

'A Fresh Start for Pensions'

From April 2006, the regulations applying to pensions undergo huge change. Under the banner 'Pensions Simplification', the intention is to strip away much of the complex regulation. As ever with such an exercise, however, while some of this will be straightforward, other areas will become more complex before they can get simpler.

A full discussion of the changes could fill this entire publication, this article will therefore look to highlight some of the more salient points which may affect Mature Times readers.

Triviality Any person with total pension funds of £15,000 or less can now take the entire amount as cash. 25% will be tax free, with the remainder taxed at your usual rate.

Taking Pension – Drawdown It has not been necessary to take pension benefits via purchase of annuity for several years. However, the Drawdown regulations are being extended and improved to affect many other people looking to start drawing their pensions (particularly relevant to funds in excess of £100,000).

Taking Pensions – Annuity at 75 The current rule which states that all pension funds must be converted to annuities at 75 is going, meaning Drawdown can continue even after this age (although the situation with regard to death benefits is rather complicated).

Contributions The maximum contribution that can be paid to pension is increasing, and will now be 100% of pensionable earnings. Significant scope for funding pensions in the last few years to retirement. Particularly relevant to business owners.

Lifetime Limit Limit instead on total size of pension fund allowed. Initially set at £1.5m per person – although I am not actually sure if reaching this limit could be considered a problem!

Pension Investments Allowable investments of a pension fund hugely widened, potentially including residential property, holiday homes, works of art etc.

State Pension If you contracted out of the State scheme (the fund would be known as either Protected Rights or Guaranteed Minimum Pension (GMP)), you may be better off

waiting until after April next year, when you can take a tax free lump sum from this portion of your pension.

Tax Free Cash Entitlement All pension funds will be allowed to pay 25% of the fund as a tax free cash sum at retirement. (Some members of company pensions, that would currently pay less than this amount, may be advised to delay taking the pension until after April next year.)

Minimum Retirement Age The minimum retirement age is being increased from 50 to 55, although this is unlikely to take effect until 2010 (depending on your provider).

Family Trusts? New rules on death benefits suggest that, on death, an individual's pension fund can be allocated across to another persons fund. This opens up the possibility of establishing a pension fund with different generations of the same family, with some or all of the funds being passed down the generations. This area is particularly subject to clarification.

Although much of the general legislation is known, we are awaiting some of the specific details. However, it is clear that although the new regulations will lead to a simpler pension regime in future, there will be a transitional period, where individuals should take advice to ensure that they are not worse off following the changes.

Call us and benefit from a free initial consultation, on 0117 942 4333.

This article is for general information only. Remember past performance is not a guide to future performance and investments can go up as well as down. If you have any doubts in respect of your own personal circumstances you should a full review with an independent financial adviser to get their help and remember, don't leave it to the last minute next year!

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This article appeared in Mature Times, October 2005 edition - website www.maturetimes.co.uk

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