JM FINN

Investment | Wealth

Demystifying Pensions

Your guide to understanding the complex world of personal pensions

Unless you are approaching retirement, thinking about your pension and retirement plans can seem unrelatable, possibly unnecessary and certainly boring. Many a financial services provider aims to educate their clients about the importance of pensions but few manage to make them interesting.

This guide does not claim to make them interesting, but it is designed to help private investors understand the importance of pension planning, make some sense out of the various rules that exist and generally enhance the knowledge of our readers. Why? Because the majority of people invest to save for their futures, and specifically one where they no longer earn a salary, and therefore are reliant upon their savings – and a pension can be the most important savings vehicle an investor might have.

Given the importance of a pension and the tax efficiencies that can exist, it is often surprising to us that knowledge around their use is limited. Much of this is down to the far-reaching changes that were instigated in 2015 which significantly enhanced the flexibility of pensions.

To gain a deeper understanding of attitudes to pensions, we commissioned an independent study of UK professionals aged between 45-65 years earning more than £50,000 [1] and learnt that:

36%

of those planning for their retirement have never received investment advice

43%

are not aware of the difference between regulated financial advice versus financial guidance

42%

were not aware of the annual and lifetime limits on pension contributions

70%

of Baby Boomers and Generation X still feel confident they are making the best investment decisions in the current environment

Despite the majority of investors feeling confident of their investment decision making, many are not fully aware of the rules, a similar number didn't understand the difference between advice and guidance and a third have never received advice.

Why is this data so important? Because in the same study, two-thirds (67%) suggested their pension was to be their main source of income during their retirement.

We also noted that 20% of respondents were not aware of how they can use a pension to pass on their wealth to the next generation. Retirement plans are often considered alongside estate planning, so it is important to fully understand how best to use your different investment "pots" to maximise the amount you can pass on. This is discussed more fully on page 14.

Of course, many savers are extremely diligent and regularly save into their pension pot. This can have several consequences: you could over-pay, as the lifetime and annual allowances are not always fully understood, as evidenced in our research, where 42% stated they were unaware of the limits. It could also lead to having multiple pensions.

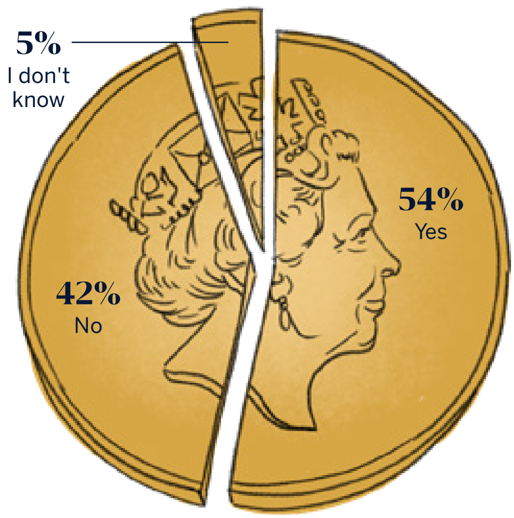
> It is not uncommon for people to have six or seven different pensions.

> There is a good chance that state pension systems won't exist by the time millennials turn 68.

It is not uncommon for people to have six or seven different pensions these days and therefore could well have a similar number of workplace pension schemes. Whilst this means employees have been taking advantage of their employers' contributions, it can lead to a much higher administrative burden, an over-exposure to certain investments and therefore greater total risk than you might otherwise have chosen and worst case, lost or neglected pensions. Nearly £31bn of pension pots remain unclaimed – so in a bid to not "lose" your hard earned savings, consider whether it is appropriate to consolidate your assets, which could result in paying less fees!

Other important areas discussed in this report include whether annuities are still an appropriate strategy for pension drawdown, and the case of transferring a Defined Benefit scheme. And finally, it is estimated pension thieves have stolen a staggering £10bn from 40,000 victims since 2015; we offer some tips to help avoid this financial disaster.

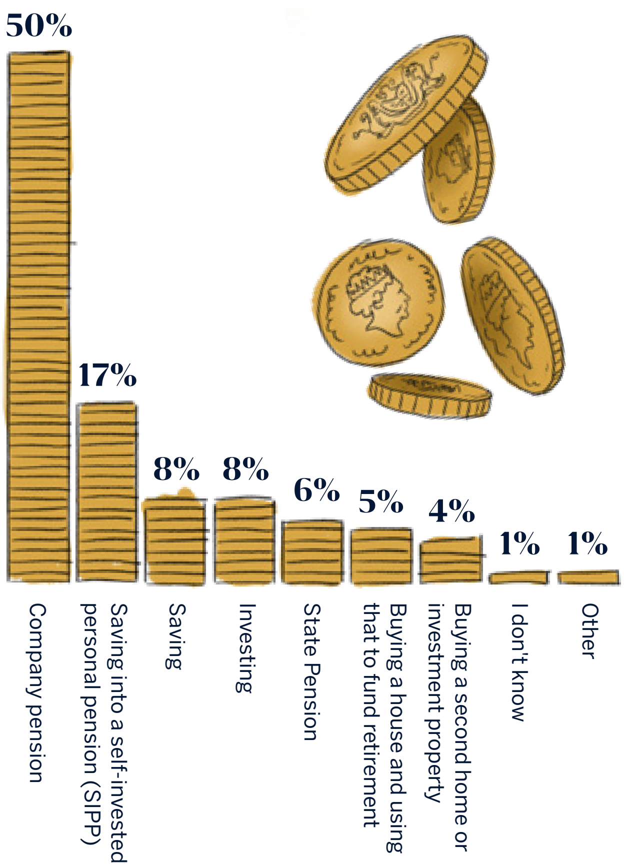
Are you aware of the annual and lifetime limits on pension contributions?



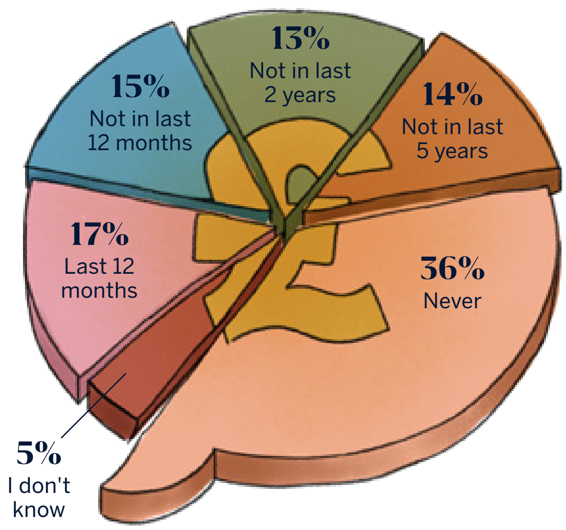
Demographic changes such as increasing longevity and a rising ratio of retirees-to-active employees have largely been responsible for the so-called pension crisis that has seen a huge amount of unfunded government pension liabilities. The result of this and government inaction means that state pension systems will be under even more pressure by the time millennials turn 68. This means that the responsibility of receiving a future retirement income rests on each of us individually and how we manage our pension portfolios.

