

LEGISLATION

PENSION NEWS

# PATHways

PENSION ADMINISTRATION TECHNICAL HELP

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

## Budget 2014

The Chancellor delivered his [2014 budget](#) on 19 March, in which he announced a series of significant changes to Defined Contribution (DC) pensions – a summary of which are set out below.

The Government is consulting on these changes in its document "[Freedom and choice in pensions](#)", and has produced a short explanatory leaflet "[Budget 2014: greater choice in pensions explained](#)" summarising the proposals that are intended to come into effect from April 2015. The key change is to end the effective requirement to purchase an annuity with DC funds at retirement.

The main changes are subject to consultation and will require amendments to primary legislation to bring them into force. In order to give members of Defined Benefit (DB) and DC arrangements additional flexibility while they wait for the new legislation, the Government has announced some interim easements (subject to scheme rules) with effect from 27 March 2014, including:

- Reducing the minimum income requirement for members to be able to access "uncapped drawdown" arrangements from £20,000 to £12,000 (DC).
- Increasing the "capped drawdown" limits by one quarter (DC).
- Increasing the limits on small ("trivial") pension pots that could be taken as a taxable lump sum (DB and DC).

Under the proposals legislation will be amended from April 2015 to allow members of DC schemes to draw down their pension pots without any limits. Any funds taken will be subject to income tax at the member's marginal rate, although the ability to take up to a quarter of the fund as a tax-free lump sum will remain. Whilst this removes the effective requirement for members to purchase an annuity from an insurance company, members would still be able to do so if they wish.

Trustees and pension providers would also be required to provide DC members with free and impartial face-to-face guidance on their choices at the point of retirement. It is not clear how this advice will be funded, although the Government will establish a £20m "development fund" to get the initiative off the ground.

The minimum pension age that members can draw benefits will increase from 55 to 57 by 2028 under the Government's proposals. It is understood that this provision will affect both DB and DC arrangements. The Government intends that the minimum pension age will thereafter be linked to State Pension Age; in future it will always be 10 years before State Pension Age. The Government has also suggested that the gap between the minimum pension age could reduce further still to, say five years.

In a bid to prevent the risk of a strain on public finances as a result of large numbers of members transferring out of unfunded public sector DB schemes into DC schemes the Government will introduce legislation to prevent such transfers. The Government is also consulting on how it should treat transfers to DC schemes from private sector DB schemes. Its proposals include the prohibition of such transfers and permitting such transfers subject to trustee consent. In the meantime, schemes can continue to offer transfers to members.



The Chancellor also announced the introduction of legislation in the Finance Bill 2014 to amend the Finance Act 2004 giving HMRC new powers to help prevent pension liberation schemes being registered and make it easier for HMRC to de-register such schemes. HMRC has published a Guidance Note [“Combating Pension Liberation Changes to Finance Act 2004”](#) and is seeking comments on the draft guidance by 27 June 2014.

## Cessation of contracting-out

HMRC has issued the first in a new series of bulletins, [Countdown to ending of contracting-out](#), in the run up to April 2016. It includes a timeline covering the operation of the Scheme Reconciliation Service and other issues.

Apparent Un-notified Termination (AUTs) are produced by NISPI when it identifies a break in service where no notification has been received from the scheme. In such circumstances an enforced CA1625 Guaranteed Minimum Pension (GMP) statement is issued using the main Scheme Contracting Out Number (SCON). To assist HMRC in connection with the introduction of the Single Tier Pension HMRC has requested that affected schemes give [priority](#) to this workload by responding to AUT enquiry letters and contacting them immediately with the correct details if the incorrect SCON is shown on an enforced CA1625 GMP statement.

## The Pensions Regulator and the FCA publish joint regulatory guide

A new [guide](#) has been launched aimed at trustees, advisers and pension providers, which set out how the Pensions Regulator and the Financial Conduct Authority (FCA) regulate defined contribution workplace pensions. It outlines each regulator's approach, and how they work together to ensure consistency. The guide details areas of common ground, and explains how both regulators seek to ensure that member outcomes are not adversely affected by the differences in regulatory regime.

## Auto enrolment (Earnings Trigger and Qualifying Earnings Band) Order 2014 (SI 2014/623)

This [order](#) confirms that from 6 April 2014, the automatic enrolment (and re-enrolment) earnings trigger for eligible jobholders into qualifying pension schemes will be £10,000. For Defined Contribution schemes the lower qualifying earnings band will be £5,772 and the upper qualifying earnings band will be £41,865.

## Auto enrolment scores 3 million!

TPR has announced that the [three millionth worker](#), an employee of West Ham United, has been automatically enrolled into a workplace pension scheme. This month's [automatic enrolment registration report](#) shows that more than 10,000 employers of all types from charities to supermarkets, hospitals to football clubs have now automatically enrolled their workers.

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