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pensions reform

A-Day Ahoy!

With just over nine months to go to A-Day trustees and employers need to ensure that their schemes are shipshape for tax simplification. Although a uniform set of allowances will apply across the board from 6 April 2006, in many respects the new regime will not be overriding. Here we briefly outline some of the key pension benefits under occupational pension schemes which may need specific tax simplification attention.

Background

Why do anything?

- The Finance Act 2004[1] contains pension rules, pension death benefit rules, lump sum rules and lump sum death benefit rules, some of which are mandatory and others permissive.
- Scheme benefit structures must operate within the parameters of the mandatory rules post A-Day (although see box below).
- Also, once the Inland Revenue (IR) limits lid (including the earnings cap) is lifted, scheme liabilities could increase and costs spiral[2].

Timing of changes

Why it is crucial

- For a limited time schemes can continue on the basis that IR limits (including the earnings cap) still apply.
- However, this leeway only lasts until 5 April 2011.
- In addition, leaving amendments until after A-Day may raise section 67 issues on a subsequent change.

Members' benefits

Flexible benefits

- The advent of more flexible retirement options, with members potentially able to continue working whilst drawing pension, is a significant change from the current system.
- But whether members can take advantage of this shift will depend largely on what scheme rules say and how this new way of working fits in with an organisation's employment policy.

1 As amended by the Finance Act 2005
2 For more details please see our Sackers Extra News: "Tax Simplification – the hidden costs" dated June 2004

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Members' benefits

Early retirement

- From 2010, members of registered schemes will no longer be able to take pension before age 55 (other than on ill-health or if transitional protections apply).
- Employers and trustees will need to review retirement rules against this new requirement and make sure that they have identified all those entitled to the transitional protection.

AVCs

Some considerations

As the need to provide an AVC facility disappears, points to consider include:

- What happens to existing arrangements, for example, should existing AVC members only be allowed to continue contributing?
- With the 15% limit on member contributions going, should a ceiling on contribution rates be imposed?

High earners / long servers

The key questions

- Who is entitled in your scheme to register for enhanced or primary protection and do they know?
- Could the removal of IR limits pose a cost problem?
- If so, subject to section 67 considerations, possible solutions for scheme rules include superimposing limits akin to current IR limits.

Conclusions

- These are just some of the benefit areas which need considering before A-Day.
- Administration systems will also need to be up to the tax simplification task.
- Trustees and employers need to set sail with their advisers as soon as possible to ensure a smooth crossing.

This edition of Sackers Extra News is part of a series focusing specifically on pensions reform to keep you abreast of the key issues throughout this period of change.

If you would like further information please contact our Pensions Reform Team:

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