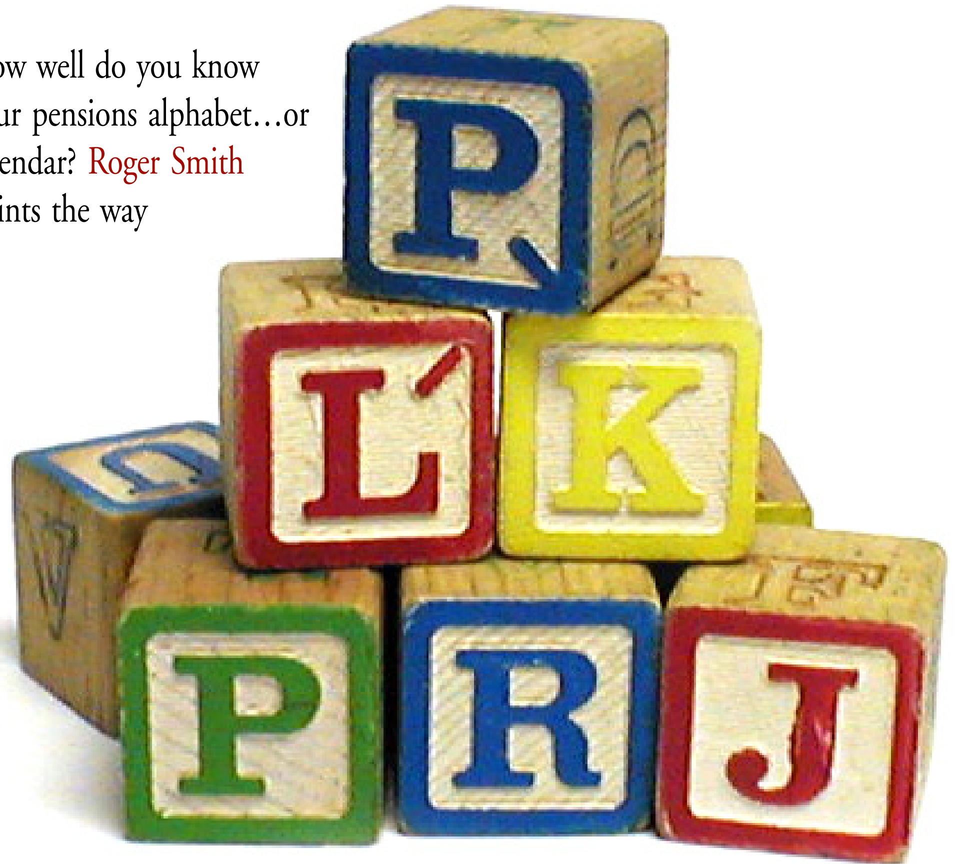
'A' DAY: *for a new beginning*

How well do you know your pensions alphabet…or calendar? Roger Smith points the way



'A' Day, 6 April 2006 sees the end of the present pensions regime which is to be scrapped in favour of yet another 'new improved' product. This will make saving for retirement easier and fairer for everyone, so we are told.

Whether A Day achieves this goal or not, the new arrangements will have far reaching consequences for a number of pension plans. It makes sense therefore to look at what current and future pension options you have, and decide which of them are attractive for you, your family and your particular situation.

Now is the time

Buying residential property inside a self invested personal pension (SIPP) will appeal to many. Transferring assets such as property, yachts, wine cellars etc. are just some of the ideas that are now possible, if of course one has the yachts, wine or property. Leaving your pension fund as a pension to your children if you haven't claimed it, is another interesting possibility. It can put your financial planning on a much longer time scale and offers security to the next generation, They will find it hard enough saving for their first house without considering how they can afford to retire.

Some of the pension companies have adapted well to the forthcoming situation with help in any decisions to be made. Others are seemingly still scratching their heads and trying to decide if they can afford to be involved in pension planning any longer. There is an ever shrinking group of pension companies in the active market, due to lower charging structures imposed by the Government and the FSA and resulting in reduced profit margins. The number of pension providers is likely to shrink further still under the new regime, despite the new freedoms for them and their policyholders.

The new rules at a glance

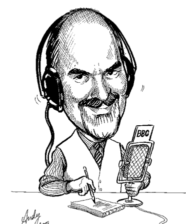
The most obvious change in the new regime is the initial Standard Lifetime Allowance (SLA) of £1.5m total benefit value of your fund, Tax penalties apply to larger funds. Other changes are listed in Table 1.

New terms for a new day

When A day dawns so will a forest of aphorisms. Crystallisation, for example, will be the term used when benefits come into payment, such as an annuity, income withdrawal or death. Such events will result in part or all of the individual's allowance being used.

