

Pensions update

What is "A-Day"?

The implementation date of the new simplified pension regime was 6 April 2006. This is known as "A-Day".

What is the most I can contribute to my pension?

There is no limit on the amount of contributions that can be paid to a registered pension scheme by you, or on your behalf. However, there are limits on the amount of tax relief these contributions will attract.

Your personal contributions will receive tax relief up to the higher of £3,600 and 100% of UK earnings in the tax year of payment. There will be no facility to use prior year's earnings or to carry forward or carry back contributions.

Your employer can pay unlimited contributions, normally with full tax relief, on your behalf.

The annual allowance is a further mechanism by which HM Revenue & Customs (HMRC) limits the amount of tax privileges on pension savings. Where the increase in your pension savings in a year exceeds the annual allowance, a tax charge of 40% is payable by you on the excess.

The increase in your pension savings is the total of the contributions paid by you, or on your behalf, to all registered pension schemes and, if you are a member of a final salary pension scheme, includes the value of any increase in benefits under that scheme.

The annual allowance is:

Tax Year	Allowance
2006/07	£215,000
2007/08	£225,000
2008/09	£235,000
2009/10	£245,000
2010/11	£255,000

There is no annual allowance test in a year if all of the benefits under the pension arrangement are taken before the end of that year.

Full concurrency is allowed, i.e. you can be a member of a SIPP, personal pension and company pension scheme at the same time.

What is the "lifetime allowance"?

This is the principal mechanism by which HMRC limits the tax privileges available to an individual with "excessive" pension savings. Each time new benefits are taken, a portion of your lifetime allowance is used up.

The lifetime allowance for tax-privileged pension savings is:

Tax Year	Allowance
2006/07	£1.5m
2007/08	£1.6m
2008/09	£1.65m
2009/10	£1.75m
2010/11	£1.8m

Pension savings in excess of the lifetime allowance are subject to a 25% tax charge if taken as a taxable pension or a 55% tax charge if taken as a lump sum. Transitional protection against these tax charges is available if you had large pension savings at A-Day.

What are the benefits

There are a number of benefits on retirement or death that can be paid.

Commencing retirement benefits

The minimum benefit age will increase from 50 to 55 by 6 April 2010. Benefits must commence by age 75 and can commence irrespective of whether or not you are still working. Benefits can commence before the minimum pension age on the grounds of incapacity.

Pension commencement lump sum

The maximum tax-free lump sum is the lower of (a) 25% of the value of your SIPP and (b) 25% of your unused lifetime allowance. Transitional protection is available for large tax-free lump sums accrued before 6 April 2006.

Unsecured pension - income withdrawal

Up until age 75, your pension benefits may be paid directly from your pension (rather than secured by the purchase of an annuity) subject to the following:

- > Minimum annual pension is zero;
- > Maximum annual pension is 120% of the annuity rate supplied by the Government Actuary's Department (GAD); and
- > Maximum pension is reviewed every 5 years. Annual reviews may be carried out at your request.

Secured Pension

Pension benefits must be secured before age 75 (at age 75 for ASP) by one of the following:-

- > An annuity provided by an insurance company;
- > Alternatively Secured Pension (ASP), an extension to income withdrawal beyond age 75. The "security" is achieved by reducing the maximum pension that can be taken to 90% of the GAD annuity rate for a 75 year old. The minimum annual pension is 55% of the GAD annuity rate for a 75 year old. Income limits are reviewed annually.

Death Benefits

On death before commencing benefits, a lump sum will be available tax-free up to the lifetime allowance, usually payable to your nominated beneficiaries. Any amount paid as a lump sum over and above the lifetime allowance will be subject to 55% tax.

There is no test against the lifetime allowance where the death benefits are paid as dependants' pensions.

In the event of death whilst in receipt of an unsecured pension, benefits can be provided in two forms. Either the residual fund can be used to provide a taxable dependant's pension or alternatively, the full value of the fund will be available as a lump sum payable to your beneficiaries, subject to a tax charge of 35%.

Lump sums payable on death before age 75 will continue to be free from inheritance tax in most circumstances.

If pension benefits are being provided using ASP, any funds remaining on death after age 75 must be used to provide dependants' pensions. Where there are no dependants, surplus funds may be paid to a registered charity, free from inheritance tax. It may also be possible for the surplus funds to be paid to your beneficiaries as an "unauthorised payment" but this will be subject to significant tax charges, including inheritance tax.

Scheme investments

The range of permitted investments remain broadly unchanged post A-Day.