QUICK GUIDE TO PENSIONS

JULY 2010

Pension Age - From 6th April 2010, the earliest age from which you may draw your benefits from a personal pension or retirement annuity contract will be 55.

Contribution Limits – Since 6th April 2006 you can contribute up to £3,600 each tax year, irrespective of your annual earnings (if any) and receive tax relief on the whole contribution.

If you contribute more than £3,600 in a tax year, you can pay up to 100% of your annual earnings although the maximum contribution on which you will receive tax relief is £255,000 in the 2010/2011 tax year.

Investment Options - If you have a Self Invested Personal Pension (SIPP) the range of permitted investments has been changed to allow a greater choice including the option for a pension plan to purchase residential property trusts, subject to certain conditions.

Standard Lifetime Allowance - Pension Simplification is introducing a maximum Standard Lifetime Allowance which represents the maximum amount that may be accumulated within *all* of your pension arrangements, excluding the State pension(s), without incurring a tax liability.

The maximum Standard Lifetime Allowance will be £1.8 million for the 2010/11 tax year and it's likely that these figures will stay as they are for a few years. When you take your benefits, be it in part, full~~,~~ or in the event of your death, the accumulated value of all your pension arrangements, excluding all State pension(s), will be calculated. If you have an occupational defined benefit (final salary) entitlement, or are already in receipt of a pension, this will be given a capital value negotiated with HMRC in order to determine whether you are within your Standard Lifetime Allowance. Any award under a pension sharing order may affect your Standard Lifetime Allowance.

If the Standard Lifetime Allowance is exceeded and Transitional Arrangements* have not been put in place, any excess funds taken as a cash lump sum will be subject to a 55% tax charge. If the excess fund is taken in the form of a pension, there is a 25% tax charge and income tax will also be payable.

Transitional Arrangements - are available for those individuals who were affected by the new limits in 2006 i.e. those with pension fund values approaching, or in excess of, the initial Standard Lifetime Allowance of £1.5 million. The Transitional Arrangements allowed you to protect your existing and future pension fund values by means of Primary* and/or Enhanced** Protection.

Primary Protection - is only available if your total funds were in excess of the Standard Lifetime Allowance of £1.5 million on 5th April 2006. The total value of all your pension arrangements will be expressed as a 'factor' of the 2006/2007 Standard Lifetime Allowance.

The factor will be registered with HMRC and will be used to calculate how much of your fund will be protected from the recovery tax charge at the time you decide to draw any benefits.
As the Standard Lifetime Allowance increases each year, when you decide to draw benefits your registered factor will be applied to the increased Standard Lifetime Allowance at that time and you will only incur a recovery charge on the excess value. If you apply for Primary Protection, you may continue to contribute to your pension arrangements.

Enhanced Protection - can be applied for those already over the Standard Lifetime Allowance limit or those who anticipate exceeding that limit.

If you applied for Enhanced Protection, you must have stopped accruing and/or contributing to all of your pension arrangements. Provided no accrual or funding occurs after 5th April 2006, your total pension value is protected against the Standard Lifetime Allowance recovery tax charge at the time you draw benefits - irrespective of the value of your pension arrangements.
NOTE: YOUR PRIMARY AND/OR ENHANCED PROTECTION BASIS SHOULD HAVE BEEN REGISTERED WITH HMRC BY 5TH APRIL 2009.

Tax Free Cash - Your maximum tax free cash entitlement will be 25% of all your individual plan values including Protected Rights and the value of Free Standing Additional Voluntary Contributions.

However, you should be aware that if some of your benefits are in an occupational pension scheme, you should request details of your tax free options from the pension scheme administrator since these may be different from those of your individual plans.

Pension Income Options - When you decide to draw a benefit, your options will include:

A) Secured Income ~ An annuity policy with an insurer that may include a death benefit.

B) Unsecured Income ~ Paid up to a maximum age of 77 (see below) and is income drawn directly from your pension fund paid in lieu of an annuity. There is no minimum income requirement. Therefore it will be possible for you to take tax free cash whilst electing a nil income level.

   Using the basis set out by the Government Actuary's Department (GAD), the maximum income limit will be 120% of the GAD limit. The income level will be assessed every five years from commencement of taking income benefits from your fund.

   On death before age 77, the fund may be used to provide dependants' incomes or paid as a lump sum subject to a tax charge of 35% of the fund value. If you already receive income direct from your pension fund, the portion of the Standard Lifetime Allowance consumed will be valued at twenty five times the GAD maximum income limit, irrespective of what you actually draw.

C) Alternatively Secured Pension (ASP) ~ From age 77, you can continue drawing an income direct from your pension fund. The maximum allowable

ASP will be 70% of the GAD limit. The income level will be assessed annually.

On death, any remaining fund may be used to provide a Dependant's Alternatively Secured Pension (DASP) subject to the dependant being over age 77 at the time of your death. There is a tax charge of up to 82% on pension fund assets from ASP.

Smaller fund values - Once you reach age 55, you will be able to take all of your pension funds as a lump sum rather than as an income provided the total value of all your pension arrangements is less than 1% of the Standard Lifetime Allowance for the tax year in which you select this option i.e. £18,000 in the 2010/2011 tax year. If you select this option and, for example your funds totalled £15,000, an amount of £3,750 will be paid tax free and the remainder will be taxed on a PAYE basis.

2010 Budget Changes

In the 2009 Budget, the Labour Government proposed complex arrangements from 2011 for higher earners (above £150K pa).

These are now being reviewed by the Coalition Government and revised proposals will be put forward later in 2010.

There is also a proposed change to Alternatively Secured Pensions post age 75. The first change was to uplift the age to 77 while the rules were reviewed.

It is likely that the post 77 rules will mirror the pre-75 Unsecured Income rules with a 35% tax charge on passing assets to beneficiaries on death.