Standard Lifetime Allowance (SLA)

SLA is the maximum value of a member's benefits before it is subject to the tax charge when there is a crystallisation event .The Government has set an initial allowance of £1.5m, This amount will increase over successive years as shown in **Table 2** overleaf, though the limits are likely to be reviewed by future legislation.



Smith: in a forest of acronyms

Lifetime Allowance Charge (LAC)

If the value of the pension benefits exceeds the SLA, then the LAC is levied when benefits are crystallised. The tax charge will be 55% if the excess is taken as a lump sum and

Table 1: Some A Day changes

A total annual pension contribution allowance of £215,000 in 2006-07 tax year . Basis years will be abolished. Most people will be able to contribute up to 100% of their earnings each year on which they will receive the tax relief. One wonders whether a 'prudent' Chancellor can reconcile Government borrowing forecasts, with these unknown and possibly large increases in tax refunds when the better off and better informed take full advantage of the new rules, as they surely will. The minimum retirement age rises to 55 years by 2010. Maximum tax free cash lump sum ceiling of 25% will apply to all pension schemes and policies.

Anyone with total pension rights of below 1% of the SLA (£15,000 in 2006-07) will now be able to take their pension fund as a lump sum within a one year period. This is meant for the poor pensioner who has not been able to afford to save much during a lifetime.

25% if paid as pension income. The 55% rate is doubtless a clever way to raise revenue for HM Treasury for those eager to access higher amounts and should be a nice little earner for Mr Brown or his successor. Inland Revenue (IR) guidelines are expected to be finalised by mid autumn.

Annual Allowance

An initial amount of £215,000 will be allowed on any pension contributions and rises every year until 2010-11 when it will be reviewed every five years by the Government. (See Table 3) Any contributions above this annual allowance will be taxed at a rate of 40%.

Transitional Protection

This is available to protect pre-A day rights from the tax charge, providing those rights are within I R limits. There are two major types of protection: primary and enhanced.

Table 2 : Increases in pre- tax Standard Lifetime Allowance

Year	Amount
2006-7	£1.5m
2007-08	£1.6m
2008-09	£1.65m
2009-10	£1.75m
2010-11	£ 1.8m

Table 3: Annual Allowance

Year	Amount
2006-7	£215,000
2007-08	£225,000
2008-09	£235,000
2009-10	£ 245,000
2010-11	£255,000

You have to register for both. Protection is also given to a cash entitlement of more than 25%.

Primary Protection (PP)

PP is available to individuals whose total funds as at 5 April 2006 are valued at more than the SLA (for 2006-07 £1.5m). Individuals need to register their benefits with the IR. Those who register their eligible funds up to the IR get a Lifetime Allowance Enhancement Factor (LAEF). This is the percentage increase in the members SLA. An example of the calculation is given below as follows:

Fund Value of £2m @ 05/04/06
SLA at 06/04/06 is £1.5m
£2m -£1.5m = £500,000 /£1.5m =33/33%
So the LAEF is 33.33%

Therefore the member may take benefits at retirement up to 33.33% greater than the SLA without a LAC being applied.

Enhanced Protection (EP)

EP is available to all individuals regardless of fund size up to the maximum permitted IR benefits. To qualify for EP, any surplus must be dealt with before registration. EP permits the whole of registered fund to be paid at retirement free of any LAC. Once the EP is registered, contributions and/or accrual must cease at A Day.

Protection of cash

If tax free cash is greater than 25% of the fund at A Day, it must be recorded. Only 25% will be permitted from service or accrual after A Day. Any benefits must be taken in one lump sum. Any subsequent transfer, unless part of a block transfer (more than one transfer out at the same time), means that the pre A Day cash excess entitlement is lost.

Retirement Annuity Contracts (RACs)

Holders of retirement annuity contracts taken out before 1988 should note the following key points:

- After A Day the IR will allow benefits to be taken at age 50 (not 60 as at present) .This age limit will move to age 55 in 2010 .
- The tax free cash limit will change to 25% of the fund post A Day. Those with a lump sum in excess of this may wish to consider taking benefits before A Day. Those with a lump sum below 25% may wish to defer taking benefits until after A Day when they can have 25%.
- Maximum funding .Any contributions to be carried back must be paid by 5 April 2006, but individuals can elect to carry them back at any time up until 31 January 2007. The Carry Back rules will effectively disappear under the new rules. After A Day the new contribution limit will apply of up to £215,000 (and rising each year as in the table above)
- Death benefits. Where any death benefits, payable on death before retirement, exceed the SLA and are used to provide a spouse or dependent with an income, then no liability to the SLA charge will arise.

Final word(s)

Check on your pension schemes now. Take advantage of any 'breaks' in the new legislation beginning on A Day and make sure you know your pensions alphabet. Long live pension simplification!!!!

This is intended as general guidance only and each individual is recommended to seek guidance from their pension adviser. *(Source L& G Pension's guidelines doc 18 /3/05)*

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