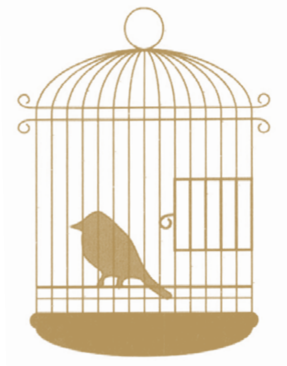
Sovereign
Independent Financial Advisers
Established 1981

11A Forest View Road, East Grinstead
West Sussex RH19 4AW

TELEPHONE
01342 313302
FAX
01342 315435
EMAIL
mail@sovereignfinance.org
WEBSITE
www.sovereignfinance.org

October 2018



PENSION FREEDOM?

It is now 3 years since the Government launched changes to pension regulations which they called "Pension Freedom". Essentially they made changes which gave more choices as to how you can use your pension savings when you reach pensionable age. It is worth knowing your options if you are 55 or older or approaching age 55. We can use our experience and expertise to help if you have questions.

The choices we examine here primarily relate to personal pensions, also called "Money Purchase" and "Defined Contribution" pensions. If you have a Final Salary Pension (also known as a Defined Benefit Plan), you will need to seek advice from your pension provider as the rules are often different from scheme to scheme.

"FREEDOM" NOT TO HAVE ONE!

The first "Freedom" one has is not to have any pension at all! If you are self-employed, you do not have to contribute to a pension (other than the State Pension) and even if you are employed, you can opt out of the company's Workplace Pension. Clearly, however, there is not much value in a "Freedom" which means you have very little to live on in retirement.

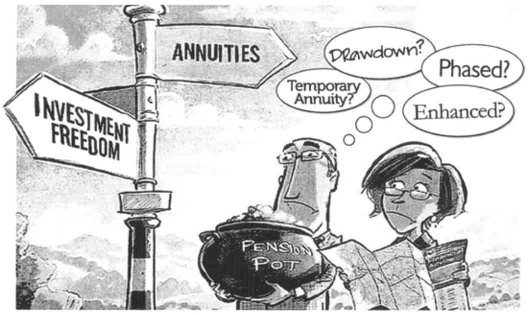
A number of people plan to use other sources of income in their later years such as renting out property or down-sizing to recover value from their own property. We would advise all our clients to use pensions to provide at least part of the income they will need in retirement. If you are unsure of why this is a good idea, do take advice.

AGE FREEDOM!

Previously pensions generally had a minimum age of 60 or 65 for taking the benefits. The current pension regulations allow individuals to take any or all of their pension benefits from age 55. There are some exceptions so it is worth checking with your pension provider. Do remember that you do not have to retire in order to be able to access your pension benefits. For those who are in their 40s or younger, we also need to sound a warning that this minimum pension age of 55 is likely to increase in the future as the State Pension Age increases.

FREEDOM TO TAKE YOUR PENSION BENEFIT IN A VARIETY OF WAYS!

In the past you had very little choice in how you could use your pension savings. You were allowed to take 25% of the pension fund as tax-free cash, but the rest had to be used to purchase an annuity so as to secure an income for life. You would buy an income for life with your pension funds. The older you were, the more income you would be able to buy with your pension fund. (Do make sure you understand what an annuity is as it still can be a useful pension option. We would be happy to help explain what it is.)



A CASH LUMP SUM!

Under the new rules you can, in principle, take all of your pension fund out as cash. The downside to this option is that only 25% of what you take would be free of tax and so you could end up paying up to 45% tax on some or all of the rest that you take out as cash. If you are tempted to take large amounts out as cash, do get someone to help you crunch the numbers as to how much tax you will have to pay. Having saved the money carefully in the pension over all those years, it does not make sense to waste it now. And if you splurge now on the Ferrari, it could mean you would have little left for your future needs. So this Pension Freedom does not provide freedom from taxation, but it does allow a great deal of flexibility for managing how you take it out!

AN ANNUITY!

This would guarantee you an income for life. Normally an annuity ends when you die but there are annuity options which could mean it could go on for as long as both you and your spouse, or partner, live or even pay out for a set number of years regardless if you are alive or not! Other options include securing an income which goes up each year to help keep pace with inflation. Do contact us if you want to explore your options.

