Did U Know?

A Simple Guide to Pensions

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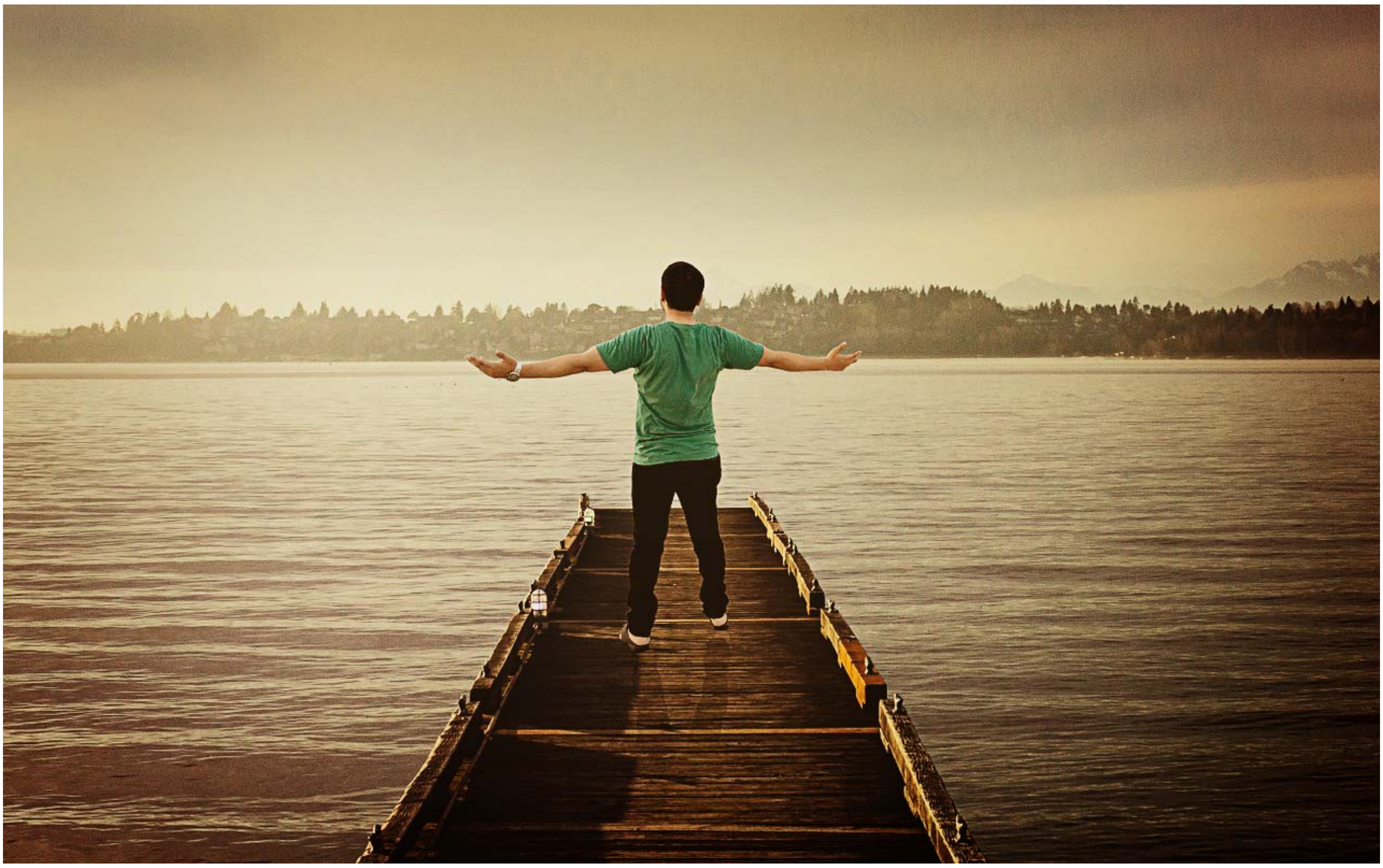

A few words by author Hannah Goldsmith:

Pension schemes are in effect a tax efficient savings plan. They allow individuals an opportunity to save money during their working life, sufficient to provide a comfortably income stream to live on after they have retired.

State Pensions may not produce the same level of income that you will have been accustomed to whilst working. It's therefore important to start thinking early about how best to build up an additional retirement fund. You're never too young to start a pension, but the longer you delay the decision, the more you will have to pay in, to build up a decent fund in later life.

There are many different plans that individuals can use to save for retirement and the taxation and investment elements of pensions can appear unnecessarily complicated. Given the complexity and choice all individuals now have, it is important to seek independent financial advice before making any decisions.

This guide will explain the most common sources of pension funds available.

Single Tier State Pension

The new State pension will be a regular payment from the Government that you can claim when you reach State Pension Age (SPA) on or after 6th April 2016.

If you are eligible, this payment can be claimed if you are male born on or after the 6th April 1951 and female born on or after 6th April 1953.

The new State Pension will be £155.65 per week (2016/2017) but please note that the actual amount you will be entitled too, will be dependent on your National insurance contributions.

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Additional State Pension

Prior to 2016/2017 this pension was referred to as the State Second Pension (S2P) and before 6 April 2002, it was known as the State Earnings Related Pension Scheme (SERPS). From 6 April 2002, S2P was reformed to provide a more generous additional State Pension for low and moderate earners, carers and people with a long term illness or disability. Payment is based upon earnings on which standard rate Class 1 National Insurance contributions are paid or treated as having been paid. The additional State Pension is not available in respect of self-employed income. From April 2016 both the basic rate pension and additional State Pension will be combined to offer a simple single tier flat rate pension.