So if you're an early stage investor, it's probably a good idea to start thinking about setting up a private pension plan or start building an investment portfolio for the future and if you are already well on your way to accumulating a reasonable pension pot, it is worth seeking advice to ensure you are using it correctly. That is of course if you don't want to have to lower your quality of life when you retire.

What is your main means of retirement saving?



Have you ever received regulated pension advice or retirement planning?



The majority of people invest to save for their futures.

Did you know?

£260,000

The annual allowance tapers down for high earners

If you earn over £260,000 per year the maximum you can contribute can be restricted.

April 2027

The date most unused pension funds and death benefits will fall within a deceased person's estate for Inheritance Tax (IHT) purposes.

£268,275

The Lump Sum Allowance (LSA) that can be drawn tax free during an individual's lifetime.

55

Annuities can be bought any time from age 55 (rising to 57 from 2028).

Pensions are flexible so you don't have to start to draw on them when you retire

It might by prudent or more tax efficient to use other pots, such as ISAs, to provide for you upon retirement. It's worth getting someone to review your situation before the decisions are made.

Four Years

You have got four years to claim

Pension savers have up to four years from the end of a tax year to claim backdated, higher-rate tax relief on personal pension contributions.

You can make lump-sum pension contributions

Most savers contribute to a pension via regular monthly contributions, but you can also make lump sum payments at any time.

£230.25

The current full basic state pension is £230.25 a week

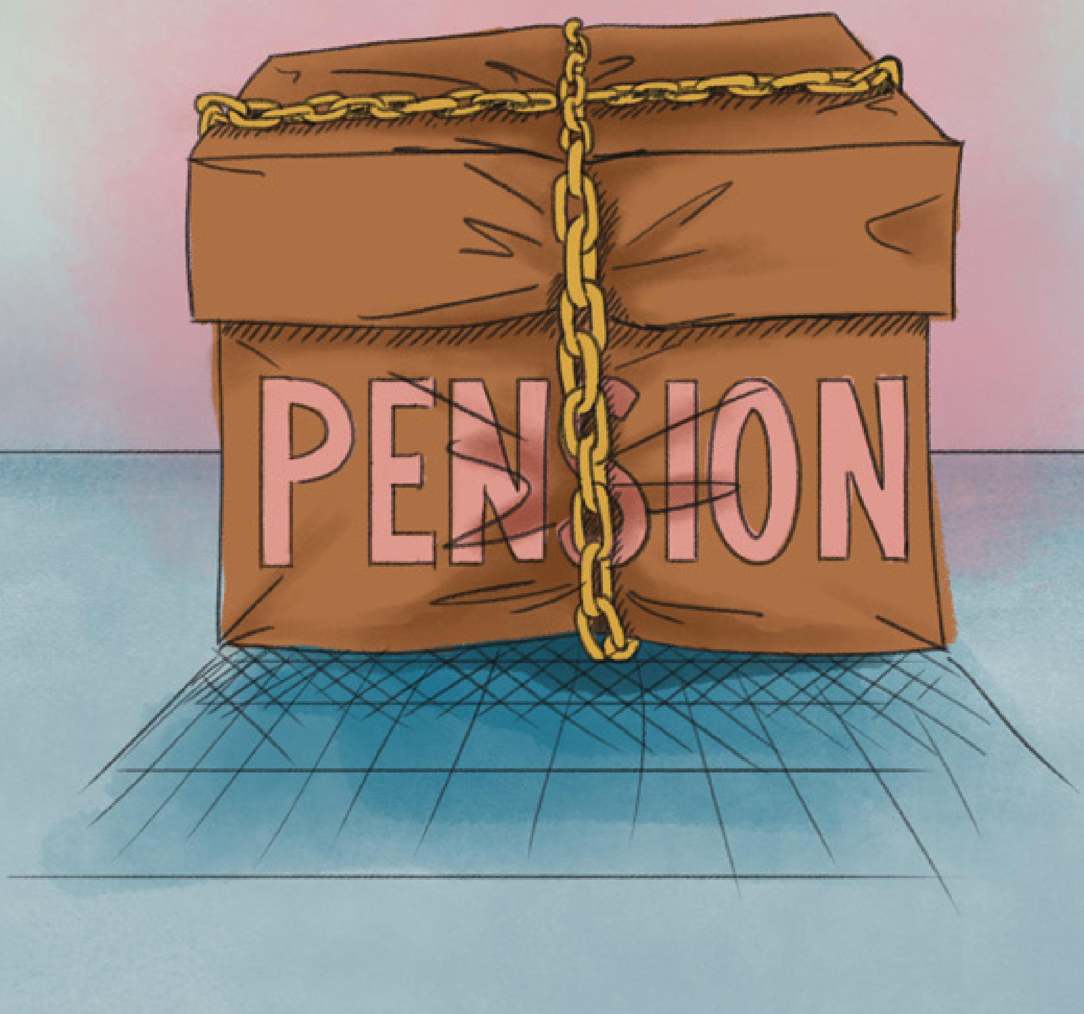
You might get more or less, depending on whether you were "contracted out" at any time.

20%

You can set up and contribute to a pension for your children or grandchildren

Despite not paying tax, your offspring can still get 20% tax relief for any pension contributions you make for the next generations.

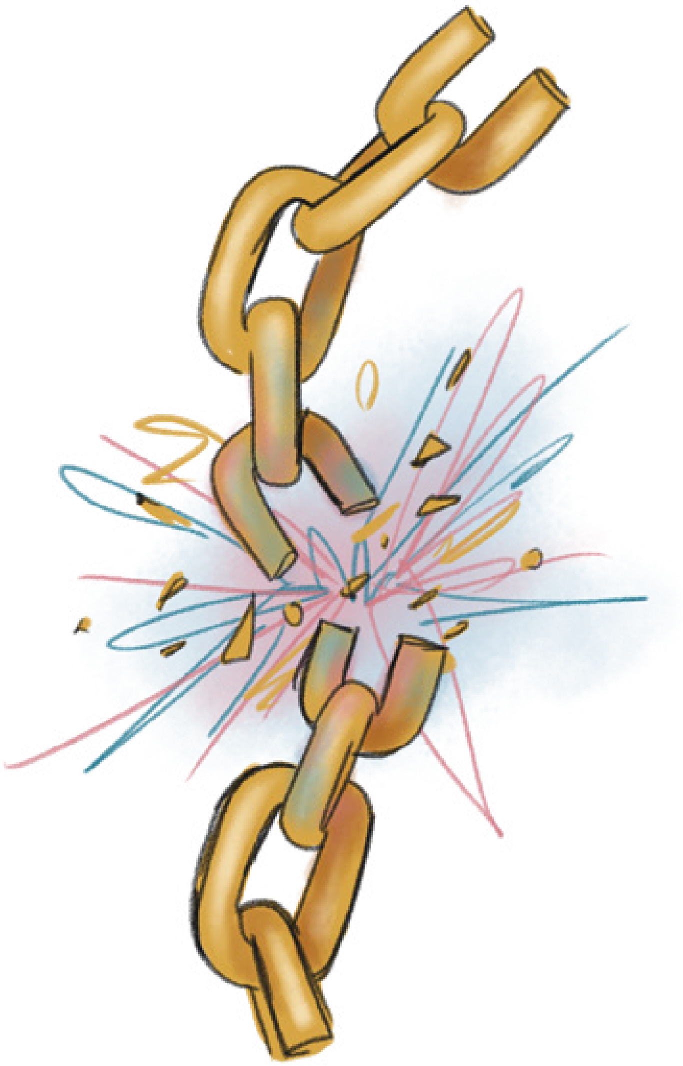
Pension Freedoms



Summary

- Pensions freedom added two new options: flexi-access drawdown and uncrystallised pensions fund lump sum
- Anyone over 55 can spend 100% of their personal pension on anything
- You no longer have to buy an annuity
- Pension funds can be distributed to beneficiaries upon death
- Be aware of the caps imposed on pensions

