate tax relief
- **Basic rate taxpayers –** Basic rate taxpayers receive 20% tax relief
- **Higher rate taxpayers –** Higher rate taxpayers receive 20% pension tax relief and can claim back up to a further 20% through their tax return
- **Additional rate taxpayers –** Top rate taxpayers receive 20% tax relief and can claim back up to a further 25% through their tax return

Invest on behalf of your children or grandchildren

You can contribute up to £2,880 net (£3,600 gross) per year into a pension on behalf of your children or grandchildren. The funds will be protected from tax charges and cannot be drawn on until the child/grandchild is aged at least 55.

Protect your wealth

Is your Will up to date? A Will becomes invalid when you marry. If you don't have a valid Will, your spouse or registered civil partner will not automatically inherit all your assets and may be left with insufficient funds to support themselves.

Secure an IHT exemption

If you are not married or in a registered civil partnership, but want to leave assets to a long-term companion or partner, Inheritance Tax (IHT) will be payable on that gift. Therefore the only way to secure the exemption from Inheritance Tax on the gift is to marry or register a civil partnership with the intended recipient before you make the gift.

Inheritance tax-free gift

Is there a wedding or registered civil partnership planned in your extended family? You can make an IHT-free gift to one couple of up to £1,000. If you are a parent of one of them, the gift in consideration of the marriage or registered civil ceremony can be up to £5,000 tax free.

An appropriate trust

If you have life assurance, have you looked at having the policy written in an appropriate trust to avoid the proceeds that are paid out forming part of your estate on which IHT is payable?

Tax-efficient savings

Have you taken advantage of your 2014/15 Individual Savings Account (ISA) investment allowance? From 1 July 2014, this has now increased to £15,000. The income and capital growth on savings in an ISA is tax-efficient.

Transferring income investments

Are your investments held between you and your spouse or registered civil partner so as to minimise your income tax? If you pay 40% or 45% tax and your spouse or registered civil partner pays 20% or less, you should consider transferring some income-producing investments to your spouse/partner to reduce the higher rate tax you pay.

Avoid high tax charges

Do you know how much your pension fund is worth? You need to check it will not exceed the lifetime allowance (currently £1.25 million) when you start to draw your pension, to avoid high tax charges. ■

HELPING YOU PROTECT AND GROW YOUR WEALTH

There are many different ways to protect and grow your wealth. Our expertise is helping you to understand your choices, and then advising you on how to make the financial planning decisions that are appropriate for you and your family. To discuss how we could help you, please contact us for more information.

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Income generation

Withdrawing income without prematurely depleting your portfolio

Investing for income is not simply about establishing a portfolio of income-generating investments. It is also about the strategies you use to withdraw income from this portfolio.

To do this effectively, without prematurely depleting your portfolio, three of the key areas you need to consider.

1. When to draw income

It is important to think about when you will start taking income from your portfolio. Consider how often you will take income from your portfolio. Do you need the money monthly, quarterly, annually, or simply as and when required?

This could determine whether you invest in an income fund which pays out dividends on a quarterly basis or twice yearly. Or you may choose to buy bonds with different maturing dates, and then match these payments with the specific time periods when you need income.

Income payment dates are a useful indicator in structuring an income payment plan. But this should not be your only consideration – you also need to think about how much income you will take.

2. How much income to draw

The amount you can withdraw from your investments each month could be based on how much you've saved, your asset allocation, how long you expect to spend in retirement and which withdrawal method you plan to use. Making excessive withdrawals at the outset of your retirement is not recommended, and this will also depend on your withdrawal method. However it must be remembered that if you make withdrawals from your investment fund or pension fund that are higher than the level of growth achieved by the investment your underlying capital will be depleted. It is therefore difficult to assess the level of withdrawals to be made at the outset of your retirement.

While you may need to plan for a long retirement given increased life expectancy rates, you should think about how long your money will last if you take out the income you want. Would you like to draw down all your capital or keep some money for your heirs or to take advantage of future investment opportunities?

It is important to regularly review the income you are withdrawing from your portfolio. If your portfolio has performed well you might choose to increase your income withdrawals, or you can choose to reinvest excess income back into your portfolio. If your portfolio is not performing to your expectations, it is important that your capital is preserved, so income withdrawals might have to be reduced or suspended for a period to allow your portfolio some time to recover lost capital.

