Briefing

BURGES SALMON

Pensions

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Importance ★★★★

Pensions budget changes go ahead

The pensions changes announced in the Budget will go ahead as planned from April 2015 with some adjustments.

This is the government's conclusion following a public consultation. Its response document of 21 July is at **https://www.gov.uk/government/consultations/freedom-and-choice-in-pensions**.

Adjustments

DC benefits

Here "DC" includes cash balance benefits.

- A statutory override will allow (but not require) schemes providing DC benefits to offer the new flexibilities where their own rules would not e.g. full access from age 55 and the larger "small pot" lump sums. There will be no need to amend scheme rules.
- To ensure the new options are widely available, it will be possible to transfer DC benefits to another scheme up to the point of retirement. Today the statutory transfer right expires a year before the scheme retirement age.
- The minimum age for accessing pension will increase from 55 to 57 in 2028 to reflect the rise in state pension age and will remain 10 years below it from then on.
- The guidance to be given to DC savers approaching retirement is a little better defined but there is a lot more work to do on the detail:
  - it will be free, impartial, tailored to the individual and will not recommend specific products or providers. Those who want receive it face-to-face will be entitled to do so. Other options will also be available e.g. online and phone;
  - authorised financial firms will pay for it through a levy;
  - it will be delivered by a range independent bodies with no risk of conflict of interest, including the Pensions Advisory Service (TPAS) and the Money Advice Service. Guidance givers need not be FCA authorised but the FCA will have a statutory duty to set and oversee standards;
  - trustees of occupational pension schemes and providers of personal schemes will have statutory duties to draw members' attention to their right to guidance.

- In his autumn statement the Chancellor will set out plans to reduce the 55% tax charge on pension saving not drawn down before death (an eventuality likely to be more common in future).

DB benefits

- The minimum age for small lump sums (to £10,000) and trivial commutation (to £30,000) will be reduced from 60 to 55.
- Transfers from private sector DB schemes to DC schemes will continue to be allowed (excluding pensioners, as now), subject to safeguards for the member and the transferring scheme:
  - the member must take professional financial advice and normally pay for it. The adviser must be independent of the scheme and FCA authorised;
  - there will be new guidance for DB trustees on how they can use their powers to delay and reduce transfer values to protect their scheme where appropriate.
- There will be a further consultation on whether DB schemes should be allowed to offer members full access to their saving from age 55 without first transferring to a DC scheme.

- Funded DB schemes in the public sector will be able to offer transfers to DC schemes subject to safeguards akin to those above for private sector schemes.

Tax rules

- The tax rules for annuities will change to accommodate the new options and facilitate the development of new financial products:
  - lifetime annuities will be allowed to decrease (when the annuitant's state pension becomes available, say) and to pay lump sums (perhaps to cover care needs);
  - the 10 year limit on the guarantee period will be removed, allowing more of an individual's fund to pass to survivors;
  - guaranteed annuities allowed to be paid to survivors as a lump sum where it would be £30,000 or less.

The government also expects providers to develop more flexible drawdown products.

Tax rules - unfair advantage

- The main measure to prevent unfair advantage from the potential interaction between the tax-free lump sum and other taxes and tax reliefs will be an annual allowance restricted to £10,000. It will apply after a person makes their first withdrawal from a fund worth £10,000 or more.

Next steps

- Soon there will be a consultation on the technical changes to the tax legislation. These will go through Parliament in the form of a Pensions Tax Bill.
- The Pension Schemes Bill (now at an early stage in Parliament) will amend pensions legislation to remove or adjust provisions that would conflict with the Budget proposals. In the autumn, the Bill will be amended to include provisions on the guidance guarantee.
- "Intensive" work will continue on the design of the guidance scheme.
- April 2015 is the target implementation date.

Original Budget proposals

- Meanwhile the following original Budget proposals and interim measures stand:
  - unrestricted access to DC saving from age 55 with a 25% tax free lump sum and tax otherwise at the individual's marginal rate. Annuity purchase to be allowed but not required;
  - threshold for flexible drawdown reduced to £12,000 pa (£20,000);
  - capped withdrawal limit increased from 120% to 150% of an equivalent annuity;
  - small lump sum and trivial commutation limits up to £10,000 and £30,000 respectively.

Other issues

- The government will review the tax rules for QROPS (qualifying recognised overseas pension schemes) in the light of the above changes.

More information

If you would like more information, please get in touch with your usual contact in our pensions team or:

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