REPORT on the
WOODS BUILDING SUPPLIES PENSION SCHEME
Retirement Options for Kusum Tandon

("Scheme")
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1. Background

The Scheme is tax registered as an employer's occupational pension scheme, adopting small self administered scheme rules. It operates as money purchase, meaning that the benefits paid are determined by the available money held in the scheme for each member.

As an occupational pension scheme, membership is open to include employees, spouses and serving directors of the company.

The Trustees maintain a notional share of assets within the scheme account as an individual fund, which is monitored by the scheme pension practitioner who undertakes reporting and tax duties to the Regulator.

The purpose of this report is to assess the retirement options within the Scheme and future funding considerations.

2. How the Scheme is presently funded

Contributions are funded from the Company and whilst this is held in a general account, you are notionally earmarked a share of the assets of the scheme as stated in the trustees' resolution and scheme accounts.

When benefits are taken they are drawn from an individual account and this is known as crystallisation. Quite simply, any amount of fund can be crystallised up until the age of 75.

All the while this is taking place funding can continue within the scheme up to age 75, having regard to the lifetime allowance.

Pensions from previous providers can be transferred across into this SSAS to the individual account and form part of the overall individual fund.

3. **Benefit Provision**

You can use any part of the fund to either purchase a lifetime or a short-term annuity. Annuity contracts secure a promised level of income based on gilt yields underlined by mortality rates. You can in periods of high interest rates receive a reasonable income yield against the somewhat life expectancy gamble, however the downside is that the annuity provider retains the fund in the annuity pool where you die early. Certain insurances can be secured though, including a guarantee on the number of payment years, but annuities have reduced in popularity in recent years given poor term rates.

From 6 April 2015, flexi-access drawdown is an unsecured pension option open for the provision of drawdown pension. From that date, the tax rules allow you to designate the sums and assets from it into a flexi-access drawdown fund from which you can draw down any amount over whatever period you choose provided you have reached normal minimum pension age normally age 55.

First flexible access immediately triggers the money purchase annual allowance rules. These rules limit the amount of tax relief the member can get on future savings to any money purchase arrangement.

If sums or assets are designated to a flexi-access drawdown fund as available for the payment of drawdown pension, and the whole of that fund is not attributable to a disqualifying pension credit, then when you draw down from the fund, whether in the form of income withdrawal or a short term annuity, you become subject to the money purchase annual allowance rules (unless you were already subject to those rules because flexible access had already occurred in relation to them in another scheme or arrangement). This means you will receive tax relief on new money purchase pension savings up to a maximum of £10,000 a year. This is not an issue if contributions were not to continue but would be an issue if you wanted the flexibility to draw as much or as little as you chose.

Flexi-access drawdown pension (which includes income withdrawal and short-term annuities) is a form of pension for tax purposes and so is chargeable to income tax as pension income. You would be liable for income tax at the marginal rate in a tax year on whatever income taken from the flexi-access drawdown fund during that year. The scheme administrator is required to deduct income tax from the flexi-access drawdown pension under the PAYE regulations. The same approach is applied in respect of scheme pension and drawdown.

The option of scheme pension as a money purchase scheme pension, in which the rate of income is determined by Pension Practitioner based on the long term income from underlying investments and rates in the market. Generally it is fixed, with pension increase awarded if investment conditions remain favourable and is designed to be paid over your lifetime.

The tax free lump sum remains, irrespective of the type of income drawn and this amounts to a quarter of the fund, subject to a lifetime allowance of a quarter of £1.030m.

4. Death Benefits & Ill Health

While it is the hope that you will enjoy a long and fruitful retirement, it is an unfortunate fact that the end in this life, eventually, will come. How your pension will be treated depends on the age at which you pass away.

Due to the nature of your SSAS, the power to distribute your death benefits is at the discretion of the trustees of the scheme on your death. You should update a 'nomination of beneficiaries' form, by which you make your wishes clear regarding how you wish your benefits to be distributed on your death, and the trustees should take this into account when making their decision.

Your death benefits can be paid out either as a lump sum or kept as a designated drawdown arrangement. It can also take the form of a widowers pension. Taking a lump sum payment removes your fund from the scheme and puts the benefits into the nominated beneficiary's personal estate, which may have inheritance tax implications for them. Whilst there are trusts available for this, I have excluded this from this report.

You are able to nominate anyone to receive your benefits, and you are able to nominate more than one person, deciding on a percentage for each nominated beneficiary. Any amount awarded to a nominated beneficiary is treated as a separate arrangement, and does not count towards their lifetime allowance. They are also able to nominate a successor, so that when they die, your death benefits can be passed on further, and so on. In this way, your fund can potentially be passed down for generations.

On death before age 75, any uncrystallised funds within your pension are tested against the remaining lifetime allowance.

Your SSAS can be paid out to your nominated beneficiaries or to your dependents either as a lump sum, or kept within the scheme as a designated drawdown fund for the beneficiary to access when required. So long as the award is made within two years of your death, no income tax is payable on the amounts taken in either case.

On death after age 75 the position changes.

Your arrangement can be paid out to your nominated beneficiaries or to your dependents either as a lump sum or kept within the scheme as a designated drawdown fund for the beneficiary to access when required. It can also be arranged as a scheme widower's pension.

If taken as a lump sum, then the amount is subject to income tax at the recipient's marginal rate; similarly, any amounts taken from a drawdown fund would also be subject to income tax at the recipient's marginal rate.

On the widower death, the beneficiaries are able to nominate further successors to receive your fund in the event of their death. In this case, the above rules would apply, but it would be the age of the beneficiary when they die that determines the subsequent tax treatment, not the age you died. If the successor nominates a further successor, the tax treatment on that award would be dependent on the age the successor died, and so on.

You can convert your pot into a family trust. It is very popular way to pass the scheme to family and legacy generations, leaving a further permanent reminder of your financial legacy to much later generations. Many use SSAS to pay for university fees of grandchildren or to pay out small lump sum payments on future family births and milestone dates.

5. Closing Summary

Conversion of part of the Scheme to a final salary or targeted benefit basis would be of no benefit in my opinion.

The scheme rules are flexible enough to allow for any form of pension to be secured, for any rate and at any variation. The choice chosen should also reflect whether ongoing contributions are intended.

You do need to be mindful that you have equal powers as a trustee of the scheme and on your death, you would be reliant on the other trustees, at the direction of the scheme administrator to pay out benefits.

You therefore may wish to consider having a successor trustee to ensure that the family's wishes are adhered to. Alternatively, having your own scheme in the future. This would not be possible if Kusum left the Company.

In respect of the amount payable at this time to Kusum, it is ¼ of the allocated fund as a tax free lump sum, the balance of the fund places no restriction on the income payable but I would suggest that we discuss at the meeting the future income stream to the SSAS in order that I can undertake some calculations to ensure that the fund is not prematurely depleted, having regard also to scheme liquidity.