


MONEY MATTERS

Pension poser

JASON MCGUIGAN, of accountants Critchleys, answers questions about retirement

 I am approaching my state retirement age. I read somewhere that I can defer my pension. Is it worthwhile? You can put off claiming your state pension when you reach state pension age, or choose to stop claiming it after having claimed it for a period.


From April 6, 2005, if you defer, you may be able to get a higher state pension, or a one-off taxable lump sum. To get extra pension, you have to put off claiming for at least five weeks and there's no maximum time limit.

You build up extra pension at one per cent of your normal weekly rate for every five weeks you put off claiming — equivalent to about 10.4 per cent extra for every full year you put it off.

For example, Anne decides to put off claiming her weekly pension of £90. When she starts claiming after two years, she gets £108.72 a week for life, an increase of £18.72 per week (£973.44 per year). However, she has lost out on two years of pension (£9,360 gross). She would

need to survive for about 10 years to break even.

For a lump-sum payment, you have to put off claiming for a continuous period of at least 12 months. As well as a one-off, taxable payment, you also get your state pension paid at the normal rate from when you start claiming it.

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

The main changes are that you can now be a member of a company pension scheme and save money in a personal pension at the same time; you can draw your pension and carrying on working; from age 50 (age 55 after 2010), you can draw 25 per cent as a tax-free lump sum regardless of pension scheme type; you can invest up to 100 per cent 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 (07/08); and you may no longer need to buy an annuity by your 75th birthday.

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