PENSION MATTERS

A guide
to tax free

CASH FROM YOUR PENSION FUND

Contents

Introduction

Selecting a partner in any walk of life is never easy, and made all the more difficult when you are looking to invest both financially and emotionally into the unknown.

It is so hard to judge the quality of a service that you cannot see or touch and you will only know if you have made the right decision many years down the line.

We hope you find our guide of interest, but please note it is only a guide based on our understanding of current legislation. Before beginning any pension withdrawal we would strongly recommend that you seek profession advice – naturally we hope you choose us!

Paul

Paul Steel **BA (Hons), FCII, FPFS**
Chartered Financial Planner

What do we mean by ‘taking tax free cash’?

Withdrawing money from your pension fund as a tax free lump sum (officially referred to as Pension Commencement Lump Sum) without starting to take an income, very often prior to the normal retirement age of the pension scheme.

Tax free cash can only usually be released from pensions held personally in plans known as ‘Flexi Access Drawdown’ (FAD). It is not normally possible to access a standalone lump sum from Company or Group personal pension schemes.

You will therefore need to transfer your pension fund into FAD and in the majority of cases if f the value of your pension fund is greater than £30,000, it is a legal requirement to take Independent Financial Advice which you will have to pay for.

Paul has greatly assisted me sorting out the pension ‘minefield’, and whilst he has always been very professional in his approach, he has always been very friendly and easy to deal with. I would not hesitate to recommend Paul. KP, Low Fell

People considering taking their tax free cash should only really do so when they are facing financial hardship and there are no other options available to them, for example they:

- Cannot meet the day to day cost of living.
- Have an urgent need to raise money and cannot borrow.
- Have no other way of improving their financial position.
- Have mortgage arrears or other debt they cannot repay in any other way.

This really is a once in a lifetime decision – do not take it lightly!

Who can take tax free cash?

You must be aged at least 55 years old. You must have a pension fund that is not already being paid to you as a pension.
You do not have to 'retire' to take tax free cash.

What is the maximum I can take tax free?

You can access a cash lump sum, tax free, of up to 25% of the value of your pension fund, you can access less than this amount or access the 25% in stages if you prefer.

This is tax free and is known as a 'Pension Commencement Lump Sum' (PCLS). The remaining 75% of the fund can be used to provide you with an income that is taxable.

You can draw your pension fund in a series of slices if you prefer (known as Uncrystallised Pension Fund lump Sums) so that each slice provides 25% tax free and the remaining 75% is taxable as income. This can be useful if you are a non-tax payer or your income is less than the income tax personal allowance.

You do not have to draw an income from your fund at the same time, this is something you can decide to do later if you wish.

How does it work?

In order to release the tax free cash from your pension fund it usually has to be transferred into a type of pension scheme known as Flexi Access Drawdown.

Once the money from your pension fund is transferred into FAD, the amount of tax free cash is calculated and paid directly to your bank account.

The remaining fund is then invested until you choose to start taking an income.

How do I get started?

Simply complete our 'Letter of authority' and we will begin the process on your behalf by contacting your pension provider to find out exactly what you have got, how much tax free cash you can have and how long it will take.

What exactly is the process?

It's fairly straightforward and we'll guide you through every step.

Contact your pension scheme and ask if you can take a tax free lump sum. If they permit you to do this they will guide you. If not follow the steps below.

The ten steps to taking your cash:

1 Complete our 'Letter of Authority' (available on our website) and return it to us by post or email.

2 We will send your Authority to your pension company requesting information about your pension fund

3 We will send you our 'Terms of business' detailing how we work, the services we offer and details of our fees.

4 **If you are happy to proceed we ask you return one copy of our 'Terms of business' to us to confirm receipt.**

5 Once we have the information from your pension company (this can take 3 months) we will talk to you in depth about your circumstances, aspirations and options, either face to face or on the telephone if preferred.

6 We will provide you with a report outlining your options.

7 You can then carefully consider your options and reach a decision as to whether you should withdraw a tax free lump sum.

8 If you decide to proceed we will complete the paperwork and forward it to your pension company.

9 Your pension company is allowed 6 months to send the transfer value and when your fund arrives it will take a further 2 weeks to apply it your Flexi Access Drawdown policy and get the money to your Bank.

