xafinitySIPP

Technical Bulletin: March 2015

Last year we let you know about some significant changes to the pension regime effective from 6th April 2015. This bulletin confirms the changes and outlines the pension options that are available from this date.

Financial advice

We always recommend you discuss your pension planning with your financial adviser before you make any decisions. Our records show that you don't have a financial adviser - you can search for one using www.unbiased.co.uk.

From 6th April 2015 you will be able to access your pension benefits in a number of different ways and with much more flexibility and this bulletin explains the changes. If you're considering taking benefits we strongly recommend you talk to Pension Wise, the new free impartial guidance service set up by the government.

Pension Wise can help you understand the options available to you when you retire. However, if you need individual personal advice you should always talk to a financial adviser.

You can access Pension Wise in the following ways:

- Online at www.gov.uk/pensionwise. The service is not yet live but you can register your interest at https://www.register-interest-pension-guidance.service.gov.uk/register;
- Face-to-face at your local Citizens Advice Bureau. You can find out details of the local office at www.citizensadvice.org.uk;
- Over the phone by talking to The Pensions Advisory Service on 0300 123 1047.

You can also find out more from the Money Advice Service at www.moneyadviceservice.org.uk.

Whilst Xafinity can't give you personal financial advice, I, or any one of my team here, will be happy to take any questions you might have – just give us a call.

For more information on any of our products or services please contact:

Gayle Murray
Self Invested Pensions Technical Manager
T: +44 (0)1786 237063
E: gayle.murray@xafinityconsulting.com

Options at retirement from April 2015 – over 55s

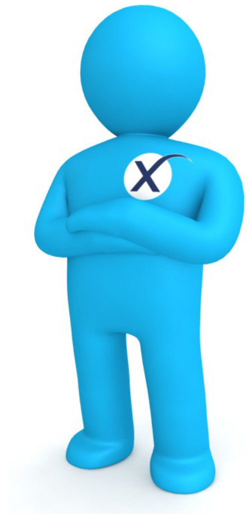
From 6th April 2015 the options at retirement for the over 55s are changing to allow more freedom and flexibility. Assuming you're over 55, you'll have more options open to you to take your retirement income.

The following questions and answers should help you understand these changes and how they may affect you.

What are the new options at retirement from 6th April 2015 for the over 55s?

Annuity: you can purchase an annuity from an insurance company giving you a regular income for the rest of your life. From 6th April 2015 the annuity payments can decrease, for instance where the annuity provider allows you to take a lump sum from the annuity on the basis that future payments are reduced, as well as being fixed or increasing. Annuities are taxed as income.

Flexi-access drawdown: this is a new type of drawdown. It is essentially the same as current drawdown but without the upper limit on the amount you can take out of your pension fund. You also don't need to have a minimum income from another source to access this benefit. The payments are taxed as income.



Short term annuity: this allows you to take the security of an annuity but just for a few years. In this case, you'll be able to use some or your entire flexi-access drawdown fund to buy a short term annuity of up to 5 years from an insurance company. This must be paid at least annually and you can choose for the income to go down or up each year. These are taxed as income.

Uncrystallised funds pension lump sum: this isn't drawdown (where you might usually take your allowance of tax free lump sum separately). Instead, you can access some or all of your pension pot as a lump sum payment, or series of lump sum payments. Normally 25% of each payment will be tax free and the remaining amount will be taxed as income.

If you have enhanced or primary protection and your lump sum rights are greater than £375,000, you won't be able to access your pension pot as an uncrystallised funds pension lump sum. The same applies if you have a Lifetime Allowance enhancement factor where the lump sum rights are less than 25% of the proposed lump sum amount.

What if I'm already in drawdown on 6th April 2015?

If you're in **flexible drawdown** you'll automatically be converted to flexi-access drawdown on 6th April 2015. You won't need to continue to meet the minimum income requirement after this date.

