The Changing Face of Pensions

Pensions have existed in the UK for over 340 years, with the first organised pension scheme, for Royal Navy Officers, dating back to the 1670's.

The Germans under Chancellor Otto von Bismarck, introduced the world's first state pension system in the 1880s.

You had to be 70 years old (lowered to 65 in 1916) - and the expectation was that you would probably only live a few years after that to collect it.

In 1908 under the Old Age Pension Act, the first general old age pension was introduced in the UK, paying a non-contributory amount of between 10p and 25p a week from age 70 on a means tested basis.

The National Insurance Act of 1946 introduced a contributory State Pension for all in the UK.

Over the 340 years pension history in the UK, we have seen changes made to public and private sector pensions, scandals (Maxwell), the pension funding crisis faced by the Government, Companies and Individuals, etc. To tackle these and future pension issues, we have seen a multitude of changes made to both public and private sector pensions.

On 9th December 2010 under the Finance Bill 2011, the Government announced further changes to personal pensions, in the way they are funded and the drawing of benefits. Some of the main points are highlighted below, which were introduced from 6th April 2011:

- The government has removed compulsory annuitisation at age 75, i.e. there is no need to draw pension benefits by age 75. The earliest you can draw benefits is age 55 (this changed from 50 in April 2010).
- Drawing the Pension Commencement Lump Sum, more commonly know as tax-free cash, does not have to be taken by age 75, you can now draw it after age 75.
- If pension benefits (i.e. the taking of tax free cash and/or starting of income payments) are not drawn before age 75, they can be left on death before 75, to beneficiary/ies tax-free (any protected rights funds must be used to secure a spouse's pension). In all other situations, the lump sum death benefit will be taxed at 55%.
- The Annual Allowance (the total amount which can be contributed into a pension in any one year) has been reduced from £255,000 to £50,000 for

pension input periods ending in the 2011/12 Tax Year. There is a new facility to Carry Forward unused relief for 3 years, i.e. carry forward from 2008/09. You need to be member of a registered UK pension scheme to potentially utilise Carry Forward rules.

- Defined Benefit Schemes (Final Salary) deemed contributions multiple has increased from 10 to 16. This multiple is used to calculate how much of the annual allowance has been used. For example, this means that an increase in annual pension benefits of £1,000 will be deemed to be worth £16,000 towards the Annual Allowance.
- The Lifetime Allowance, which is the maximum fund value allowable at retirement, is to be reduced from the current £1.8m to £1.5m from April 2012. Transitional arrangements will be introduced to protect individuals who are already above the £1.5m limit. This will be known as "Fixed Protection" and a nomination needs to be submitted to HMRC in a prescribed format by 6 April 2012 and for all future pension contributions or relevant benefit accruals to cease by that date.
- If the total fund value of all your pension funds is £18,000 or less, part of the fund can be drawn as pension commencement lump sum tax free, and the balance can be drawn as a lump sum, less income tax at your marginal rate (this is known as the Triviality Rules). This option can be activated at any time after age 55. No further pension contributions can be made after the taking of benefits under Triviality Rules.
- State Basic Pension will be increased by national average earnings or consumer price index or 2.5% (whichever of these is the higher) from April 2011.
- To receive the full Basic State Pension, you now only need 30 qualifying years of National Insurance contributions (in the past, men normally needed 44 years and women 39 years). This change came in to force in April 2010.
- State Pension Age for women will increase to 65 by November 2018, and both men and women will then see State Pension Age increase to 66 between December 2018 – April 2020.
- The Government is also considering the timetable for future increases to the State Pension age from 66 to 68.
- For anyone who has or is considering utilising Income Drawdown i.e. Unsecured Pension – (USP) or Alternatively Secured Pension (ASP), these have been replaced by Capped Drawdown and Flexible Drawdown.

<u>Capped Drawdown</u>

- Income capped at 100% of GAD. GAD stands for Government Actuaries Department, who produce the Income Drawdown tables used to determine the income bands under Income Drawdown. Income was previously capped at 120% of GAD.
- Review every 3 years as opposed to 5 years.
- From age 75, reviews are conducted on a yearly basis.

<u>Flexible Drawdown</u>

- Once a minimum income requirement of £20,000 pa gross has been secured, there is no restriction on income withdrawals. The following sources could be used in assessing the minimum income requirement:

    - State Pension
    - Income from conventional annuities and scheme pensions, including dependant's annuities and scheme pensions.

There are transitional rules in place for existing Income Drawdown and Alternatively Secured Pension investors.

These are just some of the changes being proposed under the Act. The Royal Assent will be given in July 2011.

For an initial no-obligation meeting please contact Kersi Deboo BA (Hons) Dip PFS Senior Financial Adviser at Tees Financial on 01279 713390 or alternatively e-mail Kersi at kersid@teesfinancial.com

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