With annuity rates reaching an all-time low in 2016, changes were needed to the pension rules. No one envisaged quite how much things would change. George Osborne, as one of his lasting legacies as Chancellor of the Exchequer, introduced what has become known as "pension freedoms." Historically, purchasing an annuity was compulsory for most pension savers but from 2015 fundamental changes were introduced, giving increased flexibility when accessing pension funds.



These pension changes have given individuals greater financial freedom with regards to retirement.

When it comes to pensions, many clients we meet confess that they do not fully understand how they work. Not being knowledgeable about personal finances can have serious implications, such as the age at which one can comfortably afford to retire. Understanding one's own finances is now, more than ever, critical with such drastic changes to UK pensions and increases in UK life expectancies.

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The key change was to allow anyone over the age of 55 to spend up to 100% of their own personal pension pot for any purpose they wish, thus removing the requirement to purchase an annuity - an inconceivable freedom only 10 years ago. This was an attempt to combat the measly returns traditional annuities were offering, in a time of low growth and rock bottom interest rates.

There are now three options to take benefits at retirement: flexi-access drawdown, uncrystallised pensions fund lump sum and a traditional pension annuity. These three options enable savers to pick the right form of pension income for their given needs. The changes have been very popular: as of 2025, seven million pension pots have been accessed by people since the reforms began.

Furthermore, there is now an opportunity to distribute your pension fund to your beneficiaries upon death. The fund is able to be passed down — giving beneficiaries the choice of taking the pension fund as a lump sum or leaving the fund invested in a pension wrapper and withdrawing an income when required. If death occurs before the age of 75 then it will be tax-free, making pension provision a significantly more important tool for consideration when estate planning.

The Lump Sum and Death Benefit Allowance annual cap currently stands at £1,073,100 (similar to that of the old Lifetime Allowance), with the Lump Sum Allowance set at £268,275. Tax relief is still available on contributions at the marginal rate of income tax, subject to the capping. Pensions remain an efficient savings wrapper and, thanks to the increased flexibility of access, pension provision is a core component of any financial plan that might be constructed for an investor.

Generally, the flexible pension freedoms are attractive but with the various, often confusing, options available it is essential to make sure the most appropriate route is selected - talking to a professional wealth planner or independent financial adviser is critical.

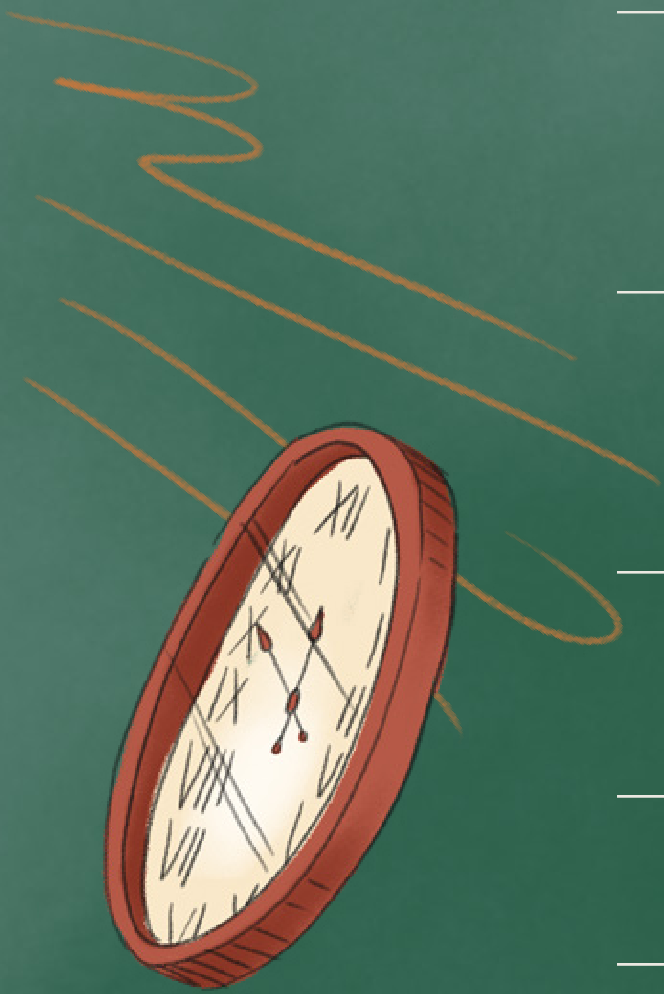
Finally, a word of warning: as with many opportunities come the latest wave of scams. Cold-calls in relation to pensions including emails and texts are banned, but still scammers try to entice pension savers through other means, such as to transfer their savings into single member schemes promising either early access or incredibly high returns. As such, please continue to be vigilant and aware of scams.

Anna Murdock
Head of Wealth Planning

The information provided in this article is of a general nature. It is not a substitute for specific advice with regard to your own circumstances. You are recommended to obtain professional advice from a professional accountant or solicitor before you take any action or refrain from action.

How do I take control of my pension?

Why consolidate your pension pots?



- Some schemes benefit from economies of scale and so larger balances may lead to lower overall charges
- Capitalise on a feature of an existing pension scheme that is not available in your other policies
- Older contracts may have less flexible methods to access your funds at retirement
- Your current pension may offer a limited array of investments
- Increased flexibility could help to meet your specific financial objectives

£31 billion of pension pots currently sit unclaimed. The primary reason identified for this was simply failure to update the pension provider when moving house. It may be optimistic to assume that a forgotten pension pot of considerable size is sitting somewhere in your name waiting to be claimed but this is the reality for a great many individuals in the UK.

This may also be associated with the phenomena of job hopping becoming more and more commonplace. With the dawn of auto enrolment this can mean numerous pensions with multiple providers, each with its own various features. With so many schemes and the associated paperwork that comes with them it can be a struggle to keep up to date with what you have and this ultimately leads to schemes being lost.

There are steps you can take to avoid this happening. The simplest solution would be to contact your pension provider and let them know of a change in your address whenever this occurs. However, it is often not that simple and as individuals move from job to job and house to house it may become increasingly difficult to keep track of what you have.

Another option would be to consolidate your pensions. By combining the contracts it makes it easier to keep track of and manage these savings. Some schemes benefit from economies of scale and so larger balances may lead to lowered overall charges or you may wish to capitalise on a feature of an existing pension scheme that is not available in your other policies. Older contracts may have higher charges, less flexible methods to access your funds at retirement, limited online functionality or a limited array of investments and so a consolidation could help to meet certain financial objectives.