3. How to draw your income

There are various ways of withdrawing income from your portfolio. You'll also need a place to put the money you're moving out of your investments. Some providers offer a withdrawal facility which pays you a specified amount from your investments, transferring the money directly into your bank account.

If you're nearing retirement, you will need to make some important choices regarding your retirement income, starting with whether you opt for an annuity or income drawdown arrangement.

Another important consideration will be your tax-free cash lump sum. Pension rules currently dictate that once you start drawing an income from your pension fund, you are permitted to take up to 25% of your total fund as a tax-free cash sum. It may be that you simply want access to this tax-free lump sum and don't actually start drawing an income at all. ■

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SECURING A FUTURE INCOME

Creating and maintaining the right investment strategy plays a vital role in securing your future income requirements. We can provide the quality advice, comprehensive investment solutions and ongoing service to help you achieve your objectives. To find out more, please contact us.

ASSET ALLOCATION

Achieving the right balance of cash, fixed income and equities

How you choose to allocate your wealth between different asset classes will be one of the most important investment decisions you ever make. Asset allocation can account for the majority of your portfolio returns over the long term, so it's essential that you achieve the right balance of cash, fixed income and equities in your portfolio.

Different types of assets

If you are an income investor, you need to understand that different types of assets generate different forms of income. These can broadly be classified into three groups: fixed income, guaranteed income and variable income.

Fixed income is generated by investments that yield income payments on the basis of a fixed schedule. Bonds, whether corporate, government or anything in between, are collectively referred to as 'fixed income investments'. The term fixed in this case refers to a schedule of obligatory payments, not the amount of income or its predictability.

Variable income, on the other hand, cannot be predicted ahead of time and will fluctuate depending on factors such as interest rate changes, inflation rate movements or the profitability of a company. The dividend income paid by company shares can be seen as a variable form of income, as this will depend on the company's results and profits. Rental income from a property investment will also vary over time, depending on factors such as demand and supply in the property market.

Guaranteed income is backed by a third party, such as the Government or an insurance company. As such, it is viewed as the safest form of investment income you can get, although the strength of this guarantee will depend on the party backing the investment.

Examples of investments which could fall into this category include those backed by government-backed institutions such as National Savings & Investments (NS&I) or purchasing an annuity in retirement, in which case the insurance company issuing the annuity guarantees income for the rest of your life.

Drawing a range of incomes

By holding a sensible mix of different assets, you can draw a range of incomes, each paying out at different times and in different sizes. The aggregation of these will be your portfolio income, which you can use to live off or to supplement your active income – your salary or wage. You could also choose to reinvest this income back into your investment portfolio, thereby growing your original capital invested.

> "BY HOLDING A SENSIBLE MIX OF DIFFERENT ASSETS, YOU CAN DRAW A RANGE OF INCOMES, EACH PAYING OUT AT DIFFERENT TIMES AND IN DIFFERENT SIZES."

How do you decide on the right mix of assets?

There is no rigid formula, but it is worth noting that the ideal mix will differ from one individual to the next depending on variables such as your age, wealth, investment goals, risk appetite and the amount of income you would eventually like to draw from your portfolio.

Generally, those more risk-averse will weight their portfolio's asset allocation mix more towards the safe asset classes, while those willing to accept more risk in the search for a higher income will opt for riskier investments such as equities or property. The important thing is that you diversify your investments across a mixture of assets. ■

MAKING THE RIGHT DECISIONS ABOUT YOUR FINANCIAL FUTURE

Obtaining professional advice to help you make the right decisions about your financial future is crucial. To discuss how we can help you develop your plans for the future and advise on the best way you can meet your objectives, please contact us.

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A NISA home for your investments

Providing you with increased simplicity and greater flexibility

Individual Savings Accounts (ISAs) have been around since 1999, providing a tax-efficient wrapper for savings and investments. However, in the recent Budget, the Chancellor, George Osborne, promised to increase the simplicity and flexibility of ISAs. As of 1 July 2014, there is now a single ISA which has been named the new ISA, or 'NISA', which provides a bigger tax break than ever before and more flexibility about how it can be used.

TAKE FULL ADVANTAGE OF YOUR NEW NISA ALLOWANCE

With the new NISA allowance rules, now is the ideal opportunity to grow your investment portfolio. Please note that amounts invested between 6 April and 30 June will count towards your increased £15,000 allowance for the 2014/15 tax year. To discuss how we can help you, please contact us.