If you're in **capped drawdown** you have two options:

- Continue in capped drawdown (with all its rules and constraints). In some circumstances you will be able to take further benefits as capped drawdown if they have been built up under the same arrangement as your current drawdown. Your Xafinity SIPP Consultant can tell you if this applies to you.

- Convert to flexi-access drawdown. If you'd like to convert to flexi-access drawdown, speak to your Xafinity SIPP Consultant who can give you the right form to complete.

Are there any other changes associated with flexi-access drawdown or uncrystallised funds pension lump sum?

Yes, there are new rules around what you can contribute. These are called the "Money Purchase Annual Allowance Rules". This means they apply to your SIPP and any other money purchase scheme to which you contribute. (A "money purchase" scheme is simply one where the eventual benefits are not defined or guaranteed.)

What are the Money Purchase Annual Allowance Rules?

These reduce the amount you can contribute to your SIPP and other money purchase arrangements without incurring tax charges.

You can currently contribute up to £40,000 each year without incurring tax charges, but only if you're under age 75 or haven't taken flexible drawdown.

From 6th April 2015 the following events will trigger a reduction in the Annual Allowance to £10,000 for pension savings to money purchase arrangements:

- Taking drawdown funds from flexi-access drawdown;
- Receiving an uncrystallised funds pension lump sum;
- Converting capped drawdown to flexi-access and then taking a payment from the fund;
- Taking more than income limits from capped drawdown and automatically going to flexi-access drawdown;
- Receiving a stand-alone lump sum when primary protection is in place with a greater than £375,000 protected tax free cash;
- Receiving payment of a scheme pension from a money purchase arrangement where there are less than 12 members (including dependants) receiving scheme pension;
- Receiving payment from a lifetime annuity where the annual rate of payment can reduce other than in permitted circumstances;
- Receiving a flexible drawdown payment under a pre 6th April 2015 drawdown pension fund.

If you exceed this limit in any tax year the excess is taxable and only £30,000 will be available for saving to other types of pension plan. Otherwise, an Annual Allowance of £40,000 is available in total as contribution to all pension plans.

What do I need to do if I trigger the Money Purchase Annual Allowance Rules?

If you trigger the rules you must notify the scheme administrator of other registered pension schemes of which you are accruing benefits. You must also notify any new schemes that you join.

When you first flexibly access your benefits the scheme administrator is obliged to provide a statement that you can then copy and pass to your other pension arrangements if you've not already notified them that you have triggered the new rules.

Death benefit changes

Changes are also being made to how death benefits are taxed from 6th April 2015. Question and answers that follow will help you understand the proposed changes.

I'm currently receiving dependant's drawdown. Will I be affected?

This will depend on the type of drawdown you're taking:

- **Flexible dependant's drawdown:** converts automatically to dependant's flexi-access drawdown.
- **Capped dependant's drawdown:** if you're in capped drawdown you have two options you can continue in capped drawdown (with all its rules and constraints) or convert to flexi-access drawdown. If you'd like to convert to flexi-access drawdown, speak to your Xafinity SIPP Consultant who can give you the right form to complete.

Receiving a dependant's flexi-access drawdown **will not** trigger the Money Purchase Annual Allowance Rules.

What are the changes to the death benefits that can be paid from 6th April 2015?

The table below summarises the current position and the changes that will apply to death payments made on or after 6th April 2015, even when death occurred before then. Note that for deaths before age 75 the lump sum must be paid and drawdown elected within 2 years of the date the scheme administrator was notified, or should have known, of the death for these to be paid tax free.

Benefits that are being paid as drawdown can be paid to any beneficiary from 6th April 2015 as this option is no longer restricted to dependants.

