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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 2014 – the aftermath for pension administration

The Finance Bill 2014 has introduced legislation in relation to the changes for trivial and small lump sum payments with effect from 27 March 2014. These changes will not formally become law until the Finance Act 2014 receives Royal Assent, likely to be in July.

Trivial Commutation Lump Sum and Small Lump Sum payments

The following changes, subject to scheme rules, will impact both Defined Benefit (DB) and Defined Contribution (DC) occupational pension arrangements:

- A change in the trivial commutation lump sum limit from £18,000 to £30,000. The revised limit applies where the twelve month commutation period commences from 27 March 2014. In addition, the revaluation factor used to determine how much of the commutation limit has been used up by crystallised pension rights will be removed from this date.
- A change in the ‘small lump sum’ commutation limit from £2,000 to £10,000. The revised limit applies for lump sums paid from 27 March 2014.

Corresponding changes to the commutation limits for winding-up lump sums and trivial commutation lump sum death benefits have not been made at this time, so these will currently remain at £18,000.

From a tax perspective, HMRC is already proceeding in line with these changes. Arrangements have been made with Parliament to enable them to collect (and trustees of registered pension schemes to account for) income tax on lump sums paid from 27 March 2014 based on the higher limits, before the Finance Act 2014 is in force.

Scheme trustees will need to determine whether scheme rules and the current legislative position allow benefits to be paid from their scheme using the higher limits. They may decide that legal advice is required on this matter.

Pension flexibility

HMRC has released information in relation to the tax position for individuals who have received a Pension Commencement Lump Sum (PCLS) before or after 27 March 2014 to ensure that people do not lose their right to a tax-free lump sum if they would rather use the new flexibility this year or next, instead of buying a lifetime annuity. This information is for people who have:

- received a PCLS after 27 March 2014
- received a PCLS on or before 27 March 2014, and either:
    - cancelled an annuity contract on or after 19 March 2014 within their cooling off period, or
    - have not yet decided how to access the rest of their pension savings, which remain in the scheme

HMRC has confirmed that the PCLS in these circumstances will not be classed as an unauthorised payment where the attaching pension entitlement does not commence within the current six month deadline. The policy intention is to give as much flexibility as possible to individuals wanting to defer their final decision about accessing their pension savings until 2015. Finance Act 2014 will therefore also extend the six month deadline to October 2015 where a PCLS is paid after 27 March 2014, on the same basis as for PCLSs paid on or before that date.

The value of the PCLS paid will not be impacted by any subsequent increase or decrease in the residual fund (e.g. the PCLS paid will not be recalculated to take account of 25% of any revised value of residual benefits at a later date).

HMRC newsletter 61

HMRC has published its latest Pension Schemes Newsletter 61 which includes the Finance Bill 2014 - increasing pension flexibility, the introduction of Individual Protection 2014 and the new measures to help prevent pension liberation. It also includes the Government's plans on further flexibility from April 2015 and a link to its consultation document Freedom and Choice in Pensions on how best to implement them.

Marriage (Same Sex Couples) Act 2013

The Marriage (Same Sex Couples) Act 2013 made same sex marriages legal in England and Wales from 29 March 2014 (or from 13 March 2014 in exceptional circumstances). The legislation requires same sex married couples to be treated in the same way as is currently the case for civil partners in relation to occupational pension schemes.

Administrators face a number of issues as adjustments may need to be made to administrative processes and documents, including capturing same sex couples in their data and being aware of how to treat it. No doubt trustees will need to consult their legal advisors as scheme rules may need to be amended.

The Government is currently reviewing the differences in pension benefits between same and opposite sex couples, and after consultation is expected to publish its findings around July 2014. The outcome of the review could instigate changes to the administration of schemes going forward.

End to 'rip off' pension charges

From April 2015 a 0.75% cap on charges will be introduced for the default funds of all DC qualifying schemes. The Government has also set out equivalent caps for schemes with combination charge structures.

By April 2016 three different categories of pension charge will be banned altogether:

- Payments for sales commission which are deducted from members' pensions
- Charge hikes when people are no longer contributing members but leave money in the pension scheme.
- 'Consultancy charges' where members have to pay for advice given to their employer

In addition there will be tough new rules to make sure that all of the hidden 'transaction' costs in pension schemes are published, and the Government will then consider whether these should also be included in the new charge cap. An independent audit of pre-2001 and high-charging pension schemes is due to complete by the end of the year and the Government will consider whether further action to protect scheme members is necessary following that review.

Comparing costs for Defined Benefit schemes

It is important that trustees and employers understand how much it costs to run their DB pension scheme. These costs can include fees for administration, advice and services to members. The amounts paid will vary depending on its design and needs, its complexity and the trustee and sponsoring employer's own skills. The Pensions Regulator has produced a tool that shows information about costs in schemes of various sizes. It may be helpful to compare your own scheme costs against the typical cost for schemes of a similar size.