ST. JAMES'S PLACE
WEALTH MANAGEMENT

RETIREMENT PLANNING

Pension freedoms explained

From April this year, the government has given people over the age of 55 the freedom to use their defined contribution pension how they like. According to Chancellor George Osborne, the new freedoms represent "the most radical change to how people can access their pension in almost a century".

People who value the security of an annuity can still purchase one, but those who want more control over their own finances can, instead, draw down their pensions as they see fit.

The changes mean greater flexibility in how you can use a pension to receive an income and pass on benefits to your family and others.

Income

Under the new system, you are not prevented from accessing your pension savings flexibly if you want to. The options for taking income are:

- **Flexi-access drawdown**
  This new option allows you to draw as much or as little from your pension as you like. There is no upper limit on income, so you can take the entire fund if you wish. Up to 25% of the amount you move into flexi-access drawdown is tax free, if you have not previously used the fund for drawdown. Income thereafter is taxed at your marginal rate of Income Tax.

  It must be noted that taking income above a certain level may not be sustainable or tax-efficient.

- **Uncrystallised funds pension lump sum (UFPLS)**
  There is a new option that allows you to take a one-off payment or several lump sums directly from the pension fund itself. Each time you take a lump sum though UFPLS, 25% of that withdrawal will be tax free and the rest will be taxed at your marginal rate of Income Tax.

- **Annuity**
  Annuities are not new and they will remain the right choice for many people at some point during their retirement. Traditional annuities pay a guaranteed income for life in exchange for your pension fund. You can normally choose an annuity to pay a level income, or one that rises over time.

The table below shows the income options before and after April 2015.

INCOME OPTIONS	BEFORE APRIL 2015	FROM APRIL 2015
Take as much income from a drawdown plan as you like without meeting set criteria	✘	✔
Take payments directly from your pension without first entering drawdown or purchasing an annuity	✘	✔
Up to 25% of the fund tax free once you enter drawdown or purchase an annuity	✔	✔
Option to buy an annuity with some or all of your pension fund	✔	✔

Eligibility

You must be over the age of 55 to receive income from flexi-access drawdown, UFLPS, or an annuity. The new income options are only available to individuals with a defined contribution pension, also known as a 'money purchase pension', which include individual or group personal or stakeholder pensions, self-invested personal pensions (SIPPs), and some additional voluntary contribution (AVC) schemes. The new income options are not available from a defined benefit pension scheme. For more information and guidance on eligibility, please speak to your St. James's Place Partner.

If you are already in drawdown
If you started taking income by 5 April 2015, you will have entered a capped or flexible drawdown plan.

- **Capped drawdown**
  If you are in capped drawdown, the income you can take is restricted. You are free to stay in capped drawdown if you wish; or transfer to flexi-access drawdown to draw an unrestricted income. Taking income from flexi-access drawdown, or exceeding the income cap under capped drawdown will reduce the amount you can contribute to a pension each year. For further information please see 'Annual allowance' on the next page.

- **Flexible drawdown**
  If you entered flexible drawdown, you will have been automatically moved into flexi-access drawdown on 6 April 2015. There will be no change to how you can access your benefits, but if you have already used your flexible drawdown or flexi-access drawdown for income, you will now be able to make tax-relievable contributions up to £10,000 a year. For further information please see 'Annual allowance' on the next page.

If you have already purchased an annuity
Once you select an annuity you can't usually change your mind, unless you are still in the cooling-off period. However, in March 2015, the government announced measures to allow people to sell their annuity if they wish. At this stage the details are unclear, but your St. James's Place Partner will be able to provide more information as further announcements are made.

Tax

Any income you draw from your pension after receiving your 25% tax free entitlement is taxed at your marginal rate of Income Tax. This means that taking your entire fund, or a high level of income in a single year, could mean you end up paying tax at a higher or additional rate. It may not be tax-efficient or sustainable to take income above a certain level, so please consult your St. James's Place Partner before making any decisions.

Annual allowance

The annual allowance is the maximum amount the government allows you to contribute to a pension and still get tax relief. This is currently set at £40,000 a year.

