BLICK ROTHENBERG

Case study

Benefiting from pensions flexibility

The much heralded pension revolution has indeed proved life changing for one of our clients. She can now retire a full five years earlier than planned, her pension plans adapting to her needs rather than the other way around.

Background

Our 60 year old client is finding that the daily commute and desk-based work is exacerbating her long-term back problem. She would very much like to retire.

Problem

Her current employer's final salary pension scheme in combination with her State Pension will certainly provide her with a comfortable retirement income, but not until age 65. She does not relish working for another five years. She could take her employer's pension from age 60, but the income is significantly reduced if it is taken early.

She has been able to save to various personal pension plans and these funds are now worth £200,000. She can access these funds now, taking 25% (£50,000) tax-free, leaving £150,000 to provide income.

Before the March 2014 Budget, the £150,000 income fund could only be used to provide her with:

- A lifetime annuity income of £6,750 a year; or
- A maximum drawdown income of £11,025 a year (reviewed and likely to reduce after three years).

She has worked out she spends £35,000 a year, and so neither of these options give her enough income to live on for the next five years.

Although current "flexible" drawdown would allow her to draw on the £150,000 fund without annual limit, she does not qualify for this – the rules say she must already be in receipt of at least £12,000 gross annual "secure" pension income to use "flexible" drawdown. Her employer and State Pensions are deemed "secure" but do not count until they start.

Solution

Under the new rules, from April 2015, she will be able to draw on her £200,000 personal pension funds at £40,000 a year for five years. Of each £40,000 taken in this way, £10,000 is her tax-free lump sum, £10,000 is her personal allowance leaving £20,000 taxed at 20% - giving her £36,000 each year after tax for five years and exactly what she needs.

For our part, we have formulated the strategy, arranged for her personal pension plans to be consolidated into an arrangement with the required flexibility, as well as transferring her from high equity pension funds into very cautious investments which provide the certainty needed for her to stop work.

The new rules also mean that her family will no longer pay 55% tax on her drawdown pension fund should she die before age 75.

If you wish to discuss the new provisions, please speak to your usual contact at Blick Rothenberg or:

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