

## **Pension Simplification**

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Pensions legislation in the past has consisted of adding another layer of rules onto those already in place, with different sets of rules applying for employer pensions - which are largely benefit limited - and employee and self-employed pensions - which are largely contribution limited.

Simplification will remove this distinction. It will also allow more money to be paid into pensions. Instead of individual calculations based on salary, age and length of service with an employer we will have a simple lifetime limit of £1.5m and an annual limit of £215,000, both of which will increase annually. Contributions can exceed these limits, but there will be no tax relief for higher contributions and employees will be subject to a benefit in kind tax charge on employer contributions exceeding the annual limit.

There will be no maximum pensions, only a maximum tax-free cash sum of 25%. The 25% cash will now apply to all pension schemes, including Free Standing AVCs and Protected Rights which currently allow no cash. It will also apply to those who have transferred funds and are presently subject to a cash certificate which gives them less than 25% cash.

The minimum retirement age will rise to 55 from 2010, but there is to be no corresponding rise in the maximum age of 75.

There will be new rules on permitted investments, including the much-publicised residential property option, and new limits on borrowing by pension schemes.

Drawdown, also known as Pension Fund Withdrawals, will gain a new, less clear, name Unsecured Income, and will be subject to new limits. In particular the new minimum income will be zero. After age 75 there will be the option to secure income through an annuity or to opt for Alternatively Secured Pension, which actually means unsecured income but with a lower maximum than Unsecured Income!

### Who will it affect?

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. Transitional protection will be available, but this is far from simple.

It 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.

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 to buy an annuity, and if not how to structure their investments within their plan.

People who had hoped to retire before 55 will be unable to do so unless they will be 50 before April 2010, or they had some form of arrangement to do so already in place when Simplification was announced in December 2003.

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 pension after April 2006, although they too may be able to benefit from transitional protection.