Once you have accessed income from your pension through flexi-access drawdown, UFPLS, or exceeded the income cap under capped drawdown, you will trigger the money purchase annual allowance (MPAA). Triggering the MPAA changes your annual allowance to £10,000 a year.

Taking your 25% tax free entitlement does not, in itself, trigger the MPAA. In addition, the MPAA is not triggered if you stay within the income cap in capped drawdown. There are a number of conditions that trigger the MPAA, so it's important to consult your St. James's Place Partner if you are unsure.

Death benefits

The rules on death benefits have been changed to allow you to pass your pension to anyone, and at a lower tax rate. Pensions remain outside your estate for the purposes of Inheritance Tax (IHT). These are now the options for passing on your pension:

- **A pension can be left to anyone, not just dependants**
  You can leave your pension (including funds in flexi-access drawdown and capped drawdown) to any beneficiary after your death. This could be financial dependants, family members, or even someone unrelated to you. When they receive the pension, your beneficiaries can keep the fund invested and take as much or as little income as they like, or take the whole fund as a lump sum.

- **A greater opportunity to pass on your pension tax free**
  The tax rate depends on your age at death.

  If your death is before age 75
  Your pension and the income taken from it by beneficiaries will be tax free as long as the money is moved into the beneficiaries' names within two years of your death.

  If your death is after age 75
  Your pension will be taxed at your beneficiaries' marginal rate of Income Tax if they receive it as income through flexi-access drawdown or an annuity, and at 45% if they choose to receive it as a lump sum.

- **A pension can be passed down the generations**
  Under the new rules your pension (including funds in flexi-access drawdown and capped drawdown) can be passed on again and again. If there's money left in the pension when your beneficiary dies, the fund can be passed to a successor. It is possible for the fund to be passed down the generations, to an unlimited number of successors, until the fund is exhausted.

- **Benefits extend to annuities**
  If you choose an annuity that comes with death benefits - such as a joint life annuity or one with a guaranteed term - you can now name anyone to receive income from it after you die, not just a spouse or financial dependant. The beneficiary needs to be specified at outset. Income paid to them will be tax free if you die before age 75. If your death is after age 75, the income will be taxed at your beneficiary's marginal rate of Income Tax. Income payments cease after the guaranteed term or the beneficiary's death.

The table below shows taxation on death benefits before and from 6 April 2015.

<table>
<tr><th rowspan="2">AGE OF DEATH</th><th rowspan="2">PLAN TYPE</th><th colspan="2">TAX RATE</th></tr>
<tr><th>Before 6 April 2015</th><th>From 6 April 2015</th></tr>
<tr><td rowspan="3">Before 75</td><td>Pension fund</td><td>Dependants' marginal Income Tax rate if received as income, or tax free if received as a lump sum</td><td>0%</td></tr>
<tr><td>All drawdown plans</td><td>Dependants' marginal Income Tax rate if received as income, or 55% if received as a lump sum</td><td>0%</td></tr>
<tr><td>Annuity (joint life or guaranteed term only)</td><td>Dependant's marginal Income Tax rate</td><td>0%</td></tr>
<tr><td rowspan="3">75 and over</td><td>Pension fund</td><td rowspan="2">Dependants' marginal Income Tax rate if received as income, or 55% if received as a lump sum</td><td rowspan="2">Beneficiaries' marginal Income Tax rate if received as income, or 45% if received as a lump sum</td></tr>
<tr><td>All drawdown plans</td></tr>
<tr><td>Annuity (joint life or guaranteed term only)</td><td>Dependant's marginal Income Tax rate</td><td>Beneficiary's marginal Income Tax rate</td></tr>
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It is important to seek advice from your St. James's Place Partner before making any decisions about your retirement.

The value of an investment with St. James's Place will be directly linked to the performance of the funds selected and the value may fall as well as rise. You may get back less than the amount invested. The level and bases of taxation, and reliefs from taxation, can change at any time and are dependent on individual circumstances.