Do all roads lead to Rome?

All roads lead to Rome, or so the old saying goes. That well-known phrase tells us that different methods of doing something will eventually lead to the same result; so no matter which road a centurion took from the provinces, he would always end up back in Rome.

But do all roads really lead to Rome? When it comes to financial planning, they most certainly don't.

"The 'Pensions – Freedom and Choice' legislation changes have barely been introduced and already firms are reporting frenzied activity from customers wanting to cash in their pensions and get their cash, regardless of the long term implications," explained Darren Scoon, strategic business manager at financial advice firm Principal & Prosper.
The Chancellor changed much more than just the pensions market with the new legislation, creating a whole new network of different roads and routes. So if not to Rome then where will it lead? Put quite simply, it can lead anywhere.

Scoon said: "The radical changes affecting savings and financial advice may lead to conventional wisdom being turned on its head. Individuals now have more choice and control than ever before and, as Spider-man's Uncle Ben once said, 'With great power comes great responsibility'.

"So how do we handle this power and responsibility? We need to understand what's changed, we need information and we need help to figure out what it all means. After all, careers have been made on jargon.

"If I'm savings towards my retirement then I need to understand my income needs at retirement, the impact my behaviour today has on this aim and I need to know what my options are. I then need a plan to achieve these aims and I will want to manage this plan and know if it's on track – after all, my retirement is a key event in my life and, after working hard for years, I want to enjoy myself."

He added: "Of course, this isn't really a change – financial planners have been providing these services for years – but it's the options available to you when you come to spend your money that have changed."

It's worth taking a look at a quick summary of the changes:

- Income flexibility: pensions are now instantly accessible for the over 55s. Essentially the new rules mean you can access all of your money right away, with no restrictions;

- Pension death benefits: The 55 per cent tax charge on drawdown lump sum death benefits has been scrapped. It's possible for anyone to inherit a drawdown pot and continue drawing an income from it, removing the previous restriction that only dependents can carry on in drawdown. If you die before age 75 then death benefits can normally be paid tax free within the lifetime allowance. On death at 75 or older, death benefits will be taxed as the recipient's income, when they draw the funds. These changes make pension wealth far more inheritable than ever before.

- Defined benefit to defined contribution transfers: Defined benefits schemes don't have access to the new-found flexibility so if you want this then you need to transfer to a defined contribution scheme. You must take financial advice to determine if this is appropriate for your circumstance.

- ISA inheritability: spouses and civil partners whose partners died after 2 December 2014 are now eligible for an increased ISA allowance equal to their late partners ISA value at the date of their death, allowing the survivor to continue to benefit from tax free investment returns.

 Savings rate band changes: The savings rate band has been more than doubled to £5,000 and the rate cut from 10 per cent to zero. For a non-taxpayer, this could mean a tax-free allowance of £15,600 when combined with their usual personal allowance.

Scoon added: “So you are now approaching retirement and, having saved what you can afford to help provide for your lifestyle, you now have to work out whether you should join the current crowd and rush to get all your monies out or whether you should draw a regular income from your pot (and, when required, an irregular income).
“Benjamin Franklin said: ‘In this world nothing can be said to be certain, except death and taxes’. It’s these two aspects that need most careful consideration when drawing monies. If you take it all at once then you will almost certainly face a large tax bill.
“It’s here that financial planners can help you navigate through the various tax allowances to help you manage the amount of tax you pay.”
So all roads don’t lead to Rome, but in this instance that’s not a bad thing. It means that, with the right map, your road to retirement can instead lead to a destination of your choice.

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