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Consider Pension Lifetime Allowance

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Many people will have seen or heard about the reduction in the level of Pension Lifetime Allowance. From 6 April 2016 this was reduced by the government from £1.25million to £1million, the lowest level this allowance has ever been. While it is due to be increased slightly with CPI indexation from 2018/19, the latest reduction has undoubtedly taken many more people into the position where a Lifetime Allowance tax charge is a real possibility.

Although there are no limits on the benefits an individual can receive, or 'crystallise', from registered pension schemes, there is an overall limit of tax privileged pensions a member can accrue, called the Lifetime Allowance (LTA). Members' benefits are tested at Benefit Crystallisation Events (BCEs). These BCEs are a technical reference for those working in the industry and simply describe certain actions that will have an impact on your LTA, the most common ones being, taking full pension benefits, attaining age 75, or death. When tested, if they are over the Lifetime allowance a tax charge is applied to the value of the excess. The charge can be as high as 55%



of the excess amount, if taken from the pension as a lump sum.

The LTA is easily seen when the fund is a money purchase scheme, where a value can be compared with the £1million limit. This is potentially most easily recognised when an individual is close to a BCE, e.g. approaching retirement, or for those already retired near to age 75.

For these individuals they need to be aware of the test, and where relevant, take advice to consider appropriate action. One possible step is the use of Fixed Protection, a method whereby the individual can hold on to the earlier limit of £1.25million.

For those with final salary pensions the value of the benefits needs to be compared to the LTA by the use of a formula, a multiple of 20 times income plus the tax free cash amount.

For younger individuals a calculation of potential future growth needs to be done to see if the LTA will be breached at some point in the future, depending on future market returns etc.

Although a fund of £1million seems high, it is surprising how many people will now be impacted by this test during the course of their lifetime.

The moral of the story is that good financial planning advice can be a considerable help to many on how to maximise the use of their pension fund. A financial planner will be able to answer any questions you have, translate the jargon and provide a clear view with matters such as the following:

- A plan to effectively fund your target income in retirement
- The rules for Fixed Protection and what impact that may have on your own situation
- Lifetime Allowance rules and any particular 'events' that might affect you.
- A clear explanation of the new flexibilities for pensions and in turn Inheritance Tax Planning

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