All ISAs have now become NISAs, including any ISAs opened from 6 April 2014 to 30 June 2014.

How do NISAs differ from ISAs?

Greater flexibility – You can invest your whole allowance in stocks and shares or cash, or any mixture of the two.

Freedom to transfer – You can transfer existing ISAs from stocks and shares into cash, or the other way around.

Improved tax efficiency – You can now earn tax-efficient interest on cash held in a NISA. Previously, with the exception of a Cash ISA, any cash held within the stocks and shares element of an ISA was subject to a 20% charge on the interest earned.

Generous tax break

The ISA allowance has now been increased from £11,880 to £15,000 for the 2014/15 tax year. For any couple, that means they can put aside £30,000 for this tax year, which is a generous tax break. This means you can now save another £3,120 into either cash or stocks and shares in the current tax year. The amount that can be paid into a Junior ISA for the 2014/15 tax year has also increased from £3,840 to £4,000. Do bear in mind that whilst the NISA does allow a generous amount to be sheltered from tax during your life, the total amount forms part of your estate on death and so could be subject to 40% tax.

Moving your existing investments

You also now have the full flexibility of moving your existing investments in a Stocks & Shares ISA to a Cash ISA, or vice versa. You should not withdraw sums from your Stocks & Shares account yourself in order to deposit it into a Cash NISA, or the other way around. If you do, any amount that you pay in may count as a fresh payment against your overall limit of £15,000.

NISA subscription limit

It is worth noting that if you have paid into a Cash or Stocks & Shares ISA since 6 April 2014, you will not be able to open a further NISA of the same type before 6 April 2015. You may however make additional payments – up to the £15,000 NISA subscription limit – into your existing account(s).

Increased flexibility

As of 1 July 2014, there is now increased flexibility in the way that you can use your ISA allowance.

You can now allocate:

- the full £15,000 in a Stocks & Shares ISA
- the full £15,000 in a Cash ISA
- any combination of amounts between a Stocks & Shares ISA and a Cash ISA up to the new limit

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[Pension wealth check]

10 ideas served up to help you maximise your pension provision

It's important to review your pension planning regularly to make sure it still meets your specific requirements. Over time, your circumstances may have changed, so we have provided ten areas that, if appropriate to your particular situation, should be reviewed.

1. Check your State Pension Age. The State Pension Age is changing. The Pensions Act 2014 provides for a regular review of the State Pension age, at least once every five years. The Government is not planning to revise the existing timetables for the equalisation of State Pension age to 65 or the rise in the State Pension age to 66 or 67. However, the timetable for the increase in the State Pension age from 67 to 68 could change as a result of a future review.

2. How much pension are you likely to receive from the State? An estimate of your likely State Pension can be obtained from the Pension Service. There are two parts to the State Pension – the basic State Pension, which almost everyone gets, and the additional State Pension, which is only for employees. You qualify for the basic State Pension by reaching State Pension age and making 30 years' worth of National Insurance contributions.

3. Boost your National Insurance (NI) contributions. If you have an NI credit record of less than 30 years you may not receive a full State Pension unless you boost your NI credits. If you've got gaps in your NI contributions record, you may be able to top up the gap by making one-off voluntary payments. If you're not working or getting NI credits, you may also be able to make regular payments to protect your contributions record for the future.

4. Consider retiring later. If you're not sure you can afford to retire yet, think about delaying retirement. It could increase your State Pension or provide you with a one-off payment. The main reason for delaying your retirement is to try to boost your retirement income. And in order to take a pension early, you'll need to know you'll be able to afford a reduced income from it.

5. Decide whether to take a tax-free lump sum from your private pension. The rules for how you can access your private pension pots were made more flexible from 27 March 2014, and will be made even more flexible from April 2015. Commencing 6 April 2015, you'll be able to access and use your pension pot in any way you wish after the age of 55. Until then, the rules about how much income you can access as a cash lump sum or through income withdrawal have been relaxed.

6. Decide how to use your pension fund to provide an income for life. If you plan to retire from 6 April 2015, you won't need to buy an annuity to access the remainder of your fund. Instead you could choose to take the whole fund as one or more lump sums. Generally, only 25% is tax-free and the rest will be taxable. For many people, this may still involve buying an annuity, but there are different types of annuity and other products to consider.

