PML GROUP
Pensions Management
& Financial Services

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In this issue we focus on:

- Pension Revolution Revisited
- Key Benefits You May Have Missed

Pension Revolution Revisited

Some changes are momentous and have immediate impact – others might carry equal importance – but take a while to be fully recognised.

The 6th April 2015 brought in the most radical changes to private pensions for over 30 years – and since then have become a prime example of the delayed recognition category of momentous change.

April's pension revolution (yes it really was that significant), originally announced in the coalition Government's 2014 Budget, became a reality 6 months ago.The lack of impact had much to do with the 6 April start date, a month before a General Election which seemed too close to call.This election uncertainty raised concerns over a possible false start of the new pensions' world.After the surprise election result came the worries over what the Chancellor was going to do in his cost-cutting post-election July Budget.And finally, once belief and acceptance of genuinely liberated pensions had bedded in, the need to slay the many devils within the detail of HMRC's drafted rulings still gave reason to hesitate.

All this has been and gone - today's pension freedoms are unprecedented, and for many older savers, hand over the keys to their accumulated pension wealth, together with personal control and the ability for them to treat a pension fund in much the same was as any other personal capital asset.It means the freedom to invest or divest their fund, nurture it or plunder it, exhaust it in a joyful pursuit of pleasure or preserve it and assume the role of patriarch of a potentially enduring family pension trust.

In truth, not many will explore the extremes of what's possible – but the ability to look upon a pension fund as an asset much like any other form of embedded wealth, now calls for a complete change of thinking.

Before pension freedom came about, most folks' ambitions for their private pension benefits was for the predictable delivery of a lifetime retirement income, sweetened by an initial cash lump sum.Health and longevity were irrelevant, future investment impossible and inheritability was next to zero.Now all of this has been turned on its head – and a whole new world of provision, investment, life-planning and inheritable wealth has descended upon us.

Key Benefits You May Have Missed

Let's pull out some of the key reasons why pensions have moved centre stage for all future wealth planning:

- The best tax-breaks going:
    - Higher rate taxpayers effectively enjoy a 66% boost to the value of their personal contributions, before a bean of investment return is earned.

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- All net income and gains made on the invested pension assets accumulate tax free – although Gordon Brown's ACT plunder still remains.
- Benefits withdrawn are either tax free (within the 25% cash lump sum limitations) or simply treated as taxable income within each tax year of withdrawal.

- There's no need to retire:
  - Cash Lump Sum and Drawdown Income can be taken whenever desired, once age 55 is attained.
- You would like to finance a change of life?Your pension fund can make it happen.
- You don't want to retire – but you want to work less?No problem, let your pension fund make up the income shortfall.
  - Already retired but not making full use of your 20% income tax band?Then liberate some drawdown pension income and put it to good use. Remember Drawdown income can now be turned on and off to suit personal needs and year-end tax planning.
- You would like to buy a commercial property – but don't want to use up all your personal cash:
  - Then buy it with your pension fund and exercise full landlord control.
  - The rental income will accumulate tax-free in your fund – as will any capital gain upon eventual disposal.
- Don't want the pension fund to die with you?
  - It won't! It's not just the spouse who can inherit, it's almost anyone!Dependants have always enjoyed a protected position – but now, pension funds that remain after the member's demise are capable of being settled upon a wide range of potential beneficiaries.
  - On death prior to age 75, a Member's entire pension account (irrespective of crystallisation status) may be settled, tax free upon designated beneficiaries.Beneficiaries (necessarily designated within 2 years of date of death) will then have the choice of a tax free lump sum – or to permit their benefits to remain in the fund, to deliver to them a tax free income of their choosing.
  - On death after age 75, monies paid out to beneficiaries as a lump sum will be taxed at 45%, until 6 April 2016, after which it should be taxed at the recipient's marginal rate.However, where benefits are settled not as a lump sum but as an income, then the lump sum tax charge is set aside, and replaced with income tax at the beneficiary's marginal rate.

By these means, pension funds can span generations, benefiting children and grandchildren – and necessitate a rethink on family inheritance. Call us for help and advice.

Geoffrey Stait
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