LONDON & COLONIAL
INNOVATION IN PENSIONS

Press Release

Feature for *Retirement Planner*: Will the Pension reforms achieve their goals – and what exactly are the goals?

Finally it appears that the dust has settled, following the flurry of industry excitement caused by the somewhat radical reforms announced in George Osborne's latest Budget.

My initial response was, and still is, that these proposed reforms should be welcomed with open arms. I have campaigned, both as an individual and corporately, for HMRC to remove the rigidity traditionally associated with UK pension schemes. The conventional annuity route has in my opinion continually served as a barrier when it comes to encouraging the investment of new money into pensions. Unfortunately however, there are no easy answers to the questions posed in the above title.

It has been said that where you stand on an issue depends very much upon where you are sitting. So if you were sitting on the Government benches, and clinging on to a marginal seat with the next general election lurking on the horizon, you would probably be very pleased with these latest proposals.

Furthermore, as the Government is also likely to see an increase in tax take, as well as an increase in pension savings as a result of the proposed changes - so far so good.

But what might this mean for the SIPP market and what might the impact be on the owners of traditional small to medium sized businesses (SMEs)?

Traditionally many owners of SMEs would have viewed their pension pot as 'dead money' with any and all residual funds being retained by the annuity provider. There was a time when SIPPs were often about giving small business owners the tools with which to be able to invest in a premises, for a business they understood better than anybody else.

Many owners of SMEs have long seen their business as their pension fund. As one of the stated intentions of the changes proposed in the latest Budget is to encourage new funds to be invested into pension schemes, the focus no doubt will now be on the maximisation of contributions - especially for SME business owners.

The main caveat however is anyone now wishing to maximise their contributions should also be keeping one eye on the lifetime allowance – recently reduced in the budget from £1.5m to £1.25m. As a result of the latest budget proposals your SME clients can now view their pension funds as 'real money' with an actual value. As such it is more likely that many will now choose to invest more prudently, whilst adhering to an investment strategy concentrating more upon conventional investments, rather than simply and often blindly, chasing wildly improbable investment returns.

With the new proposed changes SME business owners can view their pension fund as something over which they have full control, both pre and post retirement, and as such can now constitute an essential and central part of their overall business plan.

There are all sorts of planning permutations available, the most obvious being that at least part of the business profits can effectively be paid in as pension contributions, and so deducted as a business expense. Interest payable on any business loan(s) and/or rental payments for the business' premises can also be used to make further tax deductable payments into the pension scheme.

In the light of the recent reduction in the Lifetime Allowance (LTA), and with possible further reductions unable to be totally ruled out, financial planning around the Lifetime Allowance will also become more crucial, and at an earlier stage rather than leaving it to the last minute just before it starts to bites.

For those clients who do find themselves in danger of exceeding the UK Lifetime Allowance, a Qualifying Recognised Overseas Pension Scheme (or QROPS) can be a very effective way of eliminating the risk.

With any transfer into a QROPS being classed as a Benefit Crystallisation Event, prior to the transfer the funds will be tested against the current Lifetime Allowance in force at the time. Once the transfer has been completed, all future growth within the QROPS will fall outside of any restrictions imposed by the current, or future, LTA.

Therefore, as always holistic financial planning is paramount in order to take full advantage of the opportunities available especially where SME clients are concerned. It is often a combination of SIPP and QROPS together that can provide a powerful combination for SME clients in order that they can fully maximise the planning opportunities available.

-ENDS-

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Notes to Editors

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