

Increase in Normal Minimum Pension Age

The world of pensions is constantly moving, with changes either due to be implemented or currently being discussed.



One of the changes due with effect from 6th April 2010 is an increase in the age from which you will be allowed to access your pension (normal minimum pension age or NMPA) from 50 to 55. This change will apply unless you fall into one of the following categories:

- You are a member of an occupational pension scheme and had a contractual right to take benefits from age 50 (or earlier) as at 10th December 2003, and you still had this contractual right on 6th April 2006. This will apply even if you have not been an active member of the scheme throughout this period.

Where this applies your right to take benefits before age 55 on or after 6th April 2010 will be honoured provided that you take all your pension and lump sum benefits at the same time; and before, or immediately on taking benefits under the scheme you leave the employment to which your benefits relate.

If your protected pension age is between 50 and 55 there will not be any reduction to your lifetime allowance but if it is less than 50 and you draw benefits before age 50, your lifetime allowance must be reduced by 2.5% for each complete year that benefits are taken before the NMPA unless:-

- the pension is paid because you

- are retiring due to ill-health; or
- you are a member of the armed forces, police or fire service pension schemes.

Your lifetime allowance is the total pension value that you are allowed to build up without a charge being incurred and is £1.75m for 2009/10, rising to £1.8m in 2010/11.

- You are a member of a personal pension and have a particular employment or occupation that is recognised by HMRC as having a low normal retirement age. An example of the type of occupation that falls into this category is a professional sports person.

The earlier normal pension age will be honoured provided you joined the scheme prior to April 2006 and you take all of your benefits from the relevant scheme in full.

If your protected pension age under a personal pension is less than 50 and you take your benefits before age 50 (other than on the grounds of ill-health), your lifetime allowance would be reduced by 2.5% for each complete year you take benefits before the NMPA.

Care should always be taken if you are a member of an occupational scheme or personal pension with a protected pension age, and are considering transferring your

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pension to another provider, as the protection may then be lost. It is important that you seek advice before any action is taken.

There is one advantage to having a scheme with a protected pension age, in that benefits can be transferred into that scheme and be taken from the lower age, even if the scheme from which the benefits have been transferred has a normal minimum pension age.

- Regardless of whether you hold benefits under a personal pension or occupational scheme or whether the scheme in question has a protected pension age, you may be able to access your benefits before the NMPA without suffering any reduction to your lifetime allowance if you are in ill-health.

However, in order to do so, the scheme administrator must have received evidence from a registered medical practitioner that you are (and will continue to be) incapable of carrying on your

occupation because of physical or mental impairment. You must also have ceased to carry on your occupation.

- In the unfortunate event that you are diagnosed as being in serious ill-health, you can access all your uncrystallised pension rights as a lump sum, and this will be tax-free as long as it is within your unused lifetime allowance.

In order to receive a 'serious ill-health lump sum' the scheme administrator must have received evidence from a registered medical practitioner that you have been diagnosed as having less than 12 months to live.

But for people who do not fall into one of the above categories, what could be the potential impact of the rise to age 55?

The most obvious impact is that you may have to delay retiring by five years as instead of being able to draw your pension at age 50, you will have to wait until age 55. The people

who could be particularly hit by this are those currently approaching 50 who are thinking of retiring and taking their pension. This would only apply however, if you had built up sufficient savings to be able to retire at such an early age – an aspiration for many, but probably a reality for only a few!

There could however, be a number of people, who have utilised a pension mortgage with a repayment date in their early to mid 50s with the repayment date falling after 6th April 2010. For these the change in rules could result in a delay in repayment and higher interest costs. It is important for anyone in this category to seek advice as soon as possible.

A further impact will be on anyone aged between 50 and 55, who are phasing in the taking of their pension benefits. If part of their pension has already been accessed, but the person is aged below 55 on 6th April 2010, they will be able to carry on taking existing benefits from their pension, but will not be able to take any additional benefits until they reach the age of 55. This could

be detrimental if an increase in the pension income is being relied upon, and could result in other monies having to be used to provide the 'missing' additional income.

