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I am approaching my state retirement age. I read somewhere that I can defer my pension. Is it worthwhile?

State Pension deferral means putting off claiming your State Pension, when you reach State Pension age, or choosing to stop claiming it after having claimed it for a period.

From 6 April 2005, if you defer, you may be able to get a higher State Pension, or a one-off taxable lump sum payment.

To get extra State Pension you have to put off claiming for at least five weeks and there's no maximum time limit.

You build up extra State Pension at 1% of your normal weekly rate for every five weeks you put off claiming and this is equivalent to about 10.4% extra for every full year you put it off

Example –

Anne decides to put off claiming her weekly Pension of £90. She finally claims after two years and chooses extra State Pension. She now gets a total weekly State Pension of £108.72 for life, an increase of £18.72 per week (£973.44 pa) after 2 years. Deferral has meant though that she has lost out on the first 2 years worth of pension at the lower rate (£9,360 gross) and so to make this up, she would need to survive for about 10 years to break even.

To get a lump-sum payment, you have to put off claiming for a continuous period of at least 12 months.

The lump sum is a one-off, taxable payment based on the amount of normal weekly State Pension you would have received, plus interest. You also get your State Pension paid at the normal rate from when you start claiming it.

Example –

Bob decides to put off claiming his weekly State Pension of £105 for three years and so he will get around £18,000 (before tax) as well as his normal weekly State Pension entitlement.

The return payable here is reasonable and Bob still enjoys the full initial pension payable so life expectancy has less bearing.

To conclude, the decision to defer will very much depend on how long you feel you are going to live. Also, as pension income is taxable at your highest marginal rate and should you be a higher rate tax payer now and not be in retirement, then this could be a good argument for deferral.

**I am approaching my retirement and believe that the pension rules changed in April 2006?
What impact will this have?**

From 6th April 2006, a new set of pension rules were introduced. They replaced much of the existing pension legislation which has been built up over previous decades.

Here's a brief summary of the main changes:

- > You can now be a member of a company pension scheme and save money in a personal pension at the same time.
- > You can start drawing your pension and carrying on working at the same time.
- > From age 50 (age 55 after 2010), you can draw 25% as a tax-free lump sum regardless of pension scheme type
- > You can invest up to 100% of your earned income in a tax year (maximum £225,000 in 07/08)
- > You can build up a pension fund up to a lifetime limit, now £1.6m (0708)
- > You may no longer need to buy an annuity by your 75th birthday

Are the rules on Individual Savings accounts (ISA) changing?

Yes, from April 2008, the investment limits are to be increased to £7,200 per annum of which a maximum of £3,600 can be invested into a Cash ISA. Other changes include:

- > PEPs and ISA rules being aligned.
- > The distinction between Mini/Maxi ISA & Tessa Only ISA will be removed
- > Tessa Only ISAs (TOISAs) will become Cash ISAs.
- > Transfers from cash to stocks and shares ISAs will be allowable

Critchleys Financial Planning are running an investment seminar at North Oxford Garage on 26 February. For further details contact Robert Pinheiro on 01865 261100