



lloyd o'sullivan

FINANCIAL GUIDE

GUIDE TO  
**PENSION  
CHANGES**

UNLOCK WHAT THE ADDITIONAL  
REFORMS COULD MEAN TO YOU



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# GUIDE TO PENSION CHANGES

*Unlock what the additional reforms could mean to you*

Pensions have been transformed by the arrival of freedom reforms on 6 April 2015 which now give far greater flexibility over what you can do with your pension pot. The new freedoms mean you can enjoy far greater choice on how you spend and generate an income from your pensions, but with further changes on the horizon these are some of the key changes you need to know.

## STATE PENSION

The new State Pension will be a regular payment from the Government that you can claim if you reach State Pension age on or after 6 April 2016. If you reach State Pension age on or after that date, you'll get the new State Pension under the new rules.

The new State Pension is designed to be simpler. But there are some complicated changeover arrangements which you need to know about if you've already made contributions under the current system.

**You'll be able to get the new State Pension if you're eligible and:**

- A man born on or after 6 April 1951
- A woman born on or after 6 April 1953

If you reach State Pension age before 6 April 2016, you'll get the State Pension under the current scheme instead.

You can still get a State Pension if you have other income like a personal pension or a workplace pension.

## HOW MUCH YOU CAN RECEIVE

The full new State Pension will be starting at £155.65 per week. Your National Insurance record is used to calculate your new State Pension.

You'll usually need 10 qualifying years to get any new State Pension. The amount you receive can be higher or lower depending on your National Insurance record. It will only be higher if you have over a certain amount of Additional State Pension. You may have to pay tax on your State Pension.

## WORKING AFTER STATE PENSION AGE

You don't have to stop working when you reach State Pension age, but you'll no longer have to pay National Insurance. You can also request flexible working arrangements.

## DEFER YOUR NEW STATE PENSION

You don't have to claim the new State Pension as soon as you reach State Pension age. Deferring the new State Pension means that you may get extra State Pension when you do claim it. The extra amount is paid with your State Pension (for example, every four weeks) and may be taxable. After you claim, the extra amount you get because you deferred will usually increase each year.

## WHAT THIS MEANS FOR YOUR PENSION

Your State Pension will be lower if you've ever been contracted out of the Additional State Pension.

**How this affects you depends on whether you reach State Pension age:**

- Before 6 April 2016
- On or after 6 April 2016

## CHANGES TO CONTRACTING OUT FROM 6 APRIL 2016

**On 6 April 2016, the contracting-out rules will change so that if you're currently contracted out\*:**

- You'll no longer be contracted out
- You'll pay more National Insurance (the standard amount of National Insurance)

*\*only applies to members of contracted out defined benefit pension schemes*

## BASIC AND ADDITIONAL STATE PENSION

**If you reach State Pension age before 6 April 2016, you can apply for both:**

- The basic State Pension
- The Additional State Pension

The basic State Pension isn't affected by being contracted out. However, your Additional State Pension will be reduced according to how long you were contracted out.

## YOU HAVE A WORKPLACE, PERSONAL OR STAKEHOLDER PENSION

**If you were contracted out of the Additional State Pension in the past through a workplace, personal or stakeholder pension, you either:**

- Paid lower National Insurance contributions
- Had some of your National Insurance contributions put towards your workplace, personal or stakeholder pension

**Your starting amount for the new State Pension may include a deduction if you were contracted out in certain:**

- Earnings-related pension schemes at work (for example, a final salary or career average pension) before 6 April 2016
- Workplace, personal or stakeholder pensions before 6 April 2012

You may not receive the full new State Pension when you reach State Pension age if you were contracted out.

## ANNUAL ALLOWANCE

The Annual Allowance is the amount you can pay into a pension fund each year and get tax relief. From 6 April 2016, the Annual Allowance will be tapered from £40,000 for those with earnings of £150,000 or less down to £10,000 for those with income of £210,000 or more.

For this purpose, income isn't just comprised of someone's salary. It is 'adjusted' to ensure it includes personal and employer pension contributions or any other income including

savings, bonuses or even an individual's buy-to-let property rental – taking many more people into a higher earnings bracket. The annual allowance will reduce by £1 for each £2 of adjusted income above £150,000 until it reaches £10,000.

If appropriate, some people if they act now could reduce their tax liability by carrying forward any leftover pension allowance from previous years or taking advantage of the transitional Pension Input Period (PIP) which will provide the opportunity of making a total payment of up to £80,000 into their pension pot this year.

#### LIFETIME ALLOWANCE

The lifetime allowance will be cut from £1.25 million to £1 million from 6 April 2016 – the maximum amount people can build up in their pension pot during their lives. This is the third reduction in four years, leaving the allowance at less than half the level originally intended, when it was to be inflation-linked from 2011/12 onwards.

The lifetime allowance reduction means you need to plan carefully. After April 2016, anyone who breaks through the £1million threshold may be liable to 55% tax on any amount over the limit if the excess is taken as a lump sum. If any of the excess is instead taken as income, the tax charge is 25%, although the income itself will still be subject to Income Tax at the recipient's marginal rate.

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**YOU DON'T HAVE TO CLAIM THE NEW STATE PENSION AS SOON AS YOU REACH STATE PENSION AGE. DEFERRING THE NEW STATE PENSION MEANS THAT YOU MAY GET EXTRA STATE PENSION WHEN YOU DO CLAIM IT.**

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#### DO YOU HAVE THE RIGHT RETIREMENT PLANS IN PLACE?

Our retirement planning process is structured for your success. It takes clear goals, a well-executed strategy and the ability to move fast in order to achieve retirement success. This is what we offer you through our retirement planning process. To find out more, please contact us – we look forward to hearing from you.



## LOOKING FOR AN EXPERT, FLEXIBLE APPROACH TO MANAGING YOUR RETIREMENT WEALTH?

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