There could also be an impact on the amount being saved into pensions, given that it will not be possible to access the money for a further five years. This may result in people seeking other types of plans, for example, an Individual Savings Account.

This would provide a tax-efficient environment with access available at any age, without tax being payable on the withdrawals. However, unlike a pension, tax relief would not be received on the contributions into the plan. The value of investments can fall as well as rise and you may not get back the full amount invested.

If you feel you may be affected by the change in the normal minimum pension age you should seek advice at the earliest opportunity.



A Quick Reminder

Unless further announcements are made in the Pre-Budget Report on the 9th December, measures put in place by the Government regarding Stamp Duty Land Tax and VAT are due to end shortly.

Stamp Duty Land Tax

With effect from 3rd September 2008, the threshold above which Stamp Duty Land Tax becomes payable on the purchase of a residential property was increased from £125,000 to £175,000. This new higher limit was initially set for a period of one year only, but was subsequently extended by the chancellor in this year's budget until 31st December 2009.

If the purchase price is more than £175,000, Stamp Duty Land Tax is payable between 1% and 4% on the whole purchase price, with the percentage paid dependant on the price band applying.

For anyone who is currently purchasing a house for between £125,000 and £175,000 it would be worth trying to ensure the transaction completes before 1st January 2010 to avoid paying any Stamp Duty Land Tax.

VAT

The 2008 Pre-Budget Report announced a temporary reduction in the standard rate of VAT to 15% for a thirteen-month period from 1st December 2008 to 31st December 2009. The standard rate will revert to 17.5% with effect from 1st January 2010.

National Insurance Changes



Further changes taking effect from 6th April 2010 relate to National Insurance and it is important to be aware of these in order to calculate if you are likely to receive a full State Pension and if there is a potential shortfall, whether you need to take any action.

It is especially important for women to find out if they could be obtaining more money in their retirement, as women have traditionally not received a full basic State Pension. This could be due to a broken work history, or caring for children or family members who are disabled or elderly.

From April 2010, both men and women reaching State Pension age will receive a full basic State Pension if they have 30 years of National Insurance contributions, or credits, rather than the current 44 for men and 39 for women.

The following simple steps could be considered to establish the level of State Pension you are likely to receive and if necessary, attempt to boost it:

Step One:

Make sure you know the exact date your State Pension can be claimed, as this is changing for women born on or after 6th April 1950.

State Pension age is 65 for men born on or before 5 April 1959 and 60 for women born on or before 5 April 1950. For those born later the State Pension age is increasing as follows:

- For women born on or after 6 April 1950, but before 6 April 1955 the State Pension age is rising from 60 to 65 between 2010 and 2020.
- For women born on or after 6 April 1955, but before 6 April 1959 the State Pension age is 65.
- For men and women born on or after 6th April 1959 the State Pension age is between 65 and 68.

State Pension age will increase for both men and women from age 65 to 68 between 2024 and 2046.

Step Two:

Obtain a State Pension Forecast to establish how much State Pension you have built up. The forecast shows details of your entitlement to the Basic State Pension, the State

Earnings Related Pension, the State Second Pension and any Graduated Retirement Benefit.

A forecast can be obtained by completing and returning form BR19 to The State Pension Forecasting Team at The Future Pension Centre in Newcastle, or alternatively a forecast can be requested by phone or online.

Step Three:

Explore future work options. If you continue to work past State Pension age, you will not pay National Insurance potentially boosting your take home pay.

If you do remain in employment past State Pension age, however, you should ask for the HMRC form Certificate of Age Exception (CA4140 or CF384) which tells your employer not to deduct any NICs from your earnings.