	Benefits not yet taken		Benefits in Payment	
	Below Age 75	Above Age 75	Below Age 75	Above Age 75
Current Rules	Lump sum can be paid tax free to any beneficiary up to the Lifetime Allowance	Lump sum subject to 55% tax charge or dependant pension taxed at marginal rate.	Lump sum subject to 55% tax charge or dependant pension taxed at marginal rate.	Lump sum subject to 55% tax charge or dependant pension taxed at marginal rate.
Proposed Rules from April 2015	Lump sum and drawdown can be paid tax free to any beneficiary up to the Lifetime Allowance	Lump sum taxed at 45% (marginal rate from 2016/17) or any beneficiary can drawdown at their marginal rate.	Lump sum or drawdown can be paid, both tax free to any beneficiary.	Lump sum taxed at 45% (marginal rate from 2016/17) or any beneficiary can drawdown at their marginal rate.

How do I update or make a death benefit nomination?

A nomination of beneficiaries form can be completed to tell us how you wish death benefits to be paid. If we don't have this form death benefits are usually made to your estate. This could lead to an inheritance tax charge. Ask your Xafinity SIPP Consultant for a form if you need one.

Will there be any changes to the fees for taking benefits?

Yes, we have reviewed our services and the fees we will charge for accessing the new "retirement options" that are now available. These new fees will be effective from 6th April 2015.

These new fees will only apply if and when you actually take retirement benefits – there are no changes to your annual fees that we currently charge you for administering your SIPP.

Individual Protection

In our November 2014 Bulletin we also explained about Individual Protection and how this may apply to you if your pension savings on 5th April 2014 total more than £1.25m. If this applies to you, talk to your financial adviser about whether getting 'individual protection' to protect your pensions from tax is appropriate. You have until 5th April 2017 to apply for this protection. For more details the November 2014 bulletin can be found on the SIPP Technical Bulletin section of our website http://www.xafinity.com/self-invested-pension/SIPP/SIPP-Bulletins

Some of the technical stuff explained

We know some of the words and phrases we use are a bit technical so we've explained the key ones used in this bulletin below.

- **Annual Allowance:** The maximum amount of new money eligible for tax relief in a single tax year. The amount is set by the Treasury.
- **Annuity:** An annuity is an income paid for the rest of your life. You can buy annuities from an insurance company. An annuity can be a fixed amount. Alternatively, it can increase by either a fixed amount or in line with inflation. Your husband, wife, civil partner or other dependants can continue to receive the annuity after you die. The annuity may also have a guarantee period such as 5 or 10 years.
- **Capped Drawdown:** Drawdown which is subject to an annual maximum amount of income that can be taken. This is reviewed every three years (annually after age 75).
- **Drawdown:** Taking some of your fund as an income while leaving the rest invested. The amount you can take currently depends on whether you use capped drawdown or flexible drawdown.
- **Enhanced Protection:** If applied for and granted, the standard Lifetime Allowance does not apply but there could still be restrictions on the tax free cash that can be taken. You can't accrue further benefits after 6th April 2006.
- **Fixed Protection:** If applied for and granted, replaces the normal limit on your pension fund size by £1.8m, if greater (currently £1.25m).
- **Fixed Protection 2014:** If applied for and granted, replaces the normal limit on your pension fund size by £1.5m if greater (currently £1.25m).
- **Flexible drawdown:** Drawdown prior to 6th April 2015 which isn't subject to limits, but you'll need to meet the Minimum Income Requirement.

- **Her Majesty's Revenue & Customs (HMRC):** A government department which sets pension tax relief and benefit rules.

- **Individual Protection 2014:** If applied for and granted, replaces the normal limit on your pension fund size replaced by an amount equal to the total pension savings you had on the 5th April 2014 over £1.25m up to a maximum of £1.5m.

- **Lifetime Allowance:** The maximum you can hold in all your registered pension schemes without being liable to additional tax charges.

- **Minimum Income Requirement:** This is the minimum level of pension income required to qualify for flexible drawdown. This income must come from a social security pension, a pension scheme (but subject to pension regulations and not from capped drawdown) and/or an annuity purchased by a pension scheme (currently £12,000).

- **Primary Protection:** Applied to pension benefits at April 2006 which were equal to or over £1.5m. This replaces the normal limit on your pension fund by a higher personal Lifetime Allowance which increases in line with the standard Lifetime Allowance.