

BUDGET 2013: PENSIONS CHANGES

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Pension changes from 6 April 2014

- Annual allowance £40k
- Lifetime £1.25 million
 - From April 2014
 - Incentive to make larger contributions in 2012/13 & 2013/14
- Could be a problem for employees in final salary schemes
- Can claim “Fixed Protection 2014”
 - Follow the auto-enrollment consultation carefully
 - Currently the DWP proposes that Fixed Protection 2014 is excluded from the system

Pension input amount

- Money purchase scheme
 - Amount contributed
- Defined benefit scheme
 - More complicated
 - Based on the increase in the member's benefits for the year

Example - Chris

Chris is a teacher who is entitled to:

- pension of 1/80th final pay
- lump sum of 3/80th pensionable pay for each year of service

Pensionable pay = pay received over last 12 months

At the start of 2013/14:

- 24 years of service
- Pay is £45,000 (pensionable pay)

He is promoted during the year:

- Earning £55,000 p.a.
- Pensionable pay for the 12 months to April 2014 is £51,600

Example - Chris

Opening value

Annual pension: $24/80 \times \text{£}45,000$ 13,500

Flat factor $\times 16$ 216,000

Lump sum: $24 \times 3/80 \times \text{£}45,000$ 40,500

256,500

Increase by CPI (say) $\times 1.031$

Opening value 264,452

Other pensions changes

- Drawdown cap to increase from 100% to 120% of the “basis amount”
 - Essentially the equivalent pension that would be available through a purchased annuity
- To apply to pension years commencing on or after 26 March 2013
- Cap does not apply where other lifetime pension income exceeds £20,000
- Pension payments to a scheme registered to employee’s spouse/family to be subject to income tax & NIC on both the employer and employee from 6 April 2013