

# Building a bigger retirement income

Could you receive more tax-free cash when you retire?

In amongst the technical papers issued by HM Revenue & Customs (HMRC) on the back of the Budget 2012 changes, there is a hidden gem. An alteration in the formula for calculating taxfree cash for pre 6 April 2006 (A-Day) members of occupational pension schemes could lead to people receiving more tax-free cash when they retire.

Prior to A-Day, occupational pension scheme legislation determined the level of tax free cash available to members of such schemes. Since A-Day, the level of tax-free cash has been set at a maximum of 25 per cent.

## Tax-free cash entitlement

Pre A-Day members of occupational pension schemes have been allowed, under HMRC rules, to protect the tax-free cash rights they held at A-Day that were greater than 25 per cent. In such cases the tax-free cash entitlement can further increase over time, based on two calculations introduced by HMRC:

1. The A-Day protected tax-free cash entitlement is automatically increased by the increase in the Lifetime Allowance up to 6 April 2012, an increase of 20 per cent. All members with protected tax-free cash receive this uplift regardless of how well their occupational scheme investment has done since A-Day.

2. The tax-free cash entitlement is further increased by 25 per cent of any positive growth in the value of the pension fund since A-Day.

Prior to 6 April 2012, the level of investment growth was discounted by 20 per cent of the pre A-Day fund value to take account of the increase in Lifetime Allowance from £1.5m to £1.8m up to 6 April 2012. From 6 April 2012, this discount no longer applies, resulting in a higher tax-free cash allowance for many people, provided they have seen positive investment performance since April 2006.

## How the numbers add up

Pre A-Day member of an occupational scheme, with a pension fund valued at £100,000 on A-Day, with a protected tax-free cash entitlement of £60,000. The current value of the pension fund is £140,000

## Calculation for determining tax free cash amount:

Under the new post 6 April 2012 calculation, the amount available as tax-free cash has increased by £5,000 from £77,000 to £82,000, an increase of over 6 per cent.



This is really good news for many people who have a protected tax-free cash entitlement in an occupational pension scheme they joined prior to 6 April 2006. The new calculation can greatly enhance the amount of tax-free cash these people can take at retirement. Many people may not know whether they have a protected cash entitlement from their service up to A-Day in these schemes, and it is really crucial that they check with those schemes to establish what their tax-free cash entitlement was at A-Day.

**If you are looking to consolidate your occupational pension scheme you need to speak to a professional financial adviser to ensure that you protect this valuable benefit, or risk reducing your tax-free cash entitlement to 25 per cent of the value of your pension savings. For more information, please contact us.**

*A pension is a long-term investment. The fund value may fluctuate and can go down as well as up. You may not get back your original investment. Past performance is not an indication of future performance. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances.*

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