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PRIVATE PERSONAL PENSIONS

TO AFFORD THE LIFESTYLE YOU WANT WHEN YOU RETIRE, YOU NEED TO DO SOMETHING ABOUT IT TODAY

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It may be tempting to say, "But retirement is a long way off," yet it's never too early to start investing in order to protect your future. To afford the lifestyle you want when you retire, you need to do something about it today. You now have a much greater choice when it comes to how and when to take retirement benefits from pensions since the pension simplification rules were introduced.

UK's pension tax regime radical overhaul

On 6 April 2006 major changes were introduced to the structure of UK Pension schemes. These changes heralded probably the most radical overhaul of the UK's Pension tax regime. The new simplified regime was largely a replacement of the past pension framework as opposed to the addition of another layer of legislation.

The most important thing is to plan your retirement funding strategy in advance. Anyone investing in a pension should remember that whilst pensions are extremely tax-efficient, it's important to regularly review where your money is invested. This becomes more important as you begin to approach retirement when your investment aims may gradually change from growing the value of your pension fund to protecting it.

A private personal or stakeholder pension scheme could be right for you if:

- you want to save money for retirement in addition to your occupational workplace pension
- you're self-employed, so don't have access to an occupational workplace pension scheme
- you aren't working but can afford to pay into a pension
- your employer offers it as an occupational workplace pension

Personal and stakeholder pensions are 'defined contribution' private pensions that you arrange yourself. You contribute money into a pension fund which you use to buy a regular income when you retire. Sometimes employers set up group personal or stakeholder pensions for their employees.

Tax-efficient environment

Personal private pensions grow in a tax-efficient environment. You pay no capital gains tax on any growth and no further UK tax on any income the investments produce, and income from fixed-interest investments and deposit are received gross. UK investors under age 75 can benefit from up to 45 per cent pension tax relief (2013/14 tax year).

Annual allowance

The annual allowance (£50,000 in the 2013/14 tax year) caps the maximum contributions that can be made by anyone (yourself or your employer, for instance) into all your pensions in a tax year. This limit does not apply to consolidating pensions, but includes the value of benefits built up in final salary schemes.

Lifetime allowance

The lifetime allowance is the maximum amount of pension benefit you can build up over your life that is available for tax relief. If, when you take your pension benefits, these are worth more than the lifetime allowance there is a tax charge (the lifetime allowance charge) on the excess. The lifetime allowance charge is a tax charge paid on any excess in the value of your pension benefits over the lifetime allowance limit. The rate depends on how this excess is paid to you. If the amount over the lifetime allowance is paid as:

- lump sum - the rate is 55 per cent
- taxable pension - the rate is 25 per cent

Carry forward

If your total pension contributions for the tax year are more than the annual allowance you may still be able to claim tax relief as you can carry forward any unused

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allowance from the previous three years to the current tax year. You will only have to pay tax on any amount of pension contributions in excess of the total of the annual allowance for the tax year, plus any unused annual allowance you carry forward. These carry forward rules are not being changed. The effect of this is that for 2014/15 you will be able to carry forward up to £50,000 unused allowances from each of the tax years 2011/12 through to 2013/14.

When you can receive your pension

The earliest age you can receive a private personal or stakeholder pension is usually 55, depending on your arrangements with the pension provider or pension trust. You don't have to be retired from work.

The 3 basic steps when arranging your retirement income are:

- decide when you want to retire
- decide how you want to be paid
- shop around for the best deal on a regular payment (buying an 'annuity')

Deciding when to retire

Generally, the older you are when you take your pension the higher the payments because your life expectancy is shorter.

Deciding how you want to be paid

When you're close to retirement you have to decide how you want your pension to be paid. This will depend on the arrangements you have with your pension provider but usually you'll have the option to take up to 25 per cent of your pension fund money as a tax-free lump sum and the rest as regular payments. These could be monthly, quarterly, half-yearly or annually.

Make sure you really enjoy your retirement

You deserve a comfortable retirement where you don't have to worry about getting by on a State Pension and other benefits. By acting now and putting in place your pension arrangements, or by reviewing your current pension provision, you're making sure that you can really enjoy your retirement. Contact us to discuss how we could help you plan – don't leave it to chance.

A pension is a long-term investment. The fund value may fluctuate and can go down as well as up. You may not get back your original investment. Past performance is not an indication of future performance. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances. This is for your general information and use only and is not intended to address your particular requirements. It should not be relied upon in its entirety and shall not be deemed to be, or constitute, advice. Although endeavours have been made to provide accurate and timely information, Goldmine Media cannot guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough examination of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions taken in respect of any articles. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts.