How new pension rules will affect

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If you're planning your retirement, the amount of money you'll have to live on is probably one of your biggest concerns. It doesn't help that the rules for pensions are complicated, to say the least. And now some of those rules have changed for people who have a pension plan that they – and in some cases also their employer – have been paying into over the years.

The government has made changes to the way pensions work to introduce more flxibility for people who are retiring in how they manage their money. Some experts think this is a good idea, while others believe these pension reforms could cause problems for the nation's older generation.

The most important thing, especially if you have retired or you're about to retire, is that you're fully aware of how these changes will affect you. It's your money, after all, and it's up to you to make the most of it and have a happy and trouble-free retirement.

Did you know?

The percentage of people aged 65 plus is projected to grow to nearly a quarter of the population by 2045. (Source: Office for National Statistics)

Pensions: before April 2015

If you retired before April 2015 you were allowed to take 25 percent of the pension fund you'd built up as a tax-free cash lump sum. This only applied if you had a defined contribution pension scheme, which includes most company or workplace pensions, group personal pensions, stakeholder pensions and self-invested personal pensions. It didn't apply if you had a final salary pension scheme (also known as a defined benefit pension scheme).

With a defined contribution pension scheme, the rest of your money would usually have been invested in an annuity. This is a financial product offered by insurance companies that converts your pension fund into a regular income for the rest of your life. This was generally seen as a good idea until low interest rates and rising life expectancies led annuity rates to fall, often leaving those who were retiring with less money than they thought they had to live on.

For example, just before April 2015, annuity rates fell to such an extent that some experts predicted anyone buying an annuity with their

pension fund would receive around 29 percent less income than those who retired in 2008 with the same amount of money in their pot.
The alternative to buying an annuity was to withdraw your entire pension fund and pay 55 percent tax on the amount remaining after the 25 percent tax-free sum had been deducted.

April 6th 2015: big changes in pensions

In the 2014 Budget the Chancellor announced radical changes to the rules on how people who were retiring could use their pension fund. This meant that since April 6th, 2015, more ways to take a defined contribution pension became available if you're aged 55 or older.

Now, most people can still take 25 percent of their pension fund in one lump sum without paying any tax. You then have the following options:

Cash it all in

You can withdraw the rest of your pension fund, but instead of paying 55 percent tax on it, you only pay your regular tax rate. In other words, the money from your pension fund is treated as your income, so it becomes subject to regular income tax. How much you earn in the financial year you cash in your pension plan will affect the rate at which you will be taxed.

Dip in now and then

You can take your 25 percent tax-free lump sum, then leave the rest of your pension pot in an income drawdown scheme and make a series of withdrawals from it every now and then over the years to come. Twenty-five percent of each of these withdrawals will be tax free, but you'll have to pay income tax at your regular rate on the remaining 75 percent. The money in drawdown remains invested, which means it could earn you more cash (or less, if your investments don't perform well). But if the money in drawdown runs out before you die, all you may have is your State Pension.

Dip in on a regular basis

After taking your tax-free lump sum, you can leave the rest of your pension pot in drawdown and take a regular income (income drawdown) instead of making occasional withdrawals whenever you need money. The tax rules are the same as making ad-hoc withdrawals (that is, 75 percent of each payment is subject to income tax), and again what's left in drawdown stays invested and potentially earning interest. Again, you'll be left with just your State Pension if the money in your drawdown scheme runs out before you die.

Buy an annuity

As before, you can take your 25 percent tax-free lump sum and buy an annuity with the rest of your money. If you decide this is the best option – and for many people it may be, since it's the only option that guarantees you an income for the rest of your life – it's a good idea to shop around for the best deal. Getting the best deal could increase your retirement income by as much as 20 percent each year compared with the worst deal, so it's well worth the effort.
Find out more about the different types of annuities that are available and compare how much different annuities could pay out as a regular income by visiting the **Money Advice Service website** www.moneyadviceservice.org.uk.

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- If you're aged 55 or older and you need free guidance about what to do with your pension, the government has set up a free phone line at its **Pension wise service.** Call **0800 138 3944** to talk about your options or to book a face-to-face interview at a location near where you live, such as a local Citizens Advice. Bear in mind, however, that the service can't advise you on which option would be right for you.

What else is new?

Since April 6th 2015, many people with a defined benefit pension scheme – or final salary pension scheme – can transfer their pension into a defined contribution scheme, which means they too can benefit from the changes outlined above. This change applies to people in the private sector and those who have a funded public sector pension, but not to anyone who has an unfunded public sector pension. According to the government, this new rule could affect up to 18 million people.

Tax changes have also come into effect that make it easier to pass your pension savings on to your loved ones when you die.

If you die at any age, any unused cash you took from your pension pot can be left to whoever you choose, but they will have to pay Inheritance Tax accordingly, based on the size of your estate.

If there's money still in your pot, your beneficiaries don't pay any tax on it if you die before you reach 75 and they take it within two years. If you're 75 or older, they have to pay Income Tax on it.

If your beneficiaries take money left in your pot as adjustable income, they don't pay any tax on it if you die before 75, and they pay tax at the Income Tax rate if you die when you're 75 or older.

Some types of annuities that provide your partner or someone else of your choosing with an income after you die are also no longer subject to tax if you die before the age of 75.

More changes in the pipeline

In the 2015 Budget, the Chancellor announced plans for further changes to the pensions system. In April 2016, the pension changes that came into force in April 2015 may be extended to those who had previously bought an annuity. This could mean five million pensioners will be able to sell their existing annuity and take it as a lump sum, subject to their normal income tax rate, or put it into drawdown.

From April 2016, the maximum amount of money you can have in your pension savings before you start paying 55 percent tax on it was reduced to £1 million, down from £1.25 million in 2014. The good news is that most people approaching retirement age won't be affected by this rule, as according to the government fewer than four percent have saved up such a large amount of money.

Changes to State Pensions

Changes are also planned for the State Pension. This is the pension you get from the government that's based on the amount of National Insurance contributions you've made during your working life.

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From April 2016 the government introduced a single-tier, flat-rate State Pension for those reaching State Pension age. The aim of the change is to

introduce a simpler and fairer system. Again, it will be based on your National Insurance contributions.

Meanwhile the age you can expect to receive a State Pension is increasing. For many years, women received their pension when they reached the age of 60, and men when they reached 65. This is going to increase gradually to 68 for both men and women. So in 2020 the State Pension age for men and women will be 66, then 67 between 2026 and 2028. The government will also review the State Pension age every five years.

You can find out when you'll reach State Pension age by using this **State Pension calculator www.gov.uk/calculate-state-pension** (if you're 55 or older, you can also get an estimate of the pension you'll receive by getting a **State Pension statement** http://www.gov.uk/check-state-pension.

Useful links

If you are experiencing any of the issues covered in this guide, in the first instance call our free helpline on **0808 801 0550**. Our Advisors will listen without judging and will work with you as best they can to achieve a positive outcome. If you prefer you can email: helpline@ltcharity.org.uk . Visit our website: www.licensedtradecharity.org.uk It's full of useful information about the kind of issues we know people who work in the licensed trade face.

Other sources of information:

Pension wise
www.pensionwise.gov.uk
A free government service set up to help people understand their pension options.

The Pensions Advisory Service
www.pensionsadvisoryservice.org.uk
The PSA also offers free information and guidance on pension matters.

Citizens Advice
www.adviceguide.org.uk/england.htm
For free practical advice on a wide range of issues, including pensions.

Money Advice Service
www.moneyadviceservice.org.uk
A government service offering advice and guidance to help improve people's finances.