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# Pensions freedom

Your questions answered

Most people now have more options when it comes to their retirement choices. But generally they'll still want their pension income to last their lifetime – so careful planning is a must.

Since 6 April, when Britain's pension system underwent a seismic change (known as 'pensions freedom day'), we've been asked many different questions by our clients about the breadth of the reforms and how they may affect them.

Everyone needs some knowledge of pensions and how they are changing, so we've provided answers to our top 10 most frequently asked questions.

## Q. WHAT HAS CHANGED?

**A.** The changes are designed to give extra flexibility with how you use your pension savings from age 55 onwards. For many people, taking a tax-free cash sum and/or buying an annuity (a guaranteed income) was previously the only option. But this is no longer the case.

## Q. WHEN DID THE CHANGES TAKE EFFECT?

**A.** The changes took effect on 6 April 2015, with some smaller changes to the rules having been in place since March 2014.

## Q. WHO WILL BE AFFECTED BY THE CHANGES?

**A.** The changes give extra flexibility to anyone aged 55 or over with a 'defined contribution' pension.

## Q. WHAT IF MY PENSION IS 'DEFINED BENEFIT' ('FINAL SALARY' SCHEME)?

**A.** Some defined benefit pensions may be eligible for the new freedoms, but you would need to transfer the money to a suitable scheme first. Under plans put forward by the Financial Conduct Authority (FCA), you must ensure that you have been advised by someone with a specific 'pension transfer specialist' qualification before you transfer your savings to a defined contribution scheme.

## Q. WILL I STILL HAVE TO BUY AN ANNUITY?

**A.** No. However, annuities may still remain an important option. You now also have the option of a flexible access pension or withdrawing cash direct from your pension fund. Before making a decision, it's important to consider each of the options, taking into account the benefits, risks and tax implications of each.





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**Q. HAS PENSION FREEDOM BEEN EXTENDED TO PEOPLE THAT HAVE ALREADY PURCHASED AN ANNUITY?**

**A.** Yes, an announcement was made during Budget 2015 to extend pensions freedom to about 5 million people who have already bought an annuity. A consultation published on the day of the Budget on how a secondary annuities market could work suggests mirroring the £30,000 mandatory advice threshold for defined benefit pension transfers.

**Q. CAN I WITHDRAW MY ENTIRE PENSION POT?**

**A.** Yes you can, as long as your pension scheme's rules allow it. Any amount above your initial 25% tax-free cash sum entitlement would be taxable at your marginal income tax rate. Depending on the size of the payment (and your other income), this could mean you might be taxed at a higher rate than you normally would. You should also ensure that your overall savings will give you sufficient income in retirement.

**Q. AM I ABLE TO LEAVE MY PENSION POT FOR MY LOVED ONES?**

**A.** Yes, if some or all of your money remains invested in a pension fund, then you can pass it on to your loved ones when you die. This would be tax-free before you reach age 75 but taxable after that.

**Q. WHAT ARE THE TAX IMPLICATIONS?**

**A.** Other than your initial 25% tax-free cash sum entitlement, pension income and cash withdrawals remain taxable. You should take care if you are considering withdrawing amounts of money that could put you into a higher income tax band.

You can still pay into a defined contribution pension after you access your pension fund. But if you take flexible access income or cash withdrawals from your fund, the maximum amount you can pay in each year without incurring a tax charge is £10,000.

**Q. HOW WILL I BE AFFECTED BY ONLY HAVING A FEW SMALL PENSION POTS?**

**A.** Generally, your options remain as before. They include taking the money from any of your small pension pots as a taxed cash sum (the first 25% of which would be tax-free), and you can now do this from age 55. Another is 'consolidating' all or some of your pensions into another pension (or pensions). The benefits of this would, however, depend on your personal circumstances.

**THE MOST IMPORTANT DECISION YOU'LL EVER NEED TO MAKE?**

Making the right retirement choices is likely to be one of the most important decisions you'll ever need to make. If you have any questions regarding the pensions freedom changes, then it's essential that you receive the guidance and advice to help you decide what to do with your pension savings. For further information or to discuss your requirements, please contact us.

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