Optimum Financial Solutions

The Adviser - Summer 2015

The “new” state pension. Do you qualify for the full amount?
How to take money from your pension pot
Pensions jargon made simple
Some of the key points from George Osborne’s July 8th Budget

The new state pension

Do you qualify for the full amount?

What is the new state pension?

In April 2016 a new form of state pension will be introduced – a single payment, simplifying the current system. Your state pension will be calculated entirely under the new state pension rules.

You'll usually need at least 10 qualifying years on your national insurance record to get any state pension.

You'll need 35 qualifying years to get the full new state pension.

You'll get a proportion of the new state pension if you have between 10 and 35 qualifying years.

Working after the state pension age

You don't have to stop working when you reach State Pension age but you'll no longer have to pay national Insurance. You can also request flexible working arrangements.

How much you can get

The full new state pension will be no less than £151.25 per week. The actual amount will be set in autumn 2015.

Why the new flat-rate pension is being introduced

The existing system is complex, has high levels of means-testing and produces inequality - for example, women tend to have lower State Pensions than men.

The Government wants to address these issues and the aim is to introduce a simpler, fairer system where people have a clearer idea about what the state will provide, making it easier to plan their retirement savings.

How to check your national insurance record

You can ask for a national insurance statement online to check if you have gaps in your National Insurance record. You'll need to say which years you want your statement to cover.

http://online.hmrc.gov.uk/shortforms/form/NIStatement

How to take money from your pension pot

Leave your pension pot untouched

You may be able to delay taking your pension until a later date. Your pot then continues to grow tax-free, potentially providing more income once you access it.

Use your pot to buy a guaranteed income for life – an annuity

You can choose to take up to a quarter (25%) of your pot as a one-off tax-free lump sum then convert the rest into a taxable income for life called an annuity. There are different lifetime annuity options and features to choose from that affect how much income you would get.

Use your pot to provide a flexible retirement income - flexi access drawdown

With this option you can take up to 25% (a quarter) of your pension pot or of the amount you allocate for drawdown as a tax-free lump sum, then re-invest the rest into funds designed to provide you with a regular taxable income.

Take small cash sums from your pot

You can use your existing pension pot similar to a savings account, to take cash as and when you need it and leave the remainder untouched where it can continue to grow in a tax advantaged environment. For each cash withdrawal the first 25% is tax-free and the rest counts as taxable income.

Check out the risks

Whichever option you choose, you need to understand any risks associated. For instance cashing in your pension pot won't give you a secure retirement income and with a flexi-access drawdown your income isn't guaranteed for life.

When taking more than 25% of your pension pot, it will be classed as income and you are likely to be taxed at your highest rate.

You must have reached normal minimum pension age to access your pension pot – currently 55 (or earlier if in ill health or if you have a protected retirement age).

There are two basic types of annuities: deferred and immediate. With a deferred annuity, your money is invested for a period of time until you are ready to begin taking withdrawals, typically in retirement. If you opt for an immediate annuity you begin to receive payments soon after you make your initial investment.

Pensions - Jargon Buster

Advance payments

This means that your income will start paying out on the date that your annuity is set up.

Annuity

An annuity is an income that will be paid to you for the rest of your life. You use money in your pension fund to buy a pension annuity. You can't generally change or cash in your annuity even if your personal circumstances change. There are many different types of annuities and it's important you get them explained.

Annuity rates

This determines the level of income you will receive from your annuity. Annuity rates fluctuate, but, once you buy your annuity, the rate you receive is fixed.

Auto-enrolment

The government has introduced new pension legislation for businesses. Under the rules, employers have to automatically enrol eligible workers into a qualifying workplace pension scheme, if they aren't already in one.

Basic state pension

The flat rate (not earnings related) state pension paid to all who have met the minimum NI contribution requirements.

Defined Benefit

A pension which in a 'final salary' scheme will pay an income linked to your number of years' service with a company and the final salary you earned at the point of your retirement.

Defined Contribution

Is the pension pot from which your future income will depend on its investment growth and the growth from your contributions and those of an employer if it is a workplace pension.

Income Drawdown

a way of taking income from your pension fund while leaving the remainder of your fund invested for further potential growth.

There are many different types of Annuities, make sure you get them explained

Pensions - Jargon Buster

Lifetime allowance

The lifetime allowance is a limit on the total amount of pension fund you can use for retirement benefits before extra tax applies. It is set by the Government. The limit for 2015/2016 is £1.25 million.

Pension fund

This is a term given to the pot of money you build up in your pension plan.

New state pension

The state pension is due to be replaced by a new single flat-rate state pension for people reaching state pension age from April 2016 onwards.

Occupational pension (company pension)

This is a scheme set up by an employer to provide benefits for when their employees retire. Typically, both the employer and the employee make regular contributions into the scheme.

Tax free lump sum

The chunk of pension you can take tax-free when you retire, usually, but not always 25 per cent.

Transfer

You can transfer the value of some pension pots between providers. It is recommended that advice is sought before you do this.

Trustees

Trustees of occupational or workplace pension funds who can be appointed by the company or elected by the scheme membership.

Uncrystallised fund pension lump sum (UFPLS)

A type of benefit that can be taken from a pension pot if you are aged 55 or over, made up of 25% tax-free cash with the remaining 75% taxed as earned income.

Budget - July 8th 2015 - Some of the key points

Personal Taxation and pay

New national living wage will be introduced for all workers aged over 25, starting at £7.20 an hour from April 2016 and set to reach £9 by 2020 - giving an estimated 2.5 million people an average £5,000 rise over five years.

New Inheritance tax threshold to increase to £1m, phased in from 2017, this is in addition to the inheritance tax nil-rate band, which is still set at £325,000 for the estates of individuals.

Personal allowance, at which people start paying tax, to rise to £11,000 next year. The government says the personal allowance will rise to £12,500 by 2020, so that people working 30 hours a week on the minimum wage do not pay income tax.

The point at which people start paying income tax at the 40p rate to rise from £42,385 to £43,000 next year.

Mortgage interest relief for buy-to-let homebuyers to be restricted to basic rate of income tax.

Welfare and Pensions

Tax credits and Universal Credit to be restricted to two children, affecting those born after April 2017.

Income threshold for tax credits to be reduced from £6,420 to £3,850.

Working-age benefits to be frozen for four years - including tax credits and local housing allowance, but maternity pay and disability benefits exempted

Rents in social housing sector will be reduced by 1% a year for the next four years.

Subsidies for social housing will be phased out with local authority and housing association tenants in England who earn more than £30,000 - or £40,000 in London - having to pay up to the market rent.

Disability benefits will not be taxed or means-tested while state pension triple lock to be protected.

The amount people can contribute to their pension tax-free to be reduced for individuals with incomes over £150,000.

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Following changes introduced in April 2015 you have more choice and flexibility than ever before over how and when you can take money from your pension pot. Whatever you decide now will affect your retirement income for the rest of your life.

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The value of your investments can go down as well as up, so you could get back less than you invested.

Past performance is no guide of future performance.

Tax advice which contains no investment element is not regulated by the Financial Conduct Authority.