Step Four:

Consider delaying claiming your State Pension as this could boost your income in retirement. This applies to the Basic State Pension, the State Earnings Related Pension, the State Second Pension and any Graduated Retirement Benefit.

If you delay for at least 5 weeks, you will receive an extra State Pension at a higher rate than would have applied at your State Pension age. Your State Pension is increased by 1% for every 5 weeks you defer. This equates to 10.4% extra a year. So, for example, if your State Pension was £95.25 a week and you decided to delay drawing it for 5 years, the pension you would then receive would be £144.78 a week.

Alternatively, if you defer your State Pension continuously for at least 12 months, you can choose to receive a lump sum. The lump sum is equal to the amount of pension you would have received plus interest. The rate of interest used equates to 2% above the Bank of England base rate.

Using the above example, the

lump sum would be approximately £26,000 (before tax). This assumes the base rate was 0.5% (therefore a rate of 2.5% would be applied) for the entire 5 years. Your State Pension will then be paid at the same rate as it would have been had it not been deferred, and the lump sum will be taxable at the highest rate of tax that you pay on your non-savings income. So, if the highest rate paid on your non-savings income is the basic rate, the whole lump sum will be taxed at 20%.

If you are already drawing your State Pension, you can still take advantage of the deferral options by deciding to stop receiving your pension for a period. You can only decide to do this once and must usually be a UK resident. If you are a non-UK resident the ability to do this will depend on the country in which you reside.

There are two circumstances when deferring pension would not build up additional State Benefits:

- 1) Any days you are receiving certain benefits such as carers allowance, short-term incapacity benefit, severe disablement allowance, unemployment supplement, widow's pension, widowed mother's allowance and receipt of another type of State Pension.
- 2) Any days you are in prison for committing a criminal offence.

Step Five:

Establish if buying extra National Insurance contributions could increase your State Pension entitlement.

The requirement to make up a shortfall may diminish after 6th April 2010 given that after this date a reduced number of years will provide a full basic State Pension. However, eligibility for bereavement benefits will remain at up to 39 qualifying years for a woman and 44 for a man. Bereavement benefits are payable if someone dies to their spouse or civil partner if under State Pension

age, and based on the deceased's National Insurance contributions. Whether this influences your decision to purchase additional State Pension is dependant on your individual circumstances.

If you decide you would like to make up a shortfall, any voluntary contributions must usually be paid no later than six years after the tax year to which they relate and you can make these contributions even if you have already reached State Pension age. As an example, voluntary Class 3 contributions for the tax year 2008-09 have to be paid by 5th April 2015, but the rate may increase if you make the payment more than two years after the end of the relevant tax year.

It is important that you seek advice if you think this could be an option as this is a complex area. The ability to purchase additional contributions for certain years and the rate at which they can be purchased depends on the date you reach State Pension age.

Buying additional State Pension will not suit everyone and it is important that advice is sought. An improved State Pension may reduce any income-related benefits, for example, Pension Credit, Housing Benefit or Council Tax Benefit that you or your partner may receive, or may receive in the future. As the State Pension is taxable, an improved State Pension may result in you paying more tax. It may be possible for you to use contributions from your late spouse or civil partner, or former spouse or civil partner to improve your basic State Pension negating the need for you to pay additional contributions. Your decision may also be influenced by your life expectancy, the date you reach State Pension age and the number of qualifying years you expect to have by that date.

In conclusion, there are a number of actions you can consider to try to ensure you receive the maximum basic State Pension, however it is important that advice is sought to ensure any action taken is the most appropriate for your circumstances.

All in a Year

Nearly a year since the announcement that the UK is officially in recession, it is interesting to reflect on the current financial position and consider how different aspects of the financial market such as interest rates, stock markets, currency exchange rates and gold have fared.



Interest Rates

Interest rates influence spending and saving in the economy and the prices paid for goods and services.

