



## **Pension Update January 2011**

### **No Need To Purchase An Annuity at 75**

The Government announced changes to pension legislation in December 2010 and there will be some changes that will affect you if you are in Unsecured Pension now or considering taking your pension within the next 12 months.

The following is a summary of the changes that will come into effect from the 6<sup>th</sup> of April 2011 and if you want to discuss these issues in greater depth please contact our office and ask to speak to someone from the pension team.

#### **Removal of requirement to buy an annuity at age 75**

The Government has ended the effective obligation to purchase an annuity at age 75. Individuals with money purchase pension funds who have yet to take benefits will now be able to defer the decision indefinitely.

Existing income drawdown rules (previously known as unsecured pension) are to be replaced with effect from 6 April 2011 by new rules governing Capped Income and Flexible Income, with the possibility of deferring lump sum payments beyond age 75.

#### **Capped Drawdown**

This replaces both the existing rules for Unsecured and Alternatively Secured Pensions (USP and ASP). The maximum amount of income that can be drawn will be **100%** of a comparable annuity based on **revised GAD tables** that will be extended **beyond age 75**. The comparable annuity must be **reviewed every 3 years (currently 5 years)** up to the anniversary of entering drawdown after the 75th birthday and annually thereafter.

There are transitional rules for those **already in drawdown**. We are still awaiting publication of the new GAD tables but **this could well mean that the level of pension you can take will reduce** because the current maximum is 120% of the current GAD.

#### **Flexible Drawdown**

From 6 April 2011 individuals over the age of 55 that meet the Minimum Income Requirement (MIR) of at least £20,000 per annum will be able to drawdown an unlimited amount out of their crystallised pension funds. The amount drawn will be treated as income for tax purposes.

Individuals will self certify that they meet the MIR.

There will be no restrictions on the income the individual can draw.

The MIR must be guaranteed and payable for life. The qualifying income includes the basic state pension, additional state pension, level annuity income and Scheme Pensions.

There are additional rules surrounding pension contributions after you have elected to commence Flexible Drawdown

The current MIR is set at £20,000 reviewable every five years by Treasury Order.

### **Tax Charges on lump sum death benefits**

The Government has confirmed that there will be no tax charge on uncrystallised lump sum death benefit payments within the Lifetime Allowance.

A 55% tax charge applies to uncrystallised lump sum death benefits where the individual died aged 75 or over.

Any lump sum death benefit will be subject to a withholding tax charge of 55% (**currently 35%**) regardless of when the member's death arises. This includes Alternatively Secured Pension arrangements where currently a combined tax charge of up to 82% could apply.

In normal circumstances there will be no inheritance tax liability on such payments regardless of when death occurs,

Lump sum benefits paid to charity will not be subject to a tax charge.

### **The following will take effect from 6<sup>th</sup> April 2012**

#### **Lifetime Allowance**

Lifetime allowance reduced from £1.8m to £1.5m

Primary and Enhanced protection will continue to apply and a new Fixed Protection will be available but must be applied for by 5<sup>th</sup> April 2012.

Fixed Protection will protect an individual's fund up to £1.8m and any excess will be taxed at 55%.

#### **Protected Pension Commencement Lump Sums**

Although the Lifetime Allowance will reduce to £1.5 million in the 2012/13 tax year, individuals with protected pre A-Day pension commencement lump sums will have that A-Day protection re-valued by the increase in the Lifetime Allowance using the current Lifetime Allowance of £1.8 million.

#### **Non Protected Pension Commencement Lump Sums**

As a result of the reduction in the Lifetime Allowance these will be restricted to 25% of the Lifetime Allowance, even where the individual has Enhanced or Primary Protection.

#### **Trivial Commutation**

This remains at £18,000, breaking the link with 1% of the Lifetime Allowance. It is now available beyond a client's 75 birthday.

#### **Pension Contributions**

Pension contribution limits have also changed and if you need advice on this issue please contact a member of the pension team on 0114 2802830 or email [chrisholland@ecsbrokers.com](mailto:chrisholland@ecsbrokers.com)