It can be a struggle to keep up to date with what you have and this ultimately leads to schemes being lost.

There are potential downsides to consolidation as some schemes could have exit penalties that will eat into the pot, the policy may benefit from certain guarantees or safeguarded benefits that are valuable and cannot be replicated by another scheme and, there are certain tax advantages to keeping separate pots where these qualify under the 'small pots' rules. Additionally, it is seldom a good idea to transfer out of an existing workplace pension that benefits from employer contributions as these would usually be forfeited on transfer.

When consolidating, individuals typically consider either an existing contract such as their active workplace pension as the receiver scheme or they may choose to establish an entirely new contract such as a Personal Pension or SIPP (Self Invested Personal Pension). The key difference between a workplace scheme and a SIPP is that the SIPP typically offers a wider range of investments and can offer greater flexibility at retirement, but will usually cost more than a workplace scheme. If looking to consolidate, the best option for a contract will require research and have to be compared to your existing situation and financial objectives.

In some cases, it is possible for an individual to complete a consolidation process and implementation of a new scheme themselves where desired. This involves filling in the relevant forms and/or speaking with your providers to arrange a transfer. However, as we have learned with the £31 billion in unclaimed pensions, paperwork and speaking to providers is not everyone's strong suit and this ignores the analysis required in order to move forward with an appropriate contract. If you are uncertain as to whether switching out is appropriate for you, then you should seek advice or guidance from a financial adviser.

> Some schemes benefit from economies of scale and so larger balances may lead to lowered overall charges.

Ensuring you have your pensions in order could make a considerable difference to your pension in retirement. The FCA published a study[2] of the non-workplace pension industry, where they revealed various findings including; low levels of consumer engagement, consumers assuming they had selected a 'standard' investment, charges being highly complex across the market, older and smaller pots attracted higher charges, similar consumers paying materially different charges for broadly comparable products, little switching between products and weak price competition. All of these factors could be to the detriment of your retirement planning and so ensuring correct and thorough analysis is conducted on your existing pensions as well as any prospective new scheme is essential. Andrew Tully, technical director at Canada Life, estimated that £250 billion of pension pots could benefit from consolidation based on this study[3].

It is ultimately up to you to take control of your pensions. This could be by ensuring your existing schemes are registered with the right address or by considering consolidation — whether that be purely for simplification purposes or to access a contract with lower fees, better investment options and/or greater flexibility at retirement or on death. Making sure your pensions are structured in a manner that suits you and your retirement objectives can help to make things considerably easier at retirement. If you are not comfortable tackling such big decisions alone it is possible to seek the help of a financial adviser. They will be able to either provide guidance that will help you to come to your own decision, or give advice where the relevant analysis will be conducted on your behalf with your details in mind and a proper solution found and implemented.

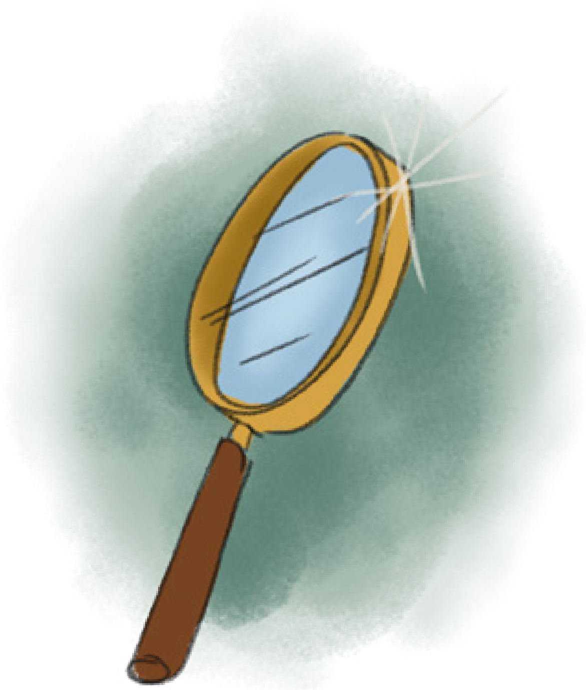
Charles Barrow
Wealth Planner

The above pertains to defined contribution (DC) policies.

As we have learned with the

£31 billion

in unclaimed pensions, paperwork and speaking to providers is not everyone's strong suit.



At JM Finn we offer a service termed our pension policy summary which lays out the details of a client's existing policies and provides the basis of a discussion surrounding the features of their pensions and their potential role in retirement planning. Through this document we can highlight any valuable features that may be worth retaining or any number of factors that may be relevant to your situation. With all of the details available it is then possible to make an informed decision as to the most appropriate step forward.

How could Inheritance Tax pension changes affect estate planning?

Since the introduction of pension freedoms in 2015, there is increased flexibility with regards to how you access (or don't access) your pension and how the associated death benefits are taxed.

The flexibility can vary depending on your pension scheme, so it's worth checking that your scheme can facilitate the options you want. If not, then you may want to consider a transfer to one that does. Whilst considering this, it is also worth reviewing your nominated beneficiaries to help ensure your pension is passed on to who you wish to receive it and avoid delays when distributing the funds.

In the Autumn Budget of 2024, the Government announced significant proposals to include most unused pension funds and death benefits within a deceased person's estate for Inheritance Tax (IHT) purposes. After technical consultation, the government has decided to press ahead with these reforms, which are expected to come into effect from April 2027 despite ongoing concerns from industry experts. Draft legislation has been published, but this of course is subject to change.

> **"The age at death affects the tax treatment of inherited pension assets.**

Importantly, the spousal exemption can be used for any pension benefits left to a spouse or civil partner, in which case the benefits would not be liable to IHT on first death and can be taken immediately, however the benefits will enter the taxable estate of the spouse/civil partner. Other exemptions include any dependants' scheme pension, death in service benefits payable from a registered pension scheme, benefits paid to charity and joint life annuities (though value protection and guarantee periods for annuities that have no discretion will continue to be liable to IHT).

There will be no allowance for business relief, which will disappoint those who speculated that holding business relief-qualifying assets, such as AIM portfolios, inside pensions could mitigate the liability after April 2027.

The standard rate of IHT is 40%. This is charged on your taxable estate in excess of the Nil Rate Band (NRB) currently £325,000 per individual, taxed at 0%, when left to non-exempt beneficiaries, though various exemptions, allowances and reliefs can affect the amount subject to IHT. From April 2027, the available NRB is expected to be apportioned between non-pension assets and each pension scheme paying benefits to non-exempt beneficiaries. The inclusion of pensions in the estate could mean the loss of the Residential Nil Rate Band (RNRB), which is tapered for net estates over £2m – increasing the tax exposure. The NRB and RNRB will remain frozen until 2030.

