Newsletter for the outplacement industry

Issue Eighteen/May 2015

1 in 4 would like to sell annuity

A quarter of annuity-holders would like to sell their annuity, following new pension freedoms for existing retirees announced in the 18 March Budget.

From April this year, from the age of 55, people with defined contribution pension savings have much greater flexibility over the way they use their pension pots, enabling them to buy an annuity, take the whole amount as a lump sum or keep the money invested and draw an income from it, taking further lump sums if they wish.

Chancellor George Osborne announced on 18 March that from April 2016, people already receiving income from an annuity would be able, with the agreement of the annuity provider, to sell the income to a third party. The proceeds of the sale could be taken as a lump sum or drawn down over a number of years, with tax levied at their marginal rate.

At present, people wanting to sell their annuity face a 55 per cent tax charge, or up to 70 per cent in some cases.

On 23 March, over-50s specialist Saga released the findings of a survey of 2,062 annuity-holders revealing that a quarter would like the option to sell in exchange for a lump sum. More than half (58 per cent) said the reason was that the monthly income their annuity generated was too small for them to do anything meaningful with it.

Saga director Paul Green said: "It is great that the Chancellor plans to build on trusting people with their pension savings by allowing people who already have an annuity in place to obtain a lump sum. However, this is not a decision to be taken lightly, it will be important to get the right advice before they empty their annuity pots."

At Birchwood, we recognise that the pensions environment is complex and that these ongoing reforms can make it even more challenging to make decisions that will maximise future financial security. For more information on any aspect of pensions or retirement planning, please contact us.

Pensions experts question future of lifetime allowance

The body that represents UK pension funds has expressed caution over further reductions in the lifetime allowance.

The allowance – the amount someone can save into a pension pot and benefit from tax relief – will be cut from £1.25 million to £1 million next year, Chancellor George Osborne announced in the 18 March Budget.

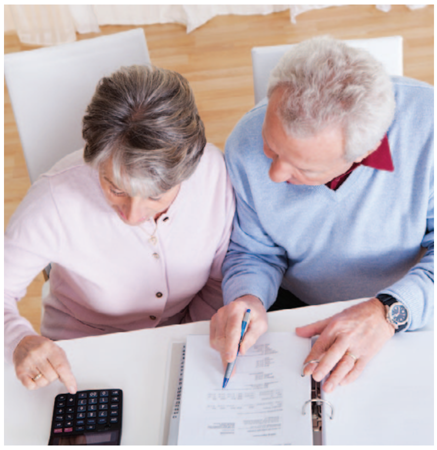
Transitional protection for pension rights already over £1 million will be introduced alongside the reduction and the allowance will increase annually in line with the consumer price index from 6 April 2018.

Graham Vidler, director of external affairs at the National Association of Pension Funds (NAPF), said: "The question remains, what will the LTA be in three years' time?

"The LTA has been cut by £0.5m in the last three Budgets, which, if repeated, would leave an LTA of £0.5m. This would buy an income of around £10,000 per year."

The NAPF figure was based on the £500,000 pension pot of a 65-year-old married man who takes a 25 per cent tax-free lump sum (£125,000), leaving a pot of £375,000 with which to buy an income.

NAPF said Legal & General's annuity calculator showed the pension pot would provide an annual income of £9,780, based on linking to the retail price index and a 50 per cent income provision for the man's spouse after his death.



Auto-enrolment hits 5.2m milestone

New figures released show that nearly 5.2 million workers have been auto-enrolled into a workplace pension scheme by their employer.

Automatic enrolment was launched in 2012, initially with the largest businesses. It has since rolled out to medium-sized business and will reach small and micro employers from June 2015.

By 2018, when the roll-out is complete, it is expected that up to nine million people will be newly saving or saving more.

Announcing the 5.2 million figure on 12 March, Minister for Pensions Steve Webb said: "People are living longer than ever and it is vital for their future prosperity that they save when they can. Automatic enrolment is giving people real support to do just that, with the employee, their employer and the government making regular, affordable and fair contributions."

Charles Counsell, automatic enrolment executive director at the Pensions Regulator, the UK regulator of workplace pensions, added: "The first two years of automatic enrolment have been a success. This is no time to rest, though, as significant challenges lie ahead. Our message to employers is clear – act now and start preparing in good time."

With people typically having 11 different jobs over their working lives, the government has announced that it will roll out a new system next year to help people keep their savings in one place while they move jobs. Automatic transfers will mean that an individual's pension pot will follow them as they move between employers.

Birchwood Investment Management's fully qualified team offers extensive experience in auto-enrolment and other occupational pension issues. Our experts can provide advice on a one-to-one basis, or through seminars, or we can provide more specialist assistance with reviewing and upgrading pension schemes or implementing new schemes. For more information, please contact us.

ISAs given Budget boost

Financial sector experts have welcomed 2015 Budget measures, saying they will help to rebuild a savings culture.

They included reforms to make ISAs more flexible. At present, any money taken out of an ISA cannot be paid back into it during the same tax year, reducing the tax savings – £15,240 in the 2015-16 tax year – available.

Mr Osborne said on 18 March: "This restricts what people can do with their own savings – but I believe people should be trusted with their hard-earned money.

"With the fully flexible ISA, people will have complete freedom to take money out, and put it back in later in the year, without losing any of their tax-free entitlement. It will be available from this autumn and we will also expand the range of investments that are eligible."

Under a new Help to Buy ISA scheme announced in the Budget, to be launched in the autumn, the government will provide a bonus on savings used to buy a first home. For every £200 saved, the government will provide a £50 bonus, up to a maximum of £3,000 on £12,000 of savings. The bonus will be available on homes valued at up to £450,000 in London and up to £250,000 outside London.

Meanwhile, a new Personal Savings Allowance will be created from April 2016, enabling millions of taxpayers to receive hundreds of pounds in savings income tax-free. The first £1,000 of savings income will be exempt from tax for basic rate taxpayers and the first £500 for higher rate taxpayers.

Yvonne Braun, director of long-term savings policy at the Association of British Insurers, said: "These measures should help rebuild a savings culture in the UK. Helping people build up their savings is the best way to make sure they really have freedom and choice in retirement."

As part of our comprehensive independent financial planning services, Birchwood can advise on savings and investments products tailored to individual finances, objectives and tolerance to risk. For more information, please contact us.

Birchwood Investment Management Ltd, 8 Prospect Place • Welwyn • Hertfordshire AL6 9EN • UK
Tel: 01438 840 888 (Welwyn) • 0161 932 1038 (Manchester) • **Fax:** 01438 840 097 • **Email:** info@birchwoodinvestment.com