7. Select which options you want. If you do opt for an annuity, you need to decide what will happen on your death and whether to protect your income against inflation. Joint-life annuities after you die pay an income to your partner or spouse until they die. Variable or flexible annuities rise or fall in line with investments. However, they have a guaranteed minimum, so you have a degree of certainty, but they're complex products and not right for everyone.

8. Consider consolidating your pension pots. If you've accumulated numerous workplace pensions over the years from different employers, it can be difficult to keep track of how they are performing. These plans can be forgotten and may end up festering in expensive, poorly performing funds, and the paperwork alone can be enough to put you off becoming more proactive. There may be advantages to switching your pensions but there are also pitfalls. You should always obtain professional financial advice.

9. Shop around for the best deal. As you approach your chosen retirement age, you may want to use some or all of your pension savings to purchase an annuity. You don't have to accept the income offered by the company you've saved with. You could boost your pension considerably by shopping around. After deciding what level of income you need, you should shop around and compare rates. This is called using the 'Open Market Option'. Shopping around can increase your retirement income significantly.

10. Catch up on missed pension contributions. If you haven't fully utilised your previous years' contribution allowance, you could use 'carry forward' from the previous three years and catch up on contributions you may have missed. The conditions are that in the same tax year you must have earned at least the amount you wish to contribute. In addition, you must have been a member of a UK-registered pension scheme in each of the tax years from which you wish to carry forward, even if you did not make contributions or were already taking benefits.

ARE YOU IN DOUBT ABOUT YOUR RETIREMENT OPTIONS?

Although it is anticipated that the new pensions reforms will come into force from the next financial year, discussions are still at the consultation stage. However, there is a lot to think about when you are looking at your pension options. For specialist professional advice, please contact us to discuss how we could help you make the right retirement decisions. We look forward to hearing from you.

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

A PENSION IS A LONG-TERM INVESTMENT. THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN. YOUR EVENTUAL INCOME MAY DEPEND UPON THE SIZE OF THE FUND AT RETIREMENT, FUTURE INTEREST RATES AND TAX LEGISLATION.

Budget tax trap on pension withdrawals

Helping you to understand the increased flexibility and choice available to you

The Budget announced unprecedented flexibility and choice in how people can use their pension savings in the future. From 6 April 2015, people over 55 can choose to withdraw their pension savings as they wish, although this will be subject to their marginal rate of income tax in that year.

A large part of an individual's pension fund could be payable in tax if they withdraw large sums in one tax year. Even people who have been used to paying basic rate tax their whole life could find themselves paying 40% tax on part of their fund.

- 33% tax (£11,867) could be paid on complete cash withdrawal from the average pension pot[1]
- New research shows 59% of the over 55s do not understand the tax implications of lump sum withdrawals[2]

This comes as new research shows there is a lack of understanding around the implications of taking the whole pension pot as cash, with 59% of people aged over 55 saying they do not understand the tax implications of such a move. The research also shows that when the tax implications are explained, people are far more likely (83%) to leave their money in a pension wrapper and draw an income as needed, rather than taking the entire pot as cash in one go. 17% say they are happy to pay tax on any withdrawal.

Assuming an average pre-retirement salary of £30,000 and average annuity pot of £35,600, someone would pay around 33% tax (£11,867) if they choose to withdraw their entire pension in the same tax year they were earning.

Although it is anticipated that the new pensions reforms will come into force from the next financial year, discussions are still at the consultation stage. The new freedoms proposed by the Chancellor could result in some sizeable tax bills for those wanting to access their entire pension savings in one go. While increased flexibility is good, there is a minefield to navigate. ■

UNDERSTANDING THE OPTIONS AVAILABLE TO YOU

Retirement has now just got a whole lot harder to work out, so speaking to a professional financial adviser will be key in the new world to help consumers fully understand the options that will be available to them. For further information, please contact us to discuss your requirements.

Source:
[1] ABI, the average annuity purchase price in 2013 was £35,600, after tax-free cash has been taken. These figures have been calculated using income tax limits for 2014/15 as follows: individual personal allowance £10,000, basic rate limit £31,865, higher rate payable £41,865 (figures assume person born after 5 April 1948).
[2] Research carried out online among 1,000 respondents aged 45–65 by Onepoll, all of whom are paying into a pension. 299 people were aged 56–65. Fieldwork was completed 23–27 May 2014.

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