Occupational Pension Scheme

There are two types of occupational pension scheme.

- Final Salary Scheme (sometimes referred to as a Defined Benefit scheme). Pension income on retirement is usually based on your years of service and final salary multiplied by an accrual rate. An accrual rate is commonly a 60ths or an 80th.

As a simple example: if you worked for 20 years in an 80th scheme and your salary was £25,000 per annum, on retirement you would receive 20/80 x £25,000 = £6,250 per annum.

- Money Purchase scheme (usually referred to as Defined Contribution Scheme). Pension benefits from a Money Purchase scheme are based on the total amount of contributions paid into the plan over the term of your employment, from both you and your employer. However the amount you receive from these plans are not guaranteed. Unlike a final salary scheme your income will depend on the size of the fund and that will depend on which funds you have invested in and how those funds have performed over the lifetime of the investment. Independent financial advice should be considered to ensure the funds match your expectations.

In October 2012 the Government introduced new pension reforms and all employers will have to offer their employees, who meet certain criteria, automatic enrolment into a workplace pension. Employers can use the Government backed scheme called National Employment Savings Trust (NEST) or offer an alternative ‘Qualifying’ work place pension scheme such as a Group Personal Pension, providing it ‘ticks’ certain boxes. This process is being phased in between 2012 and 2018 depending on the head count of a firm. Your firm can provide you with details when their phasing date will commence.

Self employed

Individuals can still benefit from pension plans by contributing into a Personal Pension Plan (PPP) or Stake holder scheme.

Personal Pensions represent a popular and attractive way of saving for your retirement. All monies invested into your fund grow free of capital gains tax and the contributions you make are enhanced by income tax relief at source. For example if you invest £80 the government provides tax relief (currently 20%) to enhance your contribution to £100. If you are a higher rate taxpayer you can claim additional relief through your PAYE coding.

A personal pension is an arrangement made in your name and you have complete control over the plan. You can alter your contributions, suspend them or stop them completely at any time. Personal Pensions offer a more comprehensive range of investment funds to suit your attitude to investment risk and you can also change your investment funds at any time.

The earliest you can access your fund is currently from age 55 onwards, so be sure that money saved into a pension scheme is money that you can lock away for the longer term. The rules currently allow 25% of the fund to be taken tax free although there is talk of this benefit being reduced or even being removed one day in the future.

The balance of the fund can then be accessed in many numerous ways depending on your financial and health situation at the time of retirement. If you would like further details please call the office and we can arrange to provide you with the information you need. There is such a wide range of options available when you decide to take benefits, such as purchasing an annuity, electing capped or flexible drawdown or cashing in smaller pension pots. Therefore it is really important that independent financial advice is sought to ensure you make the right choice for your individual circumstances at that time.

Stakeholder pensions are similar to personal pensions but have their charges capped at 1.5% for the first 10 years reducing to 1% thereafter. Whilst Stakeholders are generally considered a little cheaper than Personal Pensions, investment choices may be restricted in order that the providers can keep their costs down.

However, in the current financial services arena there are many personal pension plans that offer efficient low cost investment models available to investors. Therefore stakeholder plans are no longer really relevant for many investors. If you are considering starting up or reviewing your pension you should be able to get a low cost pension via a platform and have a full range of funds from under 1% so look around or ask your independent financial adviser for their assistance.

Self Invested Personal Pensions (SIPPs)

A Self Invested Personal Pension (SIPP) is a tax-efficient wrapper within which the widest range of investments can be held and are only really suitable for individuals with larger pension funds perhaps in the region of £250,000 plus.

SIPPs have the same tax benefits and regulations as conventional personal pension plans but each SIPP is unique to the individual. Otherwise, it operates in the same way as a conventional personal pension in respect of contributions and eligibility, for Her Majesty's Revenue & Customs (HMRC) purposes.

The complex nature of a SIPP means that it is not suitable for all investors. Often the benefits of 'self-investment' are only advantageous to people with very large funds and investors with some level of sophistication when it comes to investment decisions. There are additional charges for arranging and dealing within a SIPP and these charges would erode smaller funds quickly.

The benefits of using a SIPP include being able to invest in:

- Stocks and shares listed or dealt on an Inland Revenue recognised stock exchange, including the Alternative Investment Market AIM
- Stock exchanges that are not recognised by HMRC, e.g. OFEX.
- Unit trusts, open ended investment companies (OEICs)
- Warrants, covered warrants
- Government stock and fixed interest stock
- Unquoted shares
- Commercial property
- Property funds

An example of a good use of a SIPP: is for a business owner to use the SIPP to help purchase their office or factory premises. The rental payments are then paid directly back into the SIPP fund. The owner then benefits from the capital growth of the commercial property and the regular rental payments.

Considerations

With all contributions into Personal Pensions, the investor must take a long term view and remember that investment and pensions can be, and are subject to, tax and regulatory change. Therefore the tax treatment of pension benefits can and may change in the future. Also the value of your accumulated investment subject to adverse market conditions you may get back less than you put in.

Independent financial advisers will usually offer a complimentary initial meeting, so if you are considering setting up a plan, nearing retirement or just looking for a second opinion to ensure that you are on the right track, speak to your local IFA or give us a call.

Hannah Goldsmith