The current bank base rate is 0.5% and has been held at this rate since March 2009. In November 2008, it had been reduced to 3% and twelve months before that in November 2007 it had been held at 5.75% (source: Bank of England). From this, it can be seen that interest rates have been on a downward spiral – good news for some borrowers, but not so good news for those depending on the interest earned on their savings.

Although the bank base rate remains low, financial institutions are interested in attracting your money via savings and consequently it is worth shopping around to ensure you are receiving the best available rate on your savings. You could currently receive over 3% gross p.a. if you are prepared to put your money in a notice account and over 5% gross p.a. if you place it in a long term (5 year) fixed rate bond (source: Moneyfacts 4th November 2009). If you are contributing to a cash-ISA (Individual Savings Account), you may be able to find a better rate with

another provider. If so, it is possible to switch contributions from one cash-ISA to another during the same tax year, without invalidating the tax status of the second ISA, as long as the benefits built up under the current ISA are transferred to the new ISA before you contribute to it.

Where this is the case, the transfer need only relate to the contributions made in respect of the current tax year, but you must transfer the whole amount for the current tax year.

Stockmarkets

On the 13th November 2009 the FTSE 100 index closed at 5,296.38, which is a rise of 27% from the same date in 2008 however, this is not the whole story. The FTSE had continued to fall after November 2008 until it reached its lowest point of 3,512.09 on 3rd March 2009, so the current value represents a rise of 50.8%. It does however, remain 21.33% below the high of 6,732.40 reached on 11th June 2007.

Looking further afield, the Dow Jones index has followed a similar pattern showing a 16% rise between the same dates, but an approximate 57% rise since its lowest point on the 9th

March 2009 (source: Financial Times November 2009).

Whilst the markets remain volatile, it can be seen that there has been growth during the recession. Markets tend to react to economic data being published and the increase since March can be partly attributed to some better than expected profit announcements, a slight stabilising of the housing market and the hopes that some 'green shoots of recovery' are being seen. Anyone brave enough to invest back in March would have potentially seen a healthy return – unfortunately, the benefit of hindsight is a wonderful thing!

Currency Exchange Rates

Exchange rates have also seen fluctuations, on 6th November 2009 the pound was worth 1.66 US\$ and 1.12 Euros, whereas twelve months ago the exchange rates stood at approximately 1.53 US\$ and 1.20 Euros. This means that during this period the US\$ has risen by 8.5% against sterling but the Euro has fallen by 6.7%. These figures compare to November 2007 when the pound was worth approximately 2.07 US\$ and 1.41 Euros (source: Bank of England November 2009).

Changes in exchange rates not only impact on the level of holiday money you can obtain, but also on the value of any equities held on the worldwide markets as the value of these will depend on the exchange rates applying at any given time.

Gold

Gold is usually quoted in dollars and the price currently stands at \$1,115.25 an ounce (source: Bank of England 11th November 2009). On this basis, the price has seen an approximate 37% increase in the last twelve months (source: Bank of England November 2009). This rise could partially be attributed to investors looking for a perceived safer haven for their money away from the fluctuations of equities, but it can also partially be attributed to the change in exchange rates with the value of the dollar falling against other key currencies. If gold had been purchased in sterling the effective rise would be 31%. Gold is also seen as a way of hedging against inflation.

One consequence of the increase in price is the number of companies advertising to purchase your unwanted gold jewellery. This is one way to raise money when times are hard, but it is important to understand the value of gold and shop around to ensure a fair price is received in exchange.

Conclusion

When considering the figures it is interesting to see that it has not been all bad news during the recession as investors entering the market at the right time could well have seen a profit on their investment – and those diversifying into gold may be particularly pleased with their return.

As always, past performance is no guarantee of future performance and the value of your investments can go down as well as up - there is no guarantee that this growth will continue. It is equally difficult to predict the top of the market as it is to predict the bottom and where the markets and economy will go from here is an unknown quantity. Opinion is divided on this and when the UK will emerge from recession.