

A-Day: Coming Ready or Not!

1/8/2005

6 April 2006 is getting ever closer, and there are a number of things which clients and their advisers need to do before it arrives. There are also some things that should be put off until after A-Day.

The **Lifetime Limit** of £1.5m will obviously affect those with particularly large pension funds. It will also affect high earning members of final salary pension schemes, particularly those expecting to receive pensions in excess of about £60,000 p.a. or those with other substantial pensions.

For those with existing pensions or in existing drawdown plans these could be valued at a significantly higher figure than their original investment. The multiple of 25 times the maximum withdrawal could mean that 'relevant existing pensions' could count as more than double their actual fund value.

If clients are earning more than about £60,000 p.a. or they already have pension funds valued at more than £1m, they should be talking to a pensions professional as soon as possible to discuss transitional protection. They should be prepared to pay a fee of up to £2,000 plus vat to get the right advice.

Unfortunately, even if clients are already certain that they will need to apply for **transitional protection**, they cannot do so until April 2006. This is because they will be required to quote the exact value of the funds they wish to protect as at 5 April 2006 for them to be protected. Clients will have until April 2009 to apply for protection, which is probably just as well given the number of people who will be seeking values in April 2006!

Simplification will also affect members of Small Self Administered Schemes and Self Invested Personal Pensions who were planning to use their funds to buy **commercial property**, as the borrowing limits will fall dramatically. If clients are looking to do this they need to do so urgently, unless they will not require any borrowing to complete the purchase. At present a SIPP with £100,000 can borrow up to £300,000: after April the same fund will only be able to borrow £50,000 – not much use if the property value is £250,000!

People taking **pension fund withdrawals** will need to decide whether to change their income levels, particularly if they are drawing minimum income and do not need it. They will also need to reassess their investment holdings if their income levels change, or if they expect to remain in drawdown after 75.

Those approaching age 75 will have new decisions to make about whether or not to buy an annuity, and if not how to structure their investments within their plan. This will need to be considered well before their 75th birthday.

Those people planning to use their pension funds to provide a **lump sum only**, which is permissible under current rules, will require to use 75% of the fund to buy a taxable pension after April 2006. They too will be able to benefit from transitional protection if the pension scheme is in place before A-Day.

If a client wants to ensure that the remaining pension fund can be paid in cash to the estate on **death after age 75**, they should transfer to London & Colonial's Open Annuity now, as the Revenue has stated that this will not be possible after April 2006.

Clients should avoid taking benefits from Free Standing AVCs, from Protected Rights policies or from Personal Pensions subject to certified tax-free cash. Providing that they can afford to wait until April they will get **tax-free cash** instead of taxable income.

Simple it won't be!

One thing is certain about Simplification, and that is that it won't be simple! It will however offer planning opportunities for clients and their advisers, some of which have a definite 'sell by date' of 5 April 2006. Ironically, the biggest risk to advisers is that they oversimplify and miss some of the complexities which will no doubt come back to haunt them and their PI insurers!