The deceased's legal personal representatives (LPRs) are primarily responsible for reporting and paying any IHT due on unused pension funds or death benefits. This must be done before assets can be distributed to the beneficiaries. A joined-up approach between LPRs, beneficiaries and pension scheme administrators will be required, and ultimately it will be the beneficiaries who will decide whether IHT is paid from the pension. The extra regulatory burden necessitates additional administration and increased flow of information, which is not ideal for grieving families. Under current rules, you must pay IHT by the end of the sixth month after the person died, after which late interest penalties will accrue. It is easy to envisage delays and additional costs especially when multiple pensions are involved including discretionary pensions schemes, not to mention where there are illiquid assets, complicating an already complex process.

According to the latest update from July 2025: *"HMRC will mitigate this impact by providing personal representatives, pension scheme administrators and beneficiaries with clear guidance, a calculator to advise whether Inheritance Tax is due, and a straightforward system to pay the tax liability."*

In terms of pension death benefits, the age at death affects the tax treatment of inherited pension assets. The proposals are that for deaths before age 75, there will continue to be no income tax, provided benefits are paid within two years of death and don't exceed the individual's remaining allowances if paid as a lump sum; however, there could be an IHT liability. There has been much talk around the potential double taxation of inherited pensions, given the current position whereby pension death benefits are subject to income tax when the member passes away after age 75. While not currently subject to change, if it was introduced it could mean that for deaths over 75, there may be both an IHT and income tax liability.

As things stand, IHT would be due first on the death benefits, with what is left over then subject to the beneficiary's marginal rate of income tax if the original member was over 75 when they died. There are a few instances where tax can be reclaimed, such as if a pension beneficiary draws a taxable pension income to pay the IHT (rather than having the pension provider pay this directly from the pension fund), but you would expect this to be the exception rather than the norm.

Pensions operate on a principle known as 'exempt-exempt-taxed' where tax is exempt on pension contributions, exempt on investment returns and then taxed when taken in retirement. The government will argue that as a result of these changes the deceased member with an unused pension is merely passing on their "tax when taken" liability to the beneficiary. We are not aware of any consultation removing this EET principle on inherited pensions.

> “By 2029/30, nearly 10% of deaths will be subject to Inheritance Tax

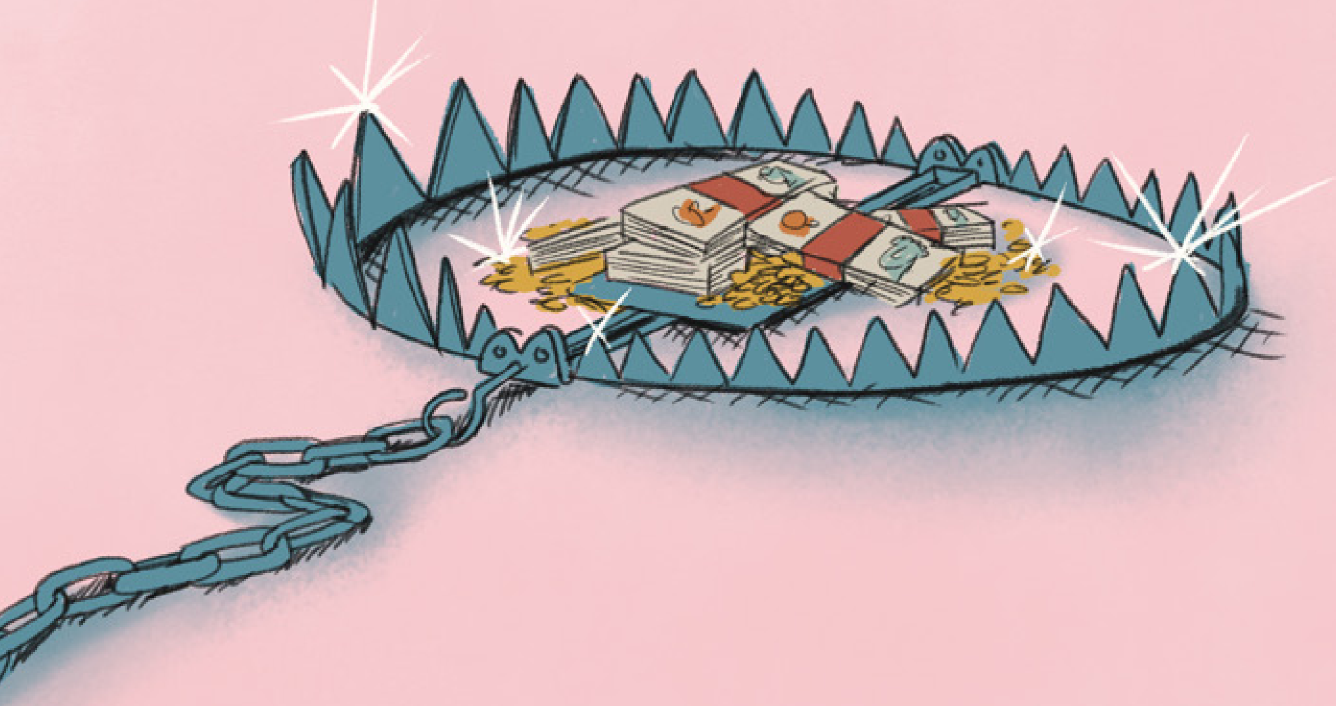
By the end of the decade, the Office for Budget Responsibility (OBR) forecasts that the proportion of deaths subject to IHT will rise from 5.2% in 2023/24 to 9.5% in 2029/30 [4]. It remains to be seen whether over time, in conjunction with other policy changes, this will result in the additional revenue the government aims to raise.

We are about to face a fundamental shift in retirement planning and estate planning, which requires us to rethink how we balance the two and what this means for our portfolios. Pensions remain attractive due to the tax relief on contributions in, however future planning is required more than ever, to ensure benefits are not heavily taxed when taken, or on death. It is likely that there will now be more of a focus on using pensions for their intended purpose of funding retirement, rather than purely as a tax-efficient vehicle for transferring wealth. There is no one-size-fits-all solution to the proposed changes, so personalised advice is key to ensure your plans remain effective.

Uday Tuladhar
Paraplanner

Tapered Annual Allowance

Beware - the tax trap whose bite is worse than its bark



Summary

- The annual allowance is the most you and your employer can save into your pension within a tax year before you are required to pay tax on those contributions.
- There are limits to the tax-relievable contributions that can be paid.
- The annual allowance may be reduced if you have either flexibly accessed your pension pot previously or you have a high income.
- For higher earners, the annual allowance is reduced by £1 for every £2 of adjusted income over £260,000, provided threshold income exceeds £200,000.
- Anyone with an adjusted income of £360,000 or above is restricted to a tapered annual allowance of £10,000.
- The consequences of not being aware of these caps could be a tax charge known as the annual allowance charge.
- It might be possible to carry forward any unused allowances from the previous three tax years.

When discussing pension contributions one of the primary considerations is the annual allowance. The annual allowance is the most you and your employer can save into your pension within a tax year before you are required to pay tax on those contributions. Depending on your taxable income the excess pension savings can be charged to tax in whole or in part at your marginal rate of income tax. In the 2025/26 tax year the annual allowance stands at £60,000.

