November 2010

Mattinson Ginty & Partners (Employee Benefits) Limited

A Guide to...

Changes to the Annual & Lifetime Allowance

Special points of interest:

- Annual Allowance reduced to £50,000
- Lifetime Allowance reduced to £1.5m
- Trivial Commutation stays at £18,000

Spending Review

As part of the Spending Review, the Treasury has recently announced that the Annual Allowance will be cut from £255,000 to just £50,000 from April 2011 and that the Lifetime Allowance would also be reduced from £1.8m to £1.5m from April 2012.

These changes are expected to raise £4bn per annum which will help reduce the deficit; it is estimated that the Annual Allowance reduction will affect 100,000 pension savers, 80% of which have earnings over £100,000.

Annual Allowance

The Annual Allowance is the maximum amount that can be paid into an individual's pension each year and qualify for tax relief. Contributions can come from the individual and/or their employer.

For the 2010/11 tax year the Annual Allowance is £255,000. As mentioned above, this will be reduced to £50,000 from April 2011.

Personal contributions will still be restricted to 100% of earnings subject to the Annual Allowance of £50,000.

The reduction of the Annual Allowance will replace the complex rules introduced in the Finance Act 2010 relating to high earners but could have a significant effect on an individual's retirement planning and also affect anyone who is currently paying more than £50,000 per annum into pensions.

The Treasury will allow any unused allowance from the three previous tax years to be carried forward to offset contributions above the Annual Allowance in a single year. The new £50,000 Annual Allowance will apply retrospectively to tax years

2008/09, 2009/10 and 2010/11 for this purpose. This allows carry forward to start in tax year 2011/2012.

Defined Benefit accruals will be valued using a factor of 16 (currently 10). This means that the maximum benefit accrual in one year that's within the Annual Allowance is £3,125 (i.e. £50,000 ÷ 16). Using carry forward could increase this.

The Annual Allowance will not apply on death or on serious ill health.

There is no exemption in the year that benefits are taken, on redundancy or for those who have claimed enhanced protection.

Pension Schemes will be required to provide a statement where individuals have made contributions over the Annual Allowance.

Tax relief at full marginal rate is available on contributions paid within the new limit and no tax relief on contributions above the new limit is allowed.

MGP (Employee Benefits) Ltd
The Bank
209 Every Street
Manchester
M4 7EX

Tel : 0161 273 8273
Fax : 0161 273 7878
E-mail : enquiries@mgpeb.co.uk
www.mgpeb.co.uk

FINANCIAL PLANNERS CII CHARTERED

If contributions are paid by an employer and exceed the £50,000 limit a tax charge will apply on the individual at their highest marginal rate but the employer will still receive tax relief in the normal way.

Lifetime Allowance

The Lifetime Allowance is the maximum amount that an individual can have in pensions before tax penalties are applied.

The Lifetime Allowance is currently £1.8m but will reduce to £1.5m from 6th April 2012.

This will, effectively, bring the Lifetime Allowance back down to the level at which it was originally introduced in 2006/07.

The Government will consult on a protection regime for those already above the new reduced Lifetime Allowance who have previously not applied for Primary or Enhanced Protection.

The trivial commutation limit is fixed at £18,000 and will no longer be linked to the Lifetime Allowance.

Summary

This current tax year looks like it might be the last opportunity to be able to pay significant pension contributions and receive tax relief.

♦♦♦♦♦

Other Items of Interest

State Pensions

The Government has announced that it will restore the earnings link for the Basic State Pension from 2011.

The ‘triple guarantee’ will guarantee that from April 2011 pensions will increase each year by earnings inflation, price inflation or 2.5% whichever is the higher.

♦♦♦♦♦

State Pension Age

The State Pension Age was originally set at 65 for men and 60 for women.

Between April 2010 and November 2018, the women’s retirement age is to be increased to 65 to match that of men.

As part of the Spending Review, the Government has announced new proposals for increasing State Pension Age further.

From December 2018 the State Pension Age for both men and women will start to increase to reach 66 by April 2020.

Women born before 6th April 1953 and men born before 6th December 1953 will not be affected by these new proposals.

The Government is also considering the timetable for future increases to the State Pension Age from 66 to 68.

♦♦♦♦♦

Contracting-Out

Contracting-out of the State Second Pension (S2P) for defined contribution schemes ends on 6th April 2012.

From this date, individuals will automatically be brought back into the State system and no further rebate payments will be made to their personal plans in respect of future tax years.

Individuals will start to accrue an entitlement to the Additional State Pension instead

Rebate payments already made will be retained in the individual’s private pension.

From April 2012 the rules governing how protected rights benefits should be treated will be removed.

Those benefits already accrued under personal plans will cease to be classed as ‘protected rights’ and will be treated the same as other pension benefits.

♦♦♦♦♦

Private Pension Retirement Age

This incorporates company pension schemes and individual private pensions.

The earliest an individual is allowed to draw pension benefits is age 55.

The Government has also changed the maximum age at which an individual must buy an annuity from age 75 to age 77.

A further announcement has been made that the Government will consult on the best way to remove compulsory annuity purchase.

Anyone who is in income drawdown will be allowed to continue with Unsecured Pension (USP) income up to age 77.

This means that USP income limits will continue to apply instead of the Alternatively Secured Pension (ASP) limits which restrict income flexibility.

♦♦♦♦♦

If you wish to discuss any of these matters further please contact your usual MGP adviser or contact the office on 0161 273 8273.

♦♦♦♦♦