Pension “Freedom”

The Background

On April 6 2015, savers were given unprecedented freedom to access and spend their pensions as they wished. It was the biggest shake-up in the retirement rules for a century and we all saw headlines such as “Use your pension as a bank account” “Cash your pension and splash out on a new car”.

The chancellor’s pension revolution was hailed as the end of the scandal of savers being “forced” to buy an annuity paying an income for life, which in a time of low interest rates often gave a very poor return or indeed were not an ideal solution.

The changes however thrust a huge amount of responsibility onto retirees and left many people confused and bewildered, as where once there was no choice besides an annuity at retirement, suddenly there were three options. All of a sudden, once someone hit 55, they could do exactly as before and take out an annuity, giving a guaranteed income for life, but now they could also take the full amount of the pension pot in cash and spend it as they wished. Or they could keep their pot, invest it, and then use it like a bank account. But as we know with options come confusion!

The Changes in a nutshell

- Previously, most people turned their pension savings into an annuity, now they can take the whole sum as cash if they wish.
- Your pension could work bit like a bank account, allowing complete flexibility as to how money is drawn
- The money could stay invested, allowing it to have more chance to grow.
- You can also take just your tax-free 25 per cent in one lump sum — and then use the rest like a bank account, paying income tax at your normal rate.
- You can pass on your pension to your loved ones— often tax-free.
- Rules may yet come in to make it possible to sell back an annuity if you have bought one already.

So, once the new Pension Freedom rules were implemented what did people actually do?

After pension freedom day, insurers reported an 80 per cent increase in the number of phone calls to them.
In the first three months, £2.5 billion was paid out to customers who either took an annuity or dipped into their pot.
In 95 per cent of cases where savers took a lump sum, they withdrew the full amount from their pot. However, it is thought these were mainly savers who had pension pots of less than £25,000 and, who, under the old rules, would have had to turn that into an annuity paying just a few pounds a week.
Of cash lump sums paid out, £8 in every £10 went to savers aged below age 65, with £6 of every £10 going to someone below age 60.
Annuities still remained popular, with £990 million placed in to them by savers, with an average pot of around £55,600. Previously, the average nest egg for those buying an annuity was just £26,000.
Drawdown plans, where someone invests the full amount of their pension into an account that allows them to make regular withdrawals, were used by customers with an average pension nest egg of £68,000.

Confusion and the need for qualified advice

The price of Pension Freedom is responsibility, and it has taken time for all concerned to get used to the new rules, but the general feeling among savers was that they were very happy that they could take control of their retirement spending.

Cont …..

Pension "Freedom"

However …..

But is everyone capable of making these decisions without help? It can be quite a challenge as decisions made are usually irreversible making the need for qualified advice ever more important if unexpected tax bills are to be avoided.
The pensions industry is beset by jargon and the competing offers of insurance companies can be bewildering.
Meanwhile, plans to allow savers who have already taken out an annuity the chance to cash it in have been delayed, as insurers wrangle over the best way to make this possible.
Finally, as a word of warning, make sure that you speak with a qualified, independent IFA who can steer you through the pension minefield

In conclusion

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