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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

Autumn Statement

The Chancellor of the Exchequer delivered his Autumn Statement in the House of Commons on 3 December 2014. Whilst the headlines were about changes to Stamp Duty, Air Passenger Duty and slightly tweaked budget forecasts, there were very few pensions-related points. Mentions of pensions referred mainly to previously announced policies.

Points of note:

- New employer contribution rates will be put in place in certain Public Sector schemes.
- As previously announced, the 55% tax-charge on inheritance of undrawn pension funds will be abolished on death before age 75 (with marginal rates of tax payable on death after 75).
- Joint-life annuities will also be payable free of income tax, from April 2015, to beneficiaries following an individual's death under the age of 75 (see paragraph 2.65 of document linked below) where no payments have been made to the beneficiary before this date. This change will not be extended to scheme pensions and trustees may therefore wish to consider the increased risk of selection against the scheme where members in poor health choose to transfer their benefits out of the scheme to take advantage of this tax break.
- On a related note, spouses or civil partners will, from 3 December 2014, be able to inherit ISA tax advantages on death.

The Treasury documentation relating to the Autumn Statement can be found here.

Taxation of Pensions Act 2014

The Taxation of Pensions Bill received Royal Assent on 17 December 2014 and has become the Taxation of Pensions Act 2014. The Act introduces the changes to the pension tax rules announced in the Budget 2014 that give individuals greater flexibility to access their pension savings provision.

HMRC: Pension Schemes Newsletter 66

HMRC has published Pension Schemes Newsletter 66, which includes information on:

- Taxation of Pensions Bill (now enacted – see above);
- pension statements and the annual allowance;
- pension flexibility;
- relief at source and annual returns of individual information;
- the draft Annual Allowance Order; and
- delay to the QROPS re-notification process.

Actuarial Standard Technical Memorandum 1 (AS TM1)

On 16 December, the Financial Reporting Council (FRC) published an updated version of Actuarial Standard Technical Memorandum 1 (AS TM1), which gives details of the basis for determining annual statutory money purchase illustrations (SMPIs). It applies to illustrations issued from 6 April 2015 although earlier adoption is allowed.

This new version allows for providers to take account, if they wish, of phasing of contributions under automatic enrolment and the impact of guaranteed annuity terms. It also specifies that the spouse's age to be assumed for members in a same-sex marriage is the same as that for civil partners.

Pensions Ombudsman publishes its first determination in relation to pensions liberation

The Pensions Ombudsman has published its first determination in relation to pensions liberation and has directed the trustees of the liberation scheme in question to pay a transfer value of at least the original amount plus interest.

The focus of the determination is on what the member can get back from the scheme that he's actually transferred to, rather than the trustees of the original scheme who processed the transfer so the decision does not provide much guidance to trustees handling suspicious transfer requests. However, decisions that may be more helpful to trustees are expected to be published in January 2015.

HMRC: VAT on Scheme Management Fees

HMRC has issued two further briefing notes (43 and 44) in relation to reclaiming Value Added Tax (VAT) on management costs for pension schemes. Early analysis suggests that HMRC's revised position will be welcome news for trustees and sponsors of DC schemes, but not so good for DB schemes. Until now, HMRC has treated different services received by occupational schemes in different ways for the purposes of reclaiming VAT:

- VAT on "administration services", such as actuarial and administration fees, was recoverable by the sponsoring employer
- VAT on "investment management services" was generally not recoverable.

Where invoices straddled both types of services, a 30/70 split could be assumed (with VAT recoverable on the 30% of the invoice assumed to relate to administration services).

HMRC: end of contracting-out for defined benefit schemes

HMRC has published issue four of its "Countdown Bulletins", which encourages the use of the Scheme Reconciliation Service and highlights the possible consequences if schemes fail to reconcile their records. One interesting fact is that HMRC has identified a variance of 30% in members compared to membership numbers provided by schemes highlighting the additional work required to resolve these discrepancies and potential impact on costs and resources.

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