

BOOLERS

TECHNICAL UPDATE

DECEMBER 2016

What is a pension?

- A pension scheme is a type of long term savings plan, designed to provide you with a source of income in retirement
- It is a tax-efficient way to save money during your working life, as your personal pension contributions will usually attract tax relief at your highest marginal rate of tax (with some exceptions)
- Contributions can be made regularly – monthly or yearly – or via ‘one-off’ contributions.
- Contributions into a plan can be made by the member, the member’s employer or by others, often family members.
- Contributions will normally attract tax relief at the member’s highest marginal rate of income tax, subject to some restrictions.

There are several types of pension schemes. Some may be run by your employer, others will be established by the member and many people accrue a number of pension arrangements during their working lives.

How does it work?

- How a pension scheme works depends on whether it is a defined benefit (DB) or defined contribution (DC) scheme
- DB schemes provide a promised level of income to the member (and often the member’s dependant) in retirement
- DC schemes allow you to build up your own pot of money to fund your retirement, with benefits at retirement being directly linked to the value of your pension scheme
- The minimum retirement age for accessing benefits from most pension arrangements is 55.
- Benefits will often include the ability to take a tax-free lump sum from the pension scheme, with the residual fund being used to provide a regular income. Alternatively, and following the Freedom of Pension rule changes in 2015, many pension schemes will now allow you to access your benefits in a flexible manner, taking pension income as and when you choose, subject to the overall value of your pension scheme.

Different schemes

- There are many different types of pension scheme, some are linked to employers and others are contract based schemes taken out between the member and the pension scheme provider
- In employer schemes, the benefits could be based on your earnings and length of membership of the scheme (defined benefits schemes), on the amount that has been paid in, the length of time it’s been invested and investment performance (defined contribution schemes), or on a combination of the two (cash balance plans).
- Contract-based pensions schemes are individual contracts between you and the pension provider and include Personal Pensions, Stakeholder schemes, Self Invested Personal Pensions (SIPPs) and Retirement Annuity Contracts
- Each plan can offer slight differences in benefits at retirement, or on death before retirement, but they are all DC pension arrangements
- Many providers allow you to transfer benefits from other pension schemes, but advice should be sought as to whether or not this is advisable
- Benefits at retirement may be provided as income or as a tax-free cash lump sum and income.

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Contributions

- There are overall limits to the total amount that can be contributed to pension schemes each year, if contributions are to receive tax relief
- Member contributions are limited to 100% of earned income, with further restrictions for high earners
- Employer contributions into DC arrangements are typically linked to salary, or will be determined by an actuary for DB arrangements
- Some employer offer the ability to 'exchange' salary for a pension contribution, which can provide a tax and NI saving to the member and also the employer Risk
- Different types of investment available in a Personal Pensions carry different levels of risk. It is therefore important that those contributing to a pension understand the level of risk that the different types of investment have and how the investment choices can affect the value of the pot at retirement.
- Boolers are able to provide advice in connection with suitable pension providers and investment options for both individuals and employers.

Tax relief on Personal Pensions

- If contributions are made by an individual after having already paid tax, the pension provider is normally able to claim tax relief at the basic rate (20%) and add it to the pension pot.
- There is no limit on how much an individual can save into a pension scheme, although a tax charge is payable if their overall pension value at retirement breaches the Lifetime Allowance, £1 million in 2016/17.
- A UK taxpayer aged under 75 is able to receive tax relief on contributions up to their yearly earnings, subject to a limit of between £10,000 and £40,000 depending on their overall income.
- Those not earning are still able to receive tax relief on contributions up to £3,600 gross per year.
- Higher rate and additional rate taxpayers are also able to claim the additional rebate (20% and 25% respectively) through their self-assessment tax returns.
- Contributions made by employers are normally made gross, and therefore the individual receiving this into their pension pot is unable to receive tax relief. Some employers operate salary sacrifice arrangements, where the employee contributions are paid prior to tax having been paid. Again tax relief is not available to the individual, however their earnings, and the tax and National Insurance payable, will be reduced to reflect the contribution.

Options at retirement

- Traditionally personal pensions were used to purchase an annuity at retirement, which matched the idea that people worked to a specified age and then totally retired from work.
- With the ever increasing blurring of retirement, with many now continuing to work past the State Pension age, annuity rates being at low levels and more flexibility on the death benefits available from personal pensions, many more are considering the flexibilities associated with Income Drawdown. Income Drawdown is again detailed elsewhere on the website and is intrinsic to the SIPP and SSAS pension arrangements that we specialise in.
- Annuities also continue to provide guaranteed income in retirement and are discussed in more detail elsewhere on this website.

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Auto Enrolment

- Automatic enrolment has made it compulsory for employers to offer eligible workers a workplace pension scheme
- The aim of automatic enrolment is to increase the number of UK workers who are accruing pension benefits for retirement purposes
- The employer must automatically enrol every eligible worker into the scheme
- The employer must make a minimum contribution to the scheme • The member will receive tax relief on their contributions, with some exceptions
- Contribution levels will increase over time, subject to fixed minimum contribution guidelines imposed by HMRC
- Automatic enrolment is being phased in, starting with the largest UK employers. All eligible members should be enrolled into a workplace scheme by 1 February 2018, at the latest.

If you require further information, please contact us:

- Email: enquiries@boolers.co.uk
- Telephone: 0116 2407070
- Website: www.boolers.co.uk

This technical document is for illustrative purposes only and should not be construed as advice or guidance. It is based on our understanding of current taxation, law and practice (August 2016), which is subject to change.

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