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# PATHways

## PENSION ADMINISTRATION TECHNICAL HELP

HIGHLIGHTING PENSIONS NEWS AND LEGISLATION THAT HAS PARTICULAR RELEVANCE TO WHAT WE DO IN PENSION ADMINISTRATION

## Further details released about the Government's April 2015 pension reforms

The HM Treasury consultation response (Freedom and choice in pensions) released on 21 July 2014 has given more details of the pension reforms announced in the last Budget. Free financial guidance will be provided to retirees by The Pensions Advisory Service (TPAS) and the Money Advice Service (MAS), in partnership with organisations like Age UK and the Citizens' Advice Bureau. This guidance can be web-based, over the telephone or face-to-face. The guidance will be paid for by a levy on regulated financial firms. Pension schemes and providers will not be asked to give this guidance due to the risk of unsuitable products being suggested. TPAS and the MAS are two organisations linked to the Government and they do not sell products. Pension schemes will be required to signpost members to this impartial guidance in the literature sent between four and six months before the intended retirement date and at any other time a member indicates that they wish to access their pension funds. The Financial Conduct Authority (FCA) will be responsible for setting and monitoring the standards with which guidance providers will have to comply, making and enforcing rules on how contract-based schemes signpost to the guidance services, and adjusting the FCA's existing conduct rules to support the introduction of the guidance guarantee and in response to the new flexibilities. The guidance given will be basic, running through the options – people wanting tailored guidance will still need to pay for an independent financial adviser. There will be no limit on the number of times an individual can access this guidance.

Annuity providers will be able to sell more flexible annuity products that do not pay a constant income and allow individuals to make ad hoc lump sum withdrawals, for example to meet sudden long-term care needs, or in the early years of retirement. Another variation may be to allow bigger death benefits in annuity products, with lifetime guarantees instead of the current 10 year limit. Up to 18 million people will be able to benefit from the 2015 reforms, partly because transfers from private sector defined benefit (DB) schemes to defined contribution (DC) schemes will continue to be allowed subject to safeguards. These safeguards are a requirement for a member to have taken financial advice from a FCA registered adviser and new guidance for trustees on the use of their existing powers to delay transfer payments and take account of scheme funding levels when deciding on transfer values.

Individuals will be able to transfer between DC schemes at any point up to their scheme's normal retirement age (currently legislation allows schemes to prohibit transfers out within one year of retirement). It appears that this change will not apply for transfers to or from DB schemes. The option to transfer will not be extended to include those with pensions in payment. Also, transfers from unfunded DB public sector pension schemes to DC schemes will still be blocked in the vast majority of cases.

## Steve Webb announces making State pension deferral less attractive from 2016

Pensions Minister Steve Webb has announced plans, to half the benefit gained by pensioners who opt to defer taking their State pensions beyond State Pension Age. Currently a State pension rises by 10.4% for each full year the recipient puts off claiming it. However, when the new State pension is launched on 6 April 2016, the Government plans to reduce this increase to 5.8% a year. The Department for Work and Pensions said this decision takes into account rising life expectancy and confirmed that they asked the Government Actuary for independent advice.

## Rebranded Pensions Regulator guidance on pensions liberation fraud

The Pensions Regulator has amended its publicity campaign behind “Pension Liberation Fraud” which has been rebranded “Pension scams” and the ‘scorpion’ leaflet has been refreshed. This reflects the widening problems associated with fraudulent activity beyond early release of pension funds, and into unregulated overseas investment scams.

A press release has also been issued by The Pensions Regulator as part of its campaign covering stories by victims of pension scams who have lost money or face huge tax bills. The known amount of funds paid into pension scams now stands at £495m in total. However, it is suspected that this amount is likely to be substantially higher and not all such activity is reported (and will likely become even less so in future, given the punitive and unsympathetic HMRC response described in each of the case studies included in the new scorpion leaflet).

## ‘Death tax’ of 55% may be reduced in the Autumn Statement

The Government’s response to the consultation over the pension reforms has confirmed that they will review the tax charge on pension funds held in a drawdown product at death or uncrystallised after age 75. Millions more people are expected to use drawdown when the new freedoms come into force in April 2015 and the current rate of 55% may be too high. The Government will confirm its intention in the Autumn Statement.

## Government announces pensions recycling crackdown and changes to retirement age limits

The response also states that the Government is set to introduce new restrictions on pensions tax relief to combat ‘recycling’. A person nearing retirement could put their whole salary into their pension, then take the 25% tax free lump sum and invest it in a new pension, from which another 25% tax free lump sum is taken and put into another new pension scheme, and repeat the process over and over again, leading to multiple tax reliefs on the same money. This practice could become more widespread under the new pension reforms.

The Government will introduce restrictions on how much tax relief people can receive on contributions to DC arrangements after they receive their lump sum the first time. The annual allowance will fall from £40,000 to £10,000 for people who decide to take out more than 25% of their fund as a lump sum. This restriction will not apply where benefits are accessed from a DC arrangement with a value of no more than £10,000. In such cases benefits can be taken under the rules for small lump sum commutation.

Meanwhile the Government has confirmed the minimum retirement age will rise from age 55 to 57 by 2028, then stay 10 years below the State pension age. This means that in later years the minimum retirement age will rise to age 58 and then will probably increase to age 60. However, as the lower age limit for trivial commutations and small lump sum payments is set to fall from age 60 to 55 from April 2015, then presumably the age limit will rise in line with the proposed future increases to the minimum pension age.

## HMRC newsletter sets out new useful online functions

HMRC newsletter 63 confirms that applications for Individual Protection 2014 can be made online from 18 August 2014. The newsletter also has a link to an online Lifetime Allowance Checking Tool.