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Mattinson Ginty & Partners (Employee Benefits) Limited

A Guide to...

The Budget and other Pension Matters

The Government has decided at this year's budget to allow individuals with money purchase 'pots' much greater freedom in the way in which they can draw their benefits in retirement.

Danny Alexander, the Chief Secretary to the Treasury, said on the BBC Budget programme that this was in response to the report on annuity rates (a large number of people were not getting a good deal), and also that people who have saved all of their lives should be trusted to spend the money they have saved wisely.

From 2015, pensioners will have complete freedom to withdraw as much of their pension as they like and will not be forced to buy an annuity.

Final Salary schemes are specifically excluded due to the complications that would be involved. Public Sector Final Salary Schemes (and probably Private Sector) will be barred from transferring to money purchase to access the new flexibility.

In the meantime, the limit on income drawdown will be increased from 120% of the Government Actuary Department (GAD) Rate to 150%. Tax will be paid on the income at the marginal rate.

It is possible therefore that an element of tax planning will still come into play with individuals anxious to remain below the higher rate tax band. In practice individuals will need to plan carefully how they take their income as life expectancy increases into the future.

It is worth remembering that benefits can currently be taken from 55 onwards. Thus, a pensioner is not necessarily someone who has reached state pension age.

A review of the tax rate applicable on residual funds at the date of death will also take place with a view to reducing it from the current 55% level. The aim is to have this in place by April 2015.

The Government has said each individual will have access to impartial advice on reaching retirement. The details of how this will work are yet to be notified.

To allow individuals greater flexibility, from 27th March 2014 the amount of guaranteed income people need in retirement to access their savings flexibly, will fall from £20,000 to £12,000. For some people this will be the figure they are receiving from the State if they were contracted-in to the State Second Pension.

The amount of total pension savings that can be taken as a lump sum from age 60 will rise from £18,000 to £30,000; the maximum size of a small pension pot that can be taken as a lump sum will increase from £2,000 to £10,000 with a maximum number of 3 small pots available. This will be of help to people with small savings pots.

From April 2015, the 10p rate for low-rate savers will disappear.

A pensioner bond will be open to everyone aged over 65 from January next year. A maximum of £10,000 can be saved in the bond. Exact rates are to be confirmed in the Autumn but the Chancellor suggested a one-year bond can expect to pay 2.8% and a four-year bond will pay 4%.

ISA's are to be combined into a new form—some are already christening NISA's. There will be an overall annual limit of £15,000 for both Cash and/or Stocks & Shares. This will be of interest to all savers, smaller savers for the tax efficiency of the savings and also for people who are likely to have a lifetime allowance issue.

The Government also announced, subject to further consultation, that the minimum age at which a pension can be taken is to increase from 55 to 57 in 2028.

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