Sackers

Key pension dates and deadlines – are you ready?

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Introduction

As has become customary for the pensions industry, 6 April heralds a number of changes and 2017 is no exception.

Key dates

- **31 March 2017:** Early exit charges capped in contract-based personal pensions
- **5 April 2017:** IP14 deadline – applications to be made on or before this date
- **5 April 2017:** Deadline for passing a trustee resolution to reflect the post-5 April 2016 fixed rate revaluation requirements for GMPs
- **6 April 2017:** Money purchase annual allowance reduces to £4,000
- **6 April 2017:** PPF compensation cap increases for members with long service
- **6 April 2017:** Consumers can access DC savings to pay for retirement related advice
- **6 April 2017:** Section 615 schemes must be closed to future pension contributions / accrual
- **6 April 2017:** New QROPS rules in force
- **6 April 2017:** Revised automatic enrolment thresholds in force
- **6 April 2017:** Lifetime ISAs open for saving

Early exit charges

The FCA's new rules on capping early exit charges in contract-based schemes will come into force from 31 March 2017.

Early exit charges will be capped at 1% of the value of existing contract-based personal pensions, including workplace personal pensions. Charges currently set at less than 1% may not be increased. Firms will not be able to apply an early exit charge to personal pension contracts entered into after these rules take effect.

Similar rules for occupational pension schemes that contain flexible benefits (broadly, DC) are expected to apply from 1 October 2017.

Deadline for IP14 applications

Those wishing to apply for individual protection 2014 ("IP14") must do so on or before 5 April 2017.

IP14 was introduced to allow individuals to protect the value of their pension savings over £1.25 million as at 5 April 2014, up to an overall maximum of £1.5 million. Because of the need to have pension savings accurately valued as at 5 April 2014, HMRC gave a long lead-in period for applications.

An application for IP14 can be made by someone who already has enhanced protection, fixed protection 2012 ("FP12"), fixed protection 2014 ("FP14") or fixed protection 2016 ("FP16"). Enhanced protection and FP12 / FP14 will take precedence over IP14, with the latter only kicking in if any of the former are lost or given up – HMRC must be notified in writing if this happens.

However, IP14 takes precedence over FP16 (under which an individual has an LTA of £1.25 million), as IP14 provides a higher level of protection.

GMP revaluation: deadline for rule change resolutions

As a result of the introduction of the new single tier State Pension, DB contracting-out was abolished with effect from 6 April 2016. Due to consequential changes to legislation in relation to the abolition of DB contracting-out, open schemes which were contracted-out on the abolition date, and which operate fixed-rate revaluation of GMPs, are likely to need a rule amendment (if not already made). This is because, as part of the changes to end contracting-out, the regulations governing the revaluation of GMPs before they come into payment were tweaked so that fixed-rate revaluation is triggered when a member leaves pensionable service, rather than on leaving contracted-out employment as previously.

The Government provided a statutory modification power to enable schemes to reflect the post-5 April 2016 fixed-rate revaluation requirements with retrospective effect. Trustees have until 5 April 2017 to pass a resolution under the new power. Usefully, the resolution can be backdated but "must only have effect from 6 April 2016 or such later date as may be specified".

Reduction of the money purchase annual allowance

Currently, individuals who access their pension savings flexibly become subject to an AA of £10,000 for subsequent DC savings ("the money purchase AA"). If an individual exceeds the money purchase AA, an "alternative AA" of £30,000 will then apply in respect of any non-DC (broadly, DB) pension savings.

In a move to limit the extent to which pension savings can be recycled to take advantage of tax reliefs, the money purchase AA will be further reduced to £4,000 from 6 April 2017.

PPF long service cap

The new PPF compensation cap for individuals with long service will come into force on 6 April 2017.

At the moment, anyone under a scheme's normal pension age when the employer becomes insolvent (other than an ill-health early retiree), is paid compensation based on 90% of their expected pension, subject to a maximum cap (the "compensation cap"). For 2017/18, the standard maximum amount of compensation is £34,655 per annum at age 65.

The compensation cap will increase by 3% for each full year of pensionable service above 20 years (ie 21 years or more), up to a maximum of twice the standard compensation cap. Where an individual does not have actual pensionable service in relation to all or part of their scheme rights (for example, where they transferred their rights from a previous scheme and the new scheme offered a specific amount of pension in return), or the PPF is unable to identify a length of service for an individual, it will be able to deem a length of service for the purposes of applying the long service cap.

Pensions Advice Allowance

Also from 6 April 2017, consumers will be able to access up to £500 of their DC pension pot tax-free, at any age, to redeem against the cost of regulated pensions or retirement advice. The PAA may be used up to three times in an individual's lifetime (allowing a total withdrawal of up to £1,500), but no more than once in any tax year.

At the same time, a new income tax exemption will be introduced to cover the first £500 worth of employer arranged pensions advice provided to an employee in a tax year. This will allow advice on general financial and tax issues relating to pensions, as well as general pensions advice. Previously, the exemption was limited solely to pensions advice and capped at £150.

Section 615 schemes

Changes to the tax regime for specialist pension schemes for those employed abroad (known as "section 615 schemes") were first announced in the 2016 Autumn Statement.

New DC contributions and increases in the value of DB benefits above a set amount (known as the "relevant percentage") after 5 April 2017 will result in loss of the protected tax status that section 615 schemes currently enjoy, meaning that benefit payments to all members would then be taxed as UK income. Funds accrued in a section 615 scheme before 6 April 2017 can continue to be paid out using the existing rules provided there are no further contributions / accrual from this date.

Section 615 schemes should therefore be closed to contributions / accrual before 6 April 2017.

Overseas pension schemes

Regulations are set to change the conditions for transfers to a Qualifying Overseas Pension Scheme (QOPS) or QROPS from 6 April 2017:

- the 70% rule, which currently requires at least 70% of UK tax-relieved funds to be used to provide a member with an income for life, will be replaced with a requirement for those providing non-occupational pension schemes to be regulated in the country where the scheme is established, if the scheme itself is not regulated

- the "pension age test" requires that benefits paid out of UK tax-relieved funds can generally be paid no earlier than age 55. This will be amended, so that in the alternative, payments made before age 55 can be made where it would be an authorised payment if paid by a registered pension scheme, for example, a refund of excess contributions lump sum.

These changes will follow the recent introduction, from 9 March 2017, of a 25% charge on certain transfers to QROPS that was announced in the 2017 Spring Budget.

Automatic enrolment thresholds

For the tax year 2017/18, the following automatic enrolment thresholds will apply:

- the earnings trigger (for establishing eligibility) will remain at £10,000
- the qualifying earnings band (for calculating contributions) will continue to be aligned with NIC rates – £5,876 for the lower limit and £45,000 for the upper limit.

Lifetime ISAs

From 6 April 2017, individuals between the ages of 18 and 40 will be able to open a Lifetime ISA with an approved account provider, and to contribute up until their 50th birthday. Key features of the new product are that:

- individuals will be able to contribute up to £4,000 in each tax year. The Government will provide a 25% annual bonus on LISA contributions, which means that those saving the maximum annual amount into a LISA stand to receive an extra £1,000 per year
- an individual who dishonestly obtains a bonus to which he/she is not entitled, or assists someone else in doing so, will be liable to a penalty not exceeding the greater of £3,000 and the amount of the bonus.

Contributions to a LISA will sit within the overall tax-free ISA limit of £20,000 for the tax year 2017/18.

LISA funds can be withdrawn without charge from age 60, or earlier if used for the purchase of a first home or in the case of terminal illness. Otherwise, a 25% withdrawal charge will be applied.

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