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What are the Pension changes and how will they affect you?

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What are the Pension changes and how will they affect you? Well to put it into context, pensions have been changing for a while now and if we look at state pensions for instance we can see that respective governments have gradually eroded their value.

When state pensions were first introduced the amount paid out represented over 25% of an average wage and now it's nearer to 15% if you get a full state pension and it's certainly a lot less than that for many people who don't receive the maximum for one reason or another.

Then if we look at corporate pensions – i.e. pensions provided as part of an employment package we find challenges there too. The benefits paid out by these pension schemes are reducing whilst contributions from the employee are increasing. Added to that less than 1 in 5 UK based companies give any guidance about pensions compared to over 50% in the US – and this is indicative of a general malaise I think.

We've also had a lot of external factors – like the pensions mis-selling scandal and overcharging of management fees combined with poor investment returns - that have forced the government to review the whole area.

So let's broadly review the changes that were implemented from April 2015 and beyond.

Overall there is a drive to make the retiree more responsible for their pension than before. The change that made the headlines recently is the possibilities that a person can now withdraw their entire pension fund in one go as soon as they retire rather than this immediate withdrawal being restricted to 25% as it is now.

Now clearly this could be a great thing – as long as you do something positive and profitable with the money – but of course the fear that people may just withdraw their funds and spend it is a real worry.

Nonetheless whatever happens to the pensions pot itself we can see that actually the onus of responsibility has changed.

When the Pensions Act was introduced in the early 1900s it was an opportunity for an individual to abdicate responsibility for their financial future to the government: I think it's fair to say that the changes this year are the government abdicating it back!

This is an enormous psychological, moral and financial change in circumstance and situation for people that the government are not really addressing as many people will now be completely lost.

Sadly there is very little in the way of real education or support for people who will now need to take control and get to grips with this and understand what they need to do.

In fact it may get worse. Some commentators believe that this change of responsibility is the first step in the government withdrawing state pensions

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altogether and actually if we view this change in conjunction with the eroding of the financial value of the pensions already mentioned - we can see a worrying trend emerging.

And that trend could keep going, making the actual value or purchasing power of the state pension getting less; at the same time as the abdication of governmental responsibility back to the retiree until, eventually, there will be no state pensions left at all.

Added to all that is the second major change which is the state pension's moving onto what is loosely called the single tier system.

Now before I go into what that means I need to tell you that 25% of people think they are going to be better off under the single tier system and that sadly is not likely – and 8 out of 10, 55 – 64 year olds admitting that they have no idea what it means or what they're going to get.



Oh dear!

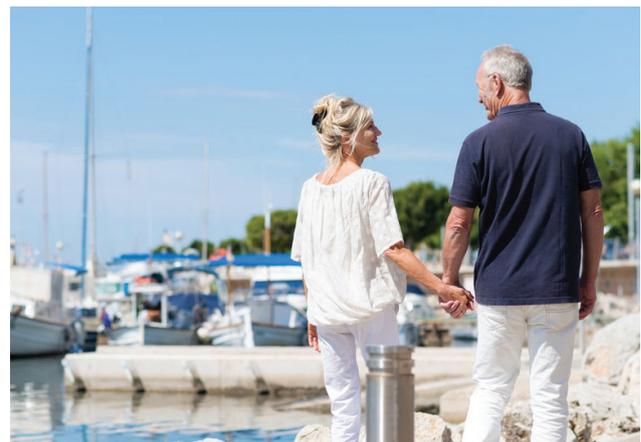
Ok so now the truth.

From April 2016 – so a year after the first set of changes – the state pension will become

a single level pension of approximately £155 per week.

The Pensions Policy Institute think tank has calculated that a person will only – and then only possibly – be better off if they are:

- Over 61 at the date this change is implemented, and
- They have a high National insurance contribution record and that is estimated to be at least 35 years of full national insurance contributions



The rest of us I'm afraid are definitely going to be worse off.

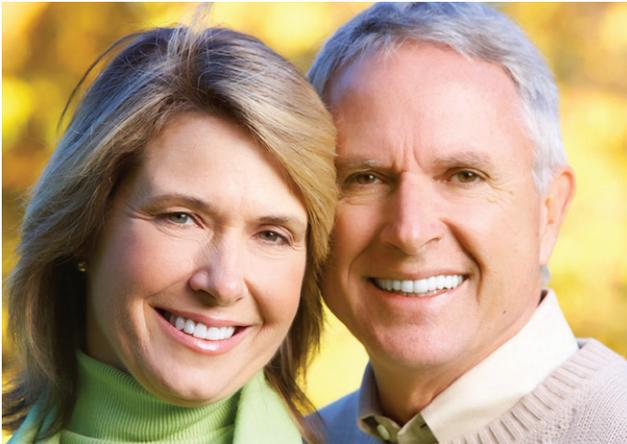
So the think tank have estimated that a man aged 45 in June 2014 earning an average wage will be £18,298 worse off under the single tier system over the length of his retirement.

And the same man who earns a higher than average wage of say £45k will be £36,595 worse off.

In general the more you currently earn and the younger you are – the more you lose out.

And that's partly because it is estimated that nearly 60% of people won't actually get

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the full amount – so much for a single tier payment then.

Because the single payment will be reduced if you haven't made full national insurance contributions and if you've only slogged for 30 years paying FULL national insurance rather than the magical 35 years your £155 will be knocked down to approximately £113 per week.

Now you may think that you're Ok because you expect to – or already have - worked over 35 years paying full national insurance but actually it's the amount of **qualifying years** contributions that count.

So if you had a good corporate pension you may have been contracted out of what's known as SERPS and you will have each year that you were contracted out deducted from your national insurance qualifying years total.

SERPS are also known as the State Second Pension and it tends to be that a person who is in a decent corporate pension scheme, say a final salary scheme, gets contracted out of the State Second Pension.

So even if you already have - or will - work 35 years or many more – you may well discover at the pension pay out stage that you only have 10 or 15 years of **qualifying** years because you were contracted out for many of the years over your working life and your single payment pension will be restricted as a consequence.

And just as a final challenge for you – you may well have been contacted out without your knowledge – so has your employer done that for you without you knowing because if they have it could have enormous consequences later.

Now I don't want to scare you because actually you have the choice to be Ok with all these changes. I'm Ok for instance and my children are Ok, because I understand these changes and know how to build a fund of money and assets that will support and sustain me and my family today, tomorrow and way into the future.

You and your family deserve that opportunity too.



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