



Pension Simplification and reform

On April 6th 2006 (commonly called 'A' Day) new simplified rules came into effect surrounding all pension schemes. Changes were made regarding taxation, retirement age, contributions and annuities to name but a few. To fully understand how these changes effect your current pension situation, please contact us to arrange a consultation with one of our specialist advisers. Highlighted below are the key changes:

Minimum Retirement Age

From 6th April 2010 it will not be possible for individuals under the age of 55 to commence pension income benefits.

Multiple Pension Scheme Membership

An individual can be a member of as many pension schemes as they wish at the same time.

Pension Contributions

There will be a single limit on the tax-advantaged contributions that can be paid each year into pension schemes by, and for, an individual (this limit will be known as the 'annual allowance'). The limit for individuals' own contributions, at 100% of earnings, are significantly higher than before 'A' Day.

Maximum Pension Benefits

The maximum pension limits that the Inland Revenue had in place will be removed. Instead the total value of an individual's tax privileged pension must fall below a new limit which will change annually. This will be known as a 'Lifetime Allowance'.

Any money in excess of the lifetime allowance will be subject to a 55% charge if taken as cash or a 25% charge if it is to be used to provide pension income.

If an individual has accrued a very high pension value prior to April 6th 2006 they can apply to the Inland Revenue to protect those pensions from the Lifetime Allowance charge. This protection must be sought before 6th April 2009.

Retirement Cash Lump Sums

The maximum cash sum available from all schemes will be 25% of the capital value of the benefits held under each scheme. This does not include any value above and beyond the current lifetime allowance.

Some occupational pension schemes will have tax free cash allowances set at a higher rate and these will be protected – however contributions made after 6th April 2006 will be subject to the maximum 25% tax free cash legislation.

These are only a handful of the changes made by pension simplification. Many other changes have been made and all of them can be explained by our dedicated team of advisers.

Pensions reform

The changes in pensions law and practice outlined above are not the end of the proposed reforms. Further proposals have been put forward which will make major changes to state pension benefits, including a progressive increase in the state retirement age to 68 by 2040, and a plan to restore the indexation link between state pension benefits and earnings.

It is also planned that there should be a new system of Personal Accounts under the general title of the National Pension Savings Scheme (NPSS). This will be a simplified, inclusive and extremely low-cost pension scheme. Under this scheme, every employee will be auto-enrolled for pension, although it will be possible to opt out. All employees will then receive an employer contribution to their pension, at an indicated rate of 3%, and have to pay a personal contribution, indicated at 4% net.

It is expected that where an employer provides an alternative of suitable quality for ALL employees that they will be allowed to continue with this as an alternative. However, it will be mandatory, for the first time, for employers to offer a pension contribution for every member of staff. This is expected to have a major impact on the shape of corporate pension provision in the future.

As the new rules and structures become clear, our consultants will be available to offer guidance