Pensions move into the fast lane

From 6 April 2015, anyone in a pension has much more freedom and control over what they do with their pension pot from age 55. But will the new rules encourage steady drivers or freewheelers?

Age 55

Choose your route

- How much of your pension do you want to take as cash?
- Is your priority to protect your capital, a secure retirement income, a flexible income, investment growth or a mix of these?
- Is passing on pension assets to family or spouses important to you?

Taking out cash

Before April 2015

Up to 25% of a pension fund could be taken as a tax-free lump sum. If you wanted more cash, your pension pot had to be £30,000 or less in size, or you had to be willing to pay a tax charge of 55%.

Low bridge!

Now

You can take as much of your pension as and when you like as cash – 25% of each withdrawal will be tax free and the rest taxed at your highest rate of income tax.

SO... individuals can use their pension fund for any purpose they want

BUT... it's up to savers to make sure they keep enough pension back to live on for the rest of their life

Generating income

Before April 2015

Most pension holders bought an annuity. There were strict limits on how much income could be taken from the pension known as 'income drawdown' unless someone could prove they had at least £12,000 of secured pension income from other sources.

Restricted access!

Now

You can choose how you generate an income from your pension, with no limits on how much income you take:

- Buy an annuity to provide a known defined income either for life or a fixed term
- Keep your pension pot invested and drawdown income as required; OR
- Use a mix of annuities and drawdown.

SO... individuals don't need to be locked into poor annuity rates (which are linked to interest rates) and have the potential to keep their fund growing into retirement

BUT... only an annuity can provide a defined income for life – and drawdown involves risks which could make the pension pot fall in value and make income fluctuate

Get in lane!

Passing on your pension

Before April 2015

It was only possible to pass on a pension tax-free if you died before age 75 and your pension pot was untouched. Otherwise leaving it to your heirs was subject to a 55% tax charge.

Road narrows!

Now

- **If you die before age 75**
  Your heirs can take your pension as a tax-free lump sum, or tax-free income using annuities and/or drawdown.
- **If you die after age 75**
  Your heirs can take your pension as a single lump sum taxed at 45%* or as income using annuities, drawdown, or periodic lump sums, taxed at their marginal rate of income tax.

SO... pensions can now be left to your heirs in addition to your inheritance tax allowance

BUT... annuities will still generally be lost on death unless they include value protection

*May change to marginal rate of income tax from 2016/17

Important information

The value of investments and the income from them can go down as well as up and you may get back less than the amount invested. The information contained in this article is based on our current interpretation of regulations which may change in the future. The decisions you take when accessing your pension savings is important and we strongly encourage you to seek pensions guidance by accessing Pension Wise, a free and impartial government online service that helps you understand your new pension options. Alternatively, you should seek advice from a financial adviser in order to understand what your options are. Tax treatment depends on your individual circumstances and rules on tax may change in the future. Issued by Aberdeen Asset Managers Limited. Authorised and regulated by the Financial Conduct Authority in the United Kingdom.