However, there are limits to the tax-relievable contributions that can be paid. For personal contributions, you are permitted to make contributions of up to the greater of £3,600 or 100% of your relevant UK earnings each tax year, capped at the annual allowance, in order to receive tax relief. However, your annual allowance may be reduced if you have either taken income from your pension previously or if you have a high income.

Focusing on the latter point, from 6 April 2016 a tapered annual allowance was introduced for higher earners, under which an individual's annual allowance is reduced by £1 for every £2 of adjusted income above the relevant limit, provided their threshold income also exceeds the applicable threshold. Adjusted income is broadly defined as all taxable income plus employer pension contributions, while threshold income is broadly taxable income less personal pension contributions.

> **The annual allowance is a tax trap that is ensnaring individuals due to its complexity.**

Following changes introduced from the 2023/24 tax year, the taper now applies where threshold income exceeds £200,000 and adjusted income exceeds £260,000. For every £2 of adjusted income over £260,000, an individual's annual allowance is reduced by £1. The increase in the threshold income limit from £110,000 to £200,000, a £90,000 uplift, has removed many individuals from the scope of the taper, although it continues to act as a constraint for the highest earners. For those still impacted by the taper, the minimum tapered annual allowance is £10,000. This means that individuals with adjusted income of £360,000 or above are restricted to an annual allowance of just £10,000.

The calculation of annual allowance for higher earners can be the source of some confusion as there are numerous elements at play and as a minimum an individual would be required to know their income amounts chargeable to income tax and pension savings (including employer contributions) for the relevant tax year. This can be particularly troublesome for those with variable income arising from multiple sources. The consequences of not being aware of these amounts could be a tax charge known as the annual allowance charge. In order to calculate the charge applicable, the total gross amount that has been contributed to pensions in excess of your annual allowance is added to your income for the year and then income tax is applied. For earners in excess of the £260,000 threshold this would likely be 45%. This charge will be payable by the individual even in the case where the annual allowance has been exceeded through employer contributions. Subject to certain conditions it is possible to have the charge paid from your pension however, this is still not a situation many people would wish to find themselves in.

If you believe that you may be subject to the tapered annual allowance and as a consequence be subject to an annual allowance charge it is important to check with your accountant, who will be able to work out your annual allowance and help you adjust your contributions accordingly. We have seen numerous high income individuals incur a large annual allowance tax charge as they were under the impression that they could pay in £60,000 but were in fact restricted by this tapering. It is a tax trap that is ensnaring individuals due to its complexity, and often it is clients who do not employ the services of an accountant who fall foul of the rules.

It might be possible to carry forward any unused allowances from the previous three tax years. Ultimately this is a complex issue and one that could be detrimental to your long-term financial planning were you to incur a large unanticipated tax charge. However, this can be easily amended by proper and regular surveillance and seeking help from appropriately qualified individuals.

Anna Murdock
Head of Wealth Planning

In the 2025/26 tax year the annual allowance stands at **£60,000**

Is an annuity still the right option?

What is an annuity?

— An annuity is a retirement product that allows you to swap some, or all, of your pension savings for a regular income that's guaranteed to be paid for life.

— Annuities are provided by a handful of insurance companies, and how much you get will depend on the annuity rate offered by the provider at the time, as well as other factors.

— Unlike some other retirement options, you don't need to worry about how much to withdraw or what the stock markets are doing, with the key benefit being that your income will be secure no matter what happens.

— Annuities can be bought any time from age 55 (rising to 57 from 2028). You can usually choose to have up to a quarter (25%) of the amount paid to you as a tax-free cash lump sum, and use the rest to buy the annuity. The annuity income you receive is taxed as earned income.

An annuity is a retirement product that allows you to swap some, or all, of your pension savings for a regular income that's guaranteed to be paid for life. Annuities are provided by a handful of insurance companies, and how much you get will depend on the annuity rate offered by the provider at the time, as well as other factors.

Unlike some other retirement options, you don't need to worry about how much to withdraw or what the stock markets are doing – the key benefit of an annuity is that your income will be secure no matter what happens. Annuities can be bought any time from age 55 (rising to 57 from 2028). You can usually choose to have up to a quarter (25%) of the amount paid to you as a tax-free cash lump sum and use the rest to buy the annuity. The annuity income you receive is taxed as earned income.

When retirement looms, we all wish for the reassurance and security that we will have enough money saved to sustain us for the rest of our lives. Nevertheless, time is uncertain and, if you'll forgive us for acknowledging mortality, no one knows when their time is up.

An annuity - that being a guaranteed income for life - was previously the 'go to' mechanism upon retirement to ensure your pension savings lasted for the remainder of your life. This was until 2015, when the shackles were loosened, and a suite of pension freedoms were granted to allow, from age 55, choice as to how, when and if you can access your pension savings or pension pots (note this applies to 'defined contribution' pensions only). Where in the past, the majority of people solely purchased an annuity with their pension pot, as of 2015 you were granted the choice to draw some, or all of your pension pot in one go, or at different times, or simply leave it.

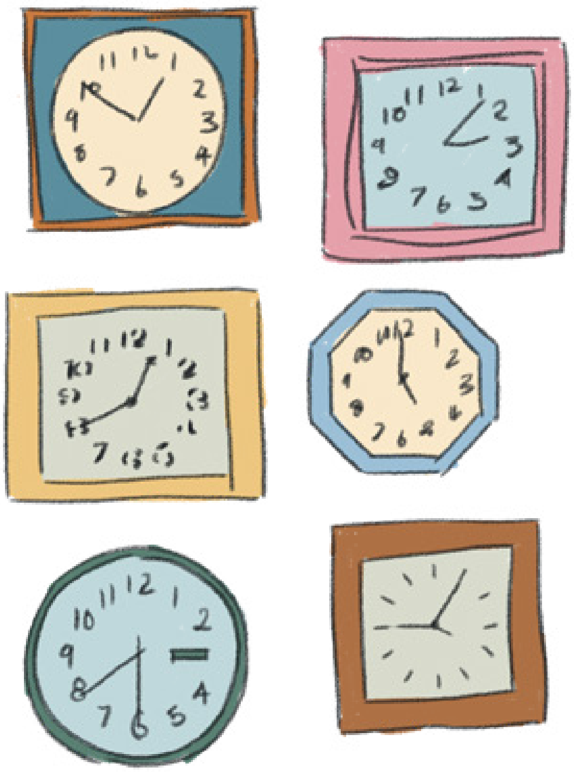
There are now numerous ways to draw an income from your pension, including:

- To purchase a guaranteed annuity income for life or for a set period;
- To elect for flexible retirement income – this is called drawdown;
- To take the whole pot at once – known as 'Uncrystallised Funds Pension Lump Sum' (UFPLS);
- To take a mixture of all of the above or partial drawdown/UFPLS;
- To leave your pension invested.

It is important to stress that different options and solutions apply to different people, hence why a variety of options exist!

With regards to the traditional and, in effect, most restrictive option available, annuity rates in the UK have risen in the last few years, potentially making them a more attractive retirement option again. At present, should a 55-year-old man in good health, purchase an annuity for £100,000 after a tax-free lump sum of £33,333 (25%) has been taken from a full fund of £133,333, at current rates he would receive an income of £4,672 per annum. Note that this example is inclusive of an annual 3% increase, which is an

Annuity rates have risen, potentially making them an attractive retirement option again.



important feature to protect the value of the annuity payments against inflation. This is a 111% increase in annuity rates since December 2021.

