PENSIONS FLEXIBILITIES FROM 6 APRIL 2015

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Taxation of Pensions Act 2014

The Taxation of Pensions Act 2014 will amend pensions tax legislation from 6 April 2015. It will:

- allow individuals to access their defined contribution (DC) pension as they wish, subject to their marginal rate of income tax;
- allow individuals to take a series of lump sums from their DC pension fund, with 25% of each payment tax free and 75% taxed at their marginal rate, without having to enter into a drawdown policy;
- reduce the tax charges that apply to serious ill-heath lump sums from 55% to 45%;
- ensure that individuals do not exploit the new system to gain unintended tax advantages, by introducing a reduced annual allowance of £10,000 for DC savings where the individual has flexibly accessed their savings.

Death tax rate

From 6 April 2015, individuals will also be able to pass on their unused DC pension to a nominated beneficiary when they die rather than paying a 55% tax charge.

- Individuals who die before the age of 75 can give their remaining DC pension to anyone completely tax free, whether it is in a drawdown account or untouched, as long as it is paid out in lump sums or is taken through a flexi access drawdown account. This does not apply to scheme pensions.
- Those aged 75 or over when they die will be able to pass their DC pension to any beneficiary who will then be able to draw down on it at their marginal rate of income tax, or take it as a lump sum taxed at 45%.

Autumn Statement 2014 announced that the government has now decided to go further through provisions to be inserted in the Finance Bill 2015. From April 2015, beneficiaries of individuals who die under the age of 75 with a joint life or guaranteed term annuity will be able to receive any future payments from such policies tax free. The tax rules will also be changed to allow joint life annuities to be passed on to any beneficiary, not just spouses and dependants.

Serious ill health lump sum charge

For consistency with the death tax rate changes outlined above, the Act will also reduce the tax charge payable by a member who receives a serious ill-health lump sum after age of 75 from 55% to 45%. This change will come into force on 6 April 2015.

Trivial commutation changes

On 6 April 2015, the Act will make the following changes to the trivial lump sum legislation: (1) trivial commutation lump sums will be limited to DB arrangements, (2) the age limit for

taking trivial commutation and small pot lump sums will be reduced from 60 to the normal minimum pension age, (3) the trivial commutation lump sum death benefit limit will be increased from £18,000 to £30,000, (4) the trivial commutation lump sum death benefit rules will be extended to allow the remainder of a guaranteed pension to be paid on death as a lump sum of up to £30,000, and (5) winding-up lump sum death benefits will be abolished.

Crystallisation of annuity before normal minimum pension age

From 6 April 2015, where an individual becomes entitled to a lifetime annuity before the normal minimum pension age and without the ill-health condition applying, the amount treated as crystallised by that annuity at age 55 will be the higher of the annual rate of the annuity multiplied by 20, and the original value of the sums/assets used to buy the lifetime annuity.

Pension Schemes Act 2015

As part of the pensions flexibilities changes implemented through the Taxation of Pensions Act 2014, changes will be made in relation to the framework for defined benefit (DB) to DC transfers and for the introduction of guaranteed guidance for the benefit of DC members about to retire. These changes are to be implemented mainly through the Pensions Schemes Act 2015.

New safeguards for private DB to DC transfers

Two new safeguards will be put in place with effect from 6 April 2015 to ensure that members of private sector DB schemes who wish to transfer to a DC scheme so as to take advantage of the new pensions flexibilities do not do so at their detriment: (1) the DB member must have taken advice from a professional independent financial adviser beforehand (unless the value of their DB funds is below £30,000), and (2) trustees will benefit from new guidance (to be introduced in collaboration with the Pensions Regulator) on the availability and use of their existing powers to delay transfer payments and take account of funding levels when deciding on transfer values.

Removal of option to transfer from unfunded public sector scheme to DC scheme

From 6 April 2015, the government will be allowed to remove the option to transfer from a public sector DB scheme to a DC scheme. The intention is that, except in limited circumstances, members of unfunded public service DB schemes (eg the Principal Civil Service, the NHS and Teachers' Pension Schemes) will be prevented from transferring to DC schemes in order to protect the Exchequer and taxpayer from having to fund such transfers.

Guaranteed guidance

With effect from 6 April 2015, guidance will be offered to DC members as they approach retirement. The guidance service, called Pension Wise, will be provided free of charge by independent organisations, namely the Citizens Advice Bureau (for face-to-face guidance) and The Pensions Advisory Service (for telephone guidance). An online service will also be designed as part of the guidance service. On 19 February 2015, the government published

the draft Occupational and Personal Pension Schemes (Disclosure of Information) (Amendment) Regulations 2015, which amend the existing disclosure regime to ensure, among other things, that information is given to members about the guaranteed guidance.

The Financial Conduct Authority has published new rules to help protect consumers wanting to access their pension savings from 6 April 2015 by requiring firms involved in the sale of retirement income products to give additional warnings tailored to them. The new personalised 'risk warnings' will support the guidance given by the Pension Wise service.

Collective Defined Contribution and Defined Ambition

The government is introducing a new framework for Collective Defined Contribution and Defined Ambition (or Shared Risk), by introducing definitions of those new concepts and inserting references to those new concepts in existing legislation. Importantly, the Pension Schemes Act 2015 does not impose any requirements on employers, It just gives them the flexibility (should they wish to take it up) to create pension schemes that best suit the needs of their workforce while sharing risk more equally between them. The aim is for required secondary legislation and any additional tax changes to come into effect for April 2016, so that employers considering options at the time of the abolition of contracting out have more options available to them than at present.

Charge cap

The Financial Conduct Authority has confirmed final rules which, from 6 April 2015, will require firms providing contract-based workplace personal pension schemes used by employers for automatic enrolment to cap the charges within default funds to 0.75% per year of funds under management.

The Department for Work and Pensions has published guidance on the charge cap of 0.75% which will apply from 6 April 2015 to occupational pension schemes that are used for automatic enrolment and which provide money purchase benefits. It relates to the Occupational Pension Schemes (Charges and Governance) Regulations 2015.