10 **Because of the timescales involved and the fact that you are at the mercy of your pension company sending the money do not commit your lump sum for any purpose until it is in your bank account.**

Why does it take so long?

A very good question! The slow response times by pension companies are appalling but they show no signs of improvement. As we are very often dealing with insurance companies and pension schemes who are not keen to part with your money it can often take several months to conclude matters and we have to waste a huge amount of time chasing them on your behalf.

It is in our interest as much as yours to expedite matters as speedily as possible so you may be assured we keep on their case until we get a result.

What exactly is the process? Continued

How much will it cost?

There is no set fee for this type of work, we have seen firms of advisers on the internet offering to so this for a fixed fee of £1,500 - £2,000 but most firms (including ourselves) charge a percentage of the fund value transferred into FAD.

The percentage charges vary often depends upon the size of fund but seems to vary between 2% - 6%.

So if for example your adviser charges you 3% and you wish to take £25,000 of tax free cash form your fund of £100,000 it will cost you £3,000 at the outset to do this.

Our fees are documented within 'Your fee agreement' which we will forward to you upon receipt of your 'Letter of authority'.

After reading 'Your fee agreement' if you have any questions as to how we get paid please contact us at the earliest opportunity. There could also be charges in the form of penalties applied by your current pension company for transferring your fund away but these will be clearly disclosed to you in our report before you proceed.

Do I pay any tax or other payments?

Up to 25% of your pension fund can be paid to you a tax free lump sum.

If you choose to draw an income from the remaining fund then these payments will be taxed at source as earned income.

You have no other payments to make such as national insurance for example.

What happens if I die?

If you should die before any transfers are completed then any death benefits payable will be determined by your current scheme(s) rules.

After you have taken your tax free cash, your beneficiaries will have a range of options depending on their relationship to you.

These will be documented in our report prior to you making a decision.

So I get a nice tax free lump sum – what's the catch?

It certainly sounds like easy money but is it? Upon reaching 55 it may seem like the ideal birthday present, but it is not a decision to take lightly.

Once you take your tax free cash there is no turning back, the decision you have made will impact on you for the rest of your life.

Taking your lump sum now means that your income in retirement will be considerably less than if you waited until your normal retirement age.

Your fund will not only be 25% less, but you will miss out on the tax free growth you would have enjoyed between now and your normal retirement age.

Also you may lose out on any discretionary or index linked increases to your fund over the years ahead.

If you are moving funds into FAD from a company pension scheme you may also be losing valuable guarantees and the security of an income for life.

This means that you will have less to live on when you retire and taking all of the tax free lump sum early is rarely in anyone's long term financial interests. This course of action should be considered only in exceptional circumstances where you have immediate needs and no other option.

You should remember that there will be initial charges in setting up your new pension scheme and ongoing charges for looking after your pension fund investments. You need to ensure that these charges provide you with value for money and that this course of action is appropriate to your long term financial needs and goals.

If you decide to take more than your 25% tax free cash, you will be subject to the Money Purchase Annual allowance which means you will be limited in the future to how much you may contribute to your pension scheme, thereby limiting your opportunities to build up your pension benefits in the future.

Important notes

Risk warnings for Flexi Access Drawdown – please read the following points carefully.

- Taking withdrawals will erode the capital value of your fund and may result in irreversible loss.
- If investments returns are poor and a high level of income is being taken. This will result in a lower level of income in the future.
- The investment returns may be less than those shown in the illustrations.
- Annuity levels may be at a worse level when annuity purchase takes place.
- Taking high levels of income could exhaust your fund and leave you with no income in the later years of retirement.
- The returns you require to satisfy your income needs may demand a higher risk investment strategy than you wish to take at this stage.
- Pension release is unsuitable for the majority of people, taking money from your pension fund prior to normal retirement age will mean a smaller income when you come to retirement.
- Many people underestimate how long they are going to live and how much income they will need in retirement – please make sure you are not one of them!

If you'd to ask us any questions
please get in touch with us:
0191 404 6806

service@pensionmatters.net

pensionmatters.net

The Axis Maingate Kingsway
Team Valley Gateshead NE11 0NQ