IN4ORM

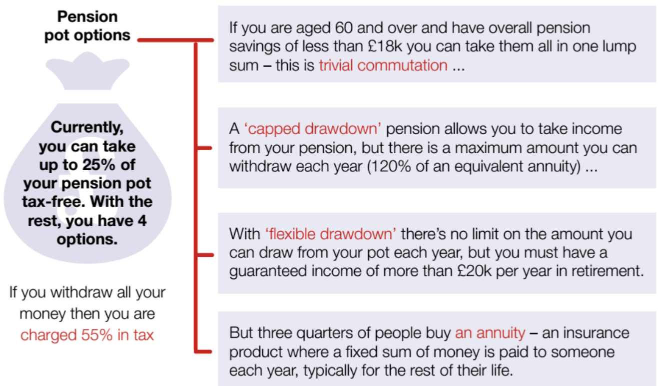
Budget Update

The Government has announced that from April 2015, people aged 55 and over will only pay their marginal rate of income tax on anything they withdraw from their defined contribution pension – either 0%, 20%, 40% or 45%.

How the current system works

The Government has already helped increase the security of people's income in retirement by introducing automatic enrolment into workplace pensions and the triple lock guarantee. But the current system is complicated and restricts people's choices.

Under the current system, there is some flexibility for those with small and very large pots, but around three-quarters of those retiring each year purchase an annuity.



Regardless of your total pension wealth, if you are aged 60 or over, you can take any pot worth less than £2,000 as a lump sum, as this classifies as a 'small pot'.

The new system

From April 2015, from age 55, whatever the size of a person's defined contribution pension pot, the Government proposes that they'll be able to take it how they want, subject to their marginal rate of income tax in that year, 25% of their pot will remain tax-free.

There will be more flexibility. People who continue to want the security of an annuity will be able to purchase one and people who want greater control over their finances can drawdown their pension as they see fit. Those who want to keep their pension invested and drawdown from it over time will be able to do so.

To help people make the decision that best suits their needs, everyone with a defined contribution pension will be offered free and impartial face to face guidance on the range of options available to them at retirement.

The Government has published a consultation on these changes alongside the Budget.

It is expected many members of DB schemes will consider transferring their benefits out of the scheme to access the new DC flexibility.

But in the meantime…

- The amount of overall pension wealth you can take as a lump sum is increasing from £18,000 to £30,000.
- The Government is reducing the amount of guaranteed income needed in retirement to access flexible drawdown from £20,000 per year to £12,000 per year.
- The maximum amount you can take out each year from a capped drawdown arrangement is increasing from 120% to 150% of an equivalent annuity.
- The size of a small pension pot that you can take as a lump sum, regardless of your total pension wealth, is increasing from £2,000 to £10,000.
- The number of pension pots you can take a lump sum under the small pots rule is increasing from two to three.

Who will benefit

The changes coming in to effect on 27 March will mean around 400,000 more people will have the option to access their savings more flexibly in the financial year 2014-15.

From April 2015, the 320,000 people who retire each year with defined contribution pensions will have complete choice over how they access their pension.