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UNISONMONEYTALK

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UNISON plus

Pension freedom! How the changes affect you

In this issue of Money Talk we take a closer look at how the radical changes announced in this year's Budget, which give you more freedom over the way you draw your pension, affect the choices you face when you retire.

In particular we look at the options open to people with smaller pension pots, for instance AVCs or FSAVCs. We also look at what people retiring between now and April 2015, when the new rules come into force, need to think about.

What's it all about?

The changes mean that from next April if you have pension savings based on defined contributions – for instance a personal pension plan, additional voluntary contributions or you are a member of an employer scheme which is not based on your final salary – it will become easier to access your pension pot once you turn 55. The new rules will give you far more flexibility over how you access your money and it is important not to accept the first annuity you are offered without having explored all your options.

Interim measures are already in place, so that people retiring before April 2015 can benefit from some of the freedom offered by the changes.

Retiring before April 2015? Your options explained

If you are due to retire within the next twelve months and have savings in a personal pension, have additional voluntary contributions, or are or have been a member of a defined contribution pension plan, you are probably wondering what you should do.

Should you wait?

Many people due to retire this year are asking us whether they should delay their retirement until April 2015, when the new rules come into effect.

As is often the case, the answer is that it depends! If you have less than £30,000 in your pension pot the answer is probably no (see article on page 2 about smaller pension pots).

If your pension pot is worth more than £30,000 it could make sense to wait, assuming you are able to continue earning an income – and paying into your pension.

25% tax-free cash

If you are due to retire before April you could take your 25% tax-free cash this year if you so wish and then wait until the new rules come in before doing anything else with your pension pot. Many people choose to take the cash to pay off their mortgage or other debt, but remember that you will then have less in your pension pot to provide you with the income you need for the rest of your life.

As well as the points mentioned above, you need to take other important factors into account, including what your pension provider is offering.

Also in this issue

For advice on accessing your pension, book an initial, no obligation consultation with one of our professional financial advisers now or contact your usual Lighthouse Financial Advice adviser.

Call 08000 85 85 90

Email appointments@lighthousefa.co.uk.

Take the money or buy an income for life? The choice will be yours ...

While the full changes are expected to come into force in April next year, interim measures for smaller pension pots have already come into effect. Here we outline the key changes.

The new pension freedom brings new responsibilities. There has been much comment in the media about whether we can be trusted to manage our pension pots and, after initial jokes about Lamborghinis and luxury cruises, the consensus seems to be that, having saved for years, most of us will probably manage our pensions sensibly. However, most of us will need professional financial advice to help us enjoy a retirement free from financial worries.

Of course the basic principles of planning for financial freedom haven't changed:

Firstly, save enough: most people under-estimate the amount they need to fund their retirement.

Then, when you can, generate a sustainable income: in essence this means using the savings to generate income, rather than taking 'income' directly from the savings. There are a number of ways of achieving this. Using cash deposit accounts is not generally one of them. Many involve keeping the money invested in funds that match your needs and personal circumstances.

However, for many people, buying an annuity is likely to remain an appealing option – after all it provides an income for life, giving you peace of mind that your pension pot won't run out.

Retiring after April 2015?
Under the new rules your main options will be to:

- buy an annuity, giving you a guaranteed income for life
- leave the funds invested and take money out when you need it
- take all the money out – while all options have tax implications, this option is likely to create the biggest tax bill.

Annuities: shop around for the best deal

Whenever you retire, don't just buy an annuity without thinking – and certainly not the first annuity you are offered.

An annuity might indeed be the right option for you but there are different types, and you need to chose the type which best suits your personal situation.

Once you know the type of annuity you need, it is important to shop around for the best price, so you get as much income as possible.

Greater freedom for smaller pension pots – your options explained

While the full changes are expected to come into force in April next year, interim measures for people retiring before then and who have smaller pension pots have already come into effect. Here we outline the key changes affecting people with pension savings of less than £30,000.

- If you have up to £30,000 in total in your pension pots you can take the full amount as a lump sum once you reach the age of 60. The first 25% of the money you take is tax-free. You will be charged income tax on the remainder at your highest rate.

However, the rules are complex and you must meet certain criteria to be allowed to take the full amount as a lump sum.

- You can cash in up to three pension funds if there is no more than £10,000 in each. 25% of the total is tax-free and you will pay income tax on the remainder.

Although you now have more freedom if you have one or more small pension pots, the rules remain complex and getting it wrong can result in unexpected tax bills.

To discuss your options book an appointment with one of our professional financial advisers now or contact your usual Lighthouse Financial Advice adviser.

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Why an ISA should be top of your list for savings

ISAs are one of the most tax-efficient ways of saving and, unlike some saving plans, they are easy to understand. Changes announced in the Budget make them more flexible, making them the savings plan of choice for many people.

With an ISA, your savings are held either in a qualifying cash deposit account, where they earn interest (albeit currently at a relatively low rate), or in qualifying stocks and shares, usually via collective funds such as unit trusts or OEICs. In both cases you don't pay any capital gains or income tax on any growth or income you take from your savings.

Save more each year

The ISA limit will increase to £15,000 for the 2014/15 tax year, but not until 1 July.
Any contributions you make between 6 April and 30 June 2014 will count towards the new £15,000. So if you pay the current maximum of £11,880 before 30 June 2014, you will be able to contribute up to £3,120 more after 1 July.

Greater investment flexibility

Also, the total allowance will be able to be split between cash and stocks and shares ISAs, and you will be able to transfer money between the two types. It will therefore be possible to subscribe to a cash and a stocks and shares ISA in the same year, with separate providers, and split the £15,000 allowance between the two as you wish.

These changes make ISAs even more attractive – although it is important to choose suitable funds from the thousands available. Getting it wrong could result in you missing out on thousands of pounds if you make full use of their ISA allowance every year and hold them for the longer term. It is possible to transfer your money to a different investment manager, but you may incur additional costs which would reduce the value of your savings.

For advice on ISAs, book an initial, no obligation consultation with one of our professional financial advisers now or contact your usual Lighthouse Financial Advice adviser.

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Seminars in the workplace: the choices you face when drawing your pension

Would you and your colleagues, or other members of UNISON like to find out more about drawing your pension and how the changes to pension rules affect you? If so, please contact your local Lighthouse Financial Advice representative, listed opposite.

Lighthouse Financial Advice organises hundreds of seminars each year in the workplace, covering a range of financial planning issues such as:

- pension rights and pre-retirement planning
- specialist advice on public sector and local government pensions
- the financial implications of taking voluntary severance
- saving for retirement
- financial planning: getting started.

To arrange an event please contact your local Lighthouse Financial Advice Representative:

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London, Home Counties, South West & South Wales:
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helen.andrews@lighthousefa.co.uk.

Bought an annuity before the Budget?

If you bought an annuity just before the March Budget you may be wishing you could cancel it.

You need to check with the company providing your annuity. In the unlikely case that you are still within their cancellation period you will be able to cancel it. Some extended their cancellation period for annuities bought just before the Budget – but generally only to 60 days. Others have modified the terms of their annuities and other products.

For many people their reason for buying an annuity is likely to still be valid, so you won't necessarily have lost out.

If you took your lump sum before the Budget but didn't buy an annuity, you have until September 2015 to secure a regular income and will therefore be able to take advantage of the new rules

If you are still in doubt, you should consult a professional financial adviser.