The retirement option of drawdown is more flexible than an annuity. You can draw as much money as you wish to at any time and leave the remainder invested, achieving growth against inflation. Nevertheless, it is important to note that without a guaranteed lifetime income providing longevity 'insurance,' the nature of a great number of people's habits of overconsumption alongside the 2015 pension freedom reforms, provides a case for many of not 'if' your pension pot will run out in later retirement - but 'when'. People cannot manage longevity risk apart from extreme cases (such as terminal illness), but what they can manage is whom they may wish to receive their pension pot on death. From a legacy perspective, drawdown pensions offer greater sums to whomever has been nominated to receive your pension on death.

In the case of an annuity, unless specified when the annuity is purchased that it is done so under joint life, the payments will cease on your death regardless of age. What it boils down to is that we now have greater autonomy over our pensions and how we wish to use them, but this puts at risk the longevity of pension savings if poorly managed. From a purchasing power and legacy perspective, if managed smartly and correctly, then for some individuals it can be attractive to utilise the freedoms afforded to us in 2015. At current rates, annuities are attractive, and the peace of mind provided with a guaranteed income for life may outweigh the reduced flexibility that a drawdown account can offer.

Rebecca Barrett
Wealth Planner

Pensions scams

Don’t lose your hard-earned savings

Far from being a victimless crime, financial fraud, especially when stealing someone's pension, can be devastating and potentially leave the victim facing poverty.

Official figures from Action Fraud, the UK's national reporting centre for fraud and cybercrime, show that nearly £18m in pension savings were stolen in scams or fraud in 2024 - with an average value per victim of nearly £34,000. However, the Pension Scams Industry Group, a voluntary organisation, says the figure is considerably higher, partly due to many people not realising they have been swindled until many years later. In fact, it estimates pension thieves have stolen a staggering £10bn from 40,000 victims since 2015.

The problem escalated in 2015 when we gained more choice in how to use our pension pots for different investments. While this allowed many people to improve their financial circumstances, it also allowed scammers to trick others into handing over their life savings. Support for victims of this type of crime is low, and very few ever recover their live-savings or receive compensation.

It's not only the naïve or confused who scammers successfully con. They regularly trick highly educated people, even those with experience in the financial sector. Their tactics are constantly evolving and are increasingly sophisticated, with polished websites and convincing testimonials that they have added to secondary websites to bolster their credibility.

> **If they don't try and steal the money outright by gaining access to the pension directly, they can lure victims in with attractive, but unusual, investments.**

If they don't try and steal the money outright by gaining access to the pension directly, they can lure victims in with attractive, but unusual, investments. Sounding 'too good to be true', these often guarantee better returns than on pension savings by exaggerating the potential earnings and downplaying the risks. Types of investment can include overseas property and hotels, airport parking, storage units, bonds for renewable energy, and forestry.

Often these 'opportunities' are unregulated and have no consumer protections. The investment structures are usually overly complicated, preventing careful analysis, and are long-term, which often mean people don't realise anything is wrong until much later. Common danger words and phrases used include: 'free pension review', 'loan', 'savings advance', 'one-off investment', 'government endorsement', and 'cashback' or 'cash bonus'.

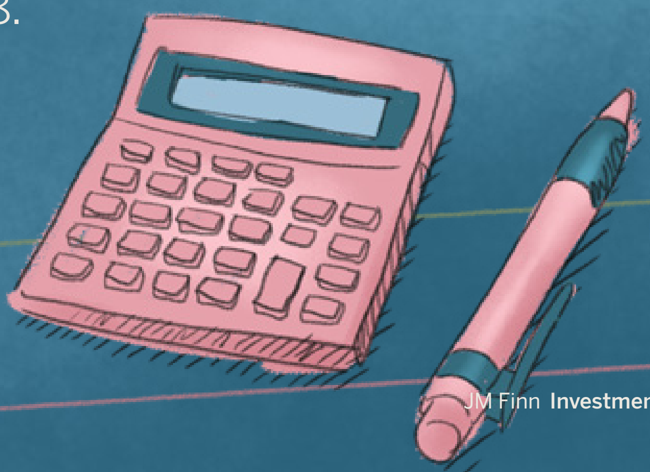
Another common term to look out for is 'pension liberation'. This type of scheme involves persuading the victim there is a loophole for an early release of funds from their pension pot. This can be particularly dangerous as there are no such loopholes and doing so will leave the victim with large fees and/or tax bills of 55% from HM Revenue and Customs (HMRC).

Given enough time to consider these deals, especially if discussed with family, friends or an expert, most people will choose to err on the side of caution, but scammers work around that. Cold-calling, either on the phone or at home, used to be their preferred tactic. While that still happens, scammers are now making contact through social media and via recommendations from duped friends and family to make them seem safe and legitimate. Once they have made contact, they use high-pressure sales tactics, such as suggesting the schemes are time-limited offers. They use couriers to send official documents to the victim's home, who wait until they've signed them, without giving an opportunity to properly read them or to consult with experts.

Official figures put 2024 UK pension fraud at nearly £18m, but the real figure could be far higher.