While these pension annuities are normally intended to last as long as you live, it is possible to arrange an annuity for a shorter period, e.g. 5 or 10 years, in order to secure an income for that period. At the end of the term there is a guaranteed lump sum which you can then decide how to use. This lump sum is treated as a pension in its own right so you would have all of the options, as before, of taking it as cash and/or buying another short term annuity, or a lifetime annuity. There could be a variety of reasons why you would prefer to have a guaranteed income for a period of years.

FLEXI-DRAWDOWN!

This flexible option allows you to keep the money invested and to take a regular income or occasional lump sums from, whenever you need it. Then you only would be taxed on the money you take out with the rest able to continue to build up in a tax-free environment. At any point you can take some or all of the fund out as cash or use it to buy an annuity, but beware the tax! Note: We have extensive experience in dealing with these matters.

PENSION FREEDOMS UPON DEATH

The new pension rules have opened up new options for passing on your pension funds on your death to those you want to have the money, and to do it in very tax efficient ways. The first Freedom as regards passing on a pension fund at death is the freedom to nominate anyone as your beneficiary. Before it usually had to be a close family member. Now you can nominate anyone you wish. And the new rules make it possible to minimise the tax that will be charged on what you are passing on.

If you have kept your pension in its pension "wrapper" – whether the one it started with or in the new Flexi-Pension "wrapper" and you die before age 75 you can pass it to your chosen beneficiaries free of all tax!!

If you die aged 75 or older the tax situation is not quite as good but still significant. What you pass on will be taxed at the tax rate of the beneficiary(s) you have chosen.

The new rules also affect the taxation of ongoing annuities. For example if there is a joint life annuity, and the person taking out the annuity dies, the income that continues to be paid to their spouse or partner will be paid free of tax (if the person who bought the annuity initially has died before age 75) or at their marginal rate of tax (if the person who set up the annuity dies age 75 or older). These rules can be somewhat complicated so it is a good idea to contact the Tax Office or an accountant to make sure as little tax as possible is paid.

NOTES ON BREXIT

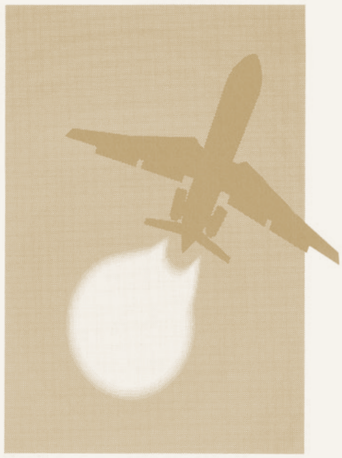
Most individuals will not be able to influence BREXIT and its consequences, other than voting in any election or referendum or lobbying their Member of Parliament. From a personal financial viewpoint our advice is simply to continue to work hard, make more money than you spend, and build up reserves. Maintaining those basics should minimise any adverse effects the repercussions of BREXIT might have on you.

DOWN-SIZING

In discussions of financial planning we have frequently found clients looking at down-sizing as an important part of their long range planning – whether for paying off a mortgage or providing additional income.

However, in dealing with a number of clients, who were happy with down-sizing many years ago when they were younger, we find that many have changed their minds as they grow older. As one gets older, generally one is less and less happy about making big changes. The importance of having family nearby and the fact that you do get along alright with your neighbours are factors which tend to make it more attractive to stay where one is. And the finances involved in finding a smaller house one is happy to live in do not always work out as originally planned. While down-sizing is a possibility and an option to be aware of, we try to steer clients towards putting more effort into other options such as maximising pension savings or other investments.

RIO



Not the famous resort in Brazil but an abbreviation for a new retirement mortgage option – Retirement Interest Only (RIO). While Lifetime mortgages have been useful for many, the percentage borrowing is relatively low. With a RIO it is possible to borrow up to 60% of the property value and pay interest for the lifetime of the mortgage. However, this is only possible where there is guaranteed income (pension or investment or sometimes rental income) which pass the usual affordability checks. The interest rates can be fixed but not for the term of the borrowing as with Lifetime Mortgages, but for 2 to 5 years for example as with the standard residential mortgage rates. This does mean there can be some exposure to risk on the long term.

Best wishes
Tom Shuster

PS. Some useful websites:

1. State Retirement Age Calculator – www.gov.uk/state-pension-age
2. Pension Tracing Service – www.gov.uk/find-pension-contact-details
3. Mortgage Calculator – www.sovereignfinance.org