

The new pension freedoms are great news but two new cases we had this week highlight the need for even the brightest of people to seek Independent Financial Advice.

In one case a terminally ill client wanted to cash in the whole of their pension pot (around £60,000) in one go to leave it to relatives in his Will. We held back the paperwork to do this told him why.

It would have been a disaster from a tax point of view. Not only would the fund suffer 40% income tax on the money withdrawn but in his case the fund would also be subject to Inheritance Tax on his demise at another 40%.

In money terms his £60,000 would reduce to £36,000 net after income tax and then the beneficiaries would pay 40% Inheritance tax on the £36,000 reducing it to £21,600.

As he is under 75 his pension fund can pass as a lump sum tax free to any beneficiary meaning that by simply leaving a note of his wishes with the pension trustees, his relatives can on his demise inherit the whole £60,000. Our intervention then saved him and his family £38,400 tax.

On a much brighter note another new client caused us concern because he was withdrawing far more from his pension fund than could be reasonably maintained. As their household bills will increase over time, it was highly likely the fund would "run out" much faster than anticipated. They knew this was the case but had no choice if they were to cover their running costs today.

This prompted us to investigate the need for such a large income and based on the family budget their State pensions did not seem high enough for a married couple when he had worked and paid National Insurance contributions all his life.

Married Ladies are entitled to the better of two State pensions. The higher of one earned in their own right or 60% of their husband's basic state pension with a maximum of £69.50 per week.

They had been wrongly informed that they did not qualify for this extra state pension but at our suggestion they challenged the Pension Service who admitted a mistake had been made and would not only start paying the £69.50 a week but would backdate the payment nearly four years.

We were delighted as this meant withdrawals from the pension fund could be reduced which means the fund can grow and thus provide an increasing income into the future.

The moral of the tale is as usual see an IFA, the world is not the simple place it used to be.