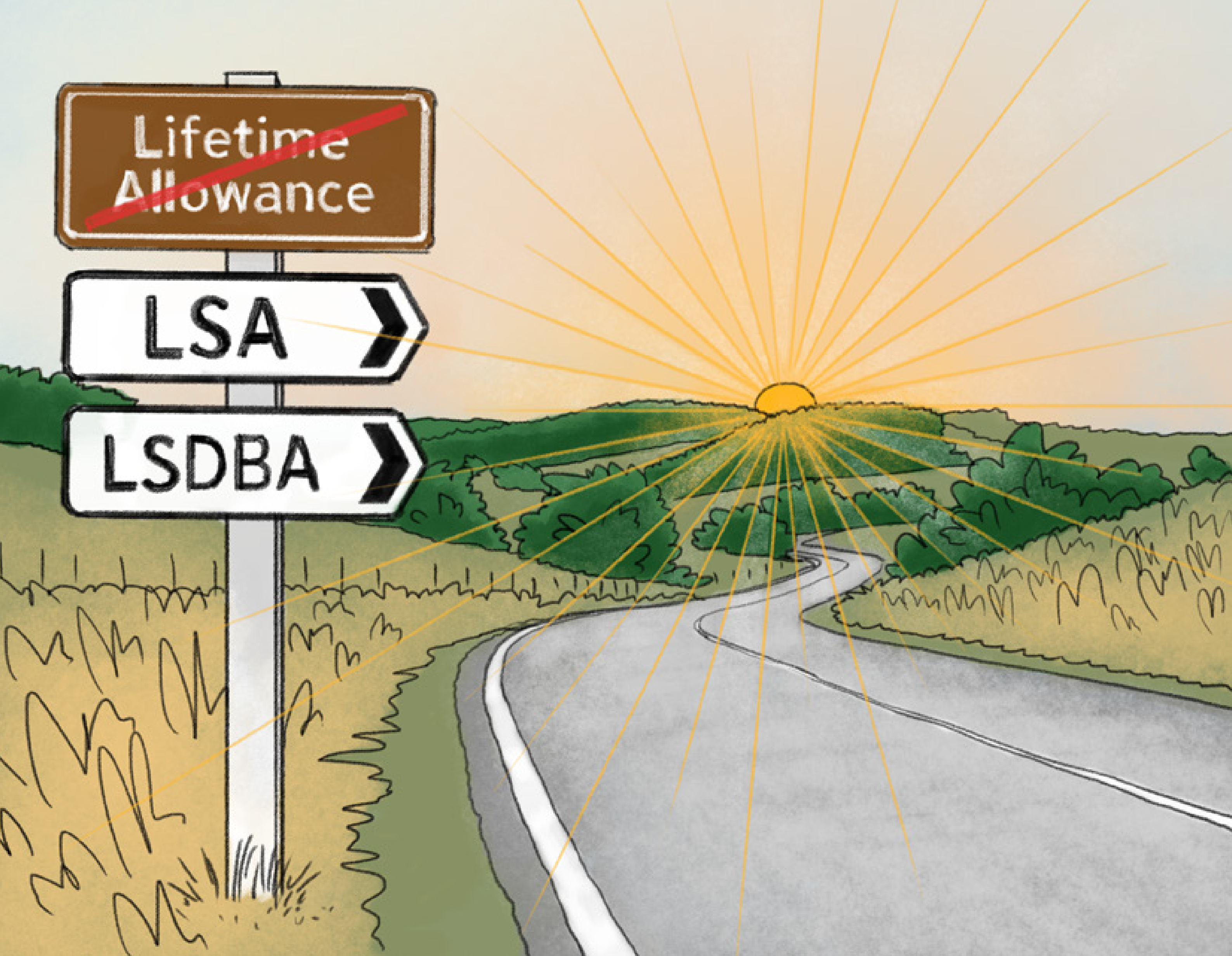
The advice for avoiding this financial disaster is clear

- It is illegal for anyone to cold call you about your pension. If anyone does, report them to the Information Commissioner's Office using their online reporting tool, or by calling 0303 123 1113.
- If you decide to go ahead with changes to your pension, always research who you're dealing with by checking they are authorised to do so on the FCA Register, or by calling 0800 111 6768.
- Visit The Pensions Advisory Service website MoneyHelper for impartial guidance, or get financial advice from an FCA-authorised financial adviser.
- If you have already transferred your pension and have suspicions, contact your original pensions provider immediately. They may be able to stop the transfer.



Tax Hacks

The Post-Lifetime Allowance landscape



Pension legislation is constantly changing and evolving but the last couple of years have perhaps seen more upheaval than most.

One of the most significant changes has been the abolition of the Lifetime Allowance (LTA), announced in the 2023 Budget – which has now been replaced with two new allowances, the Lump Sum Allowance and Lump Sum and Death Benefits Allowance.

Originally introduced in April 2006, the LTA was a cap on how much pension could be accrued without facing a tax charge on the excess. It was initially set at £1,500,000 and increased for the first few years of its existence, reaching a peak of £1,800,000 in 2012. It was then gradually reduced, reaching a low of £1,000,000, before finally creeping back up to £1,073,100 at the time of its eventual abolishment in 2024.

The LTA was something that critics had long taken issue with, given that it could be viewed as a tax on good investment performance. With limits on how much could be paid into pensions on an annual basis, a lifetime cap was also arguably unnecessary. However, as is typically the case with pensions, this overhaul of legislation was not as simple as may first appear to be the case, as new limits (and yet more acronyms!) were introduced in place of the LTA, which limit how much can be drawn from a pension tax-free, during a person's lifetime and on their death.

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The new allowances introduced

In effect, replacing the LTA with these two new allowances has also replaced the previous LTA excess tax charge (typically a 55% tax charge on the amount over and above an individual's LTA) with a tax charge at the individual's income tax rate.

- The Lump Sum Allowance (LSA) is a monetary limit on the amount that can be drawn tax free during an individual's lifetime. For most people, their LSA will be £268,275 (equivalent to 25% of the LTA at the time it was abolished).
- The Lump Sum and Death Benefits Allowance (LSDBA). This is a monetary limit on how much can be paid tax-free on death before age 75. It includes tax-free cash taken during an individual's lifetime, and lump sums paid on their passing (curiously, it captures lump sums only, not funds paid to a beneficiary under drawdown). For most individuals their LSDBA will be £1,073,100 (i.e. equivalent to the LTA at the time it was abolished).

The LSA and LSDBA limits are those that most people will be subject to, however where an individual has previously registered for some form of LTA protection (of which there have been various iterations available, to protect those who may have been affected where the LTA was reduced in the past), their individual limits may be higher.

Interactions with previous regimes
The introduction of these new allowances may look fairly straightforward on the face of it, but when you dig down into it that may just not be the case.

In particular, complications can arise when someone has previously drawn some (but not all) of their pension pre-April 2024, under the previous LTA regime (or even prior to that, before the LTA was introduced in 2006).

The interaction between the new and old regimes can mean that there is the possibility some individuals can take a greater amount of tax-free cash now than would have been possible had they drawn all of their lump sum prior to April 2024. This will only affect a fairly small sub-set of people, but is mostly likely to apply where someone has started taking a pension but did not take the full 25% tax-free lump sum from this (typically this may have been where pension has been taken under a defined benefit pension scheme, or there was some sort of statutory restriction which meant tax-free cash was not available) or where they have drawn benefits at a time when the standard LTA was less than £1,073,100.

In short, the way that the process works is that when calculating how much Lump Sum Allowance an individual has remaining, it is possible to deduct the actual monetary amount of tax-free cash they previously withdrew from their headline Lump Sum Allowance, rather than deducting a notional value which is calculated by reference to the Lifetime Allowance they previously utilised.

As an extreme example, someone may have used up 100% of their LTA prior to April 2024 but not actually taken any tax-free cash when they started drawing their pension. Previously this would have meant no tax-free cash would be available, but under the new regime this does not have necessarily have to be the case. It can therefore offer a 'second bite at the cherry' for those who did not take the full 25% tax-free cash from their pensions when they initially drew on these under the previous regime.

Importantly, however, certain procedures and protocols need to be followed to ensure that those who could potentially benefit from the higher lump sum entitlement, are able to do so: the rewards can be great, but the cost of getting it wrong may also be also significant.

There may also be even more niche instances where people can take more than the usual 25% tax-free cash from a pension scheme (known as 'protected tax-free cash', this will usually only apply to a fairly small number of pre-2006 pensions) but where they have multiple pension plans the order in which they draw down on these can impact how much tax-free cash can be taken overall.

Whilst the abolition of the Lifetime Allowance has been welcomed by many, it has also introduced additional complexities to contend with. To find out more about this topic, please speak to JM Finn's Wealth Planning team.

Luke Audritt
Wealth Planner

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Introduction

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Important Notes

Investment involves risk. The value of investments and the income from them can go down as well as up and investors may not get back the amount originally invested.

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