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PATHways

PENSION ADMINISTRATION TECHNICAL HELP

HIGHLIGHTING PENSIONS NEWS AND LEGISLATION THAT HAS PARTICULAR RELEVANCE TO WHAT WE DO IN PENSION ADMINISTRATION

Budget 2015: Pensions Aspects

The Chancellor of the Exchequer delivered his 2015 Budget speech in the House of Commons on 18 March – the last Budget speech before May's general election. The speech included a few pensions-related points, some of which were expected as they had been previously announced or reported in the national press.

Key pensions aspects of the 2015 Budget include:

Lifetime Allowance (LTA)

Individuals' pension savings above the LTA at the point they are drawn are subject to significant additional tax charges. With effect from 6 April 2016, the LTA will reduce again from £1.25m to £1m. This will be the third time since April 2012 that the LTA has been cut.

The reduction to the LTA will be legislated for in the next Finance Act, and transitional protection is expected to be put in place for individuals whose savings exceed £1 million by April 2016. However, no details on these protections are yet available – the Government intends (subject to the outcome of the next general election) to consult on the arrangements at a later date.

The LTA is expected to rise in line with Consumer Prices Index (CPI) inflation from April 2018.

Selling annuities

The Department for Work and Pensions (DWP) and the Treasury have launched a consultation on **Creating a Secondary Annuity Market**, which would allow individuals to sell on their annuity income to a third party, in return for a cash sum or re-structured retirement income. This development is intended to extend the 'Freedom and Choice in pensions' reforms announced in the 2014 Budget to individuals who have already retired.

However, the Government has made it clear that annuity policies held in the name of trustees within occupational pension schemes will not be assignable in this way.

Individuals who wish to sell on their annuity income will have to gain consent of the annuity provider, and will not be able to sell back to the original provider. The proceeds may be in the form of a lump sum, a drawdown arrangement or a flexible annuity policy, and will be taxed as income.

Other pensions issues

The Treasury **has confirmed** that employer-funded advice provided to members transferring defined benefit (DB) pensions to defined contribution (DC) arrangements will not be taxed as a 'Benefit-in-Kind' and will also not be subject to National Insurance. It has also announced that additional funding will be made available for **Pension Wise** – the Government's information service for individuals retiring from DC pension schemes.

Whilst the three main political parties have now signalled their intention to reduce the LTA, the outcome of the General Election on 7 May 2015 could yet affect whether some of the proposals announced by the Chancellor are introduced.

HMRC: Pensions Schemes Newsletter 67

HMRC has published Pensions Schemes letter 67 which includes information on:

- Pensions flexibility
- Payments
- Paye and reporting
- Issuing a P45
- Tax-free payments
- Pensions flexibility guidance
- Draft Finance Bill Legislation

Pensions Schemes Act 2015

The Pension Schemes Bill, which had its first reading in Parliament on 26 June 2014, received Royal Assent on 3 March 2015, becoming the Pension Schemes Act 2015. It is intended to introduce further flexibility in the pensions market by allowing the establishment of Defined Ambition and Collective Defined Contribution style arrangements (intended to sit in the shared-risk environment between DC arrangements (employee bears nearly all risk) and DB schemes (employer bears nearly all risk)).

The Act also includes some of the reforms initially announced in the 2014 Budget. In particular, clauses relating to the Guidance Guarantee for members retiring from DC schemes are intended to put a duty on trustees / providers to signpost this service where appropriate. It also brings into force the promise at Budget 2014 that all members retiring from DC arrangements are to have access to "free and impartial face-to-face guidance on their choices" by way of the new guidance service, Pension Wise.

Whilst there was to be no ban on transfers from private sector DB schemes to DC arrangements (following an earlier DWP consultation exploring the prospect), clauses in the Pension Schemes Act:

- impose a requirement that members opting for DB to DC transfers must first take independent financial advice for transfer values over £30,000;
- allows The Pensions Regulator (TPR) to issue new guidance for DB scheme trustees on delaying transfers and using their existing powers to reduce transfer values to reflect scheme funding levels; and
- bans transfers from unfunded public sector DB schemes (except in very limited circumstances).

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