



Harrold Financial Planning Limited



Important - Changes to Pension Rules

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The Government published the Finance Bill 2011 on 9 December 2010 giving details of the changes to pension rules.

Lifetime Allowance (LTA)

This will reduce from £1.8M to £1.5M from 6 April 2012. Note the change is from 2012, not 2011. The Government has confirmed those with savings above £1.5 million or who believe the value of their pension pot will rise to above this level through investment growth without any further contributions or pension savings, will be able to apply for a new personalised lifetime allowance of £1.8 million, providing they cease accruing benefits in all registered pension schemes before 6 April 2012. Notifications in writing for this must be received on the prescribed form (yet to be issued) by HMRC by 5 April 2012.

Annual Allowance

The annual allowance is the maximum pension contribution which may be made in any one tax year, without giving rise to tax implications, and for tax years 2011/12 onwards will be reduced to £50,000. Payments may be made in excess of this amount but will give rise to a tax charge on the individual.

There are also a number of other changes to the annual allowance rules which will have effect on or after 6 April 2011:

- the annual allowance charge will be linked to the individual's marginal tax rate;
- any unused annual allowance can be carried forward for three years;
- transitional rules apply from 14 October 2010 where individuals have pension savings relating to a pension input period that started before 14 October 2010 and which will end in the 2011/12 tax year and is therefore subject to the new annual allowance limit.

Changes to income drawdown and the "age 75" rule

As was previously announced, from 6 April 2011 the requirement to secure a pension income by age 75 is being removed. This will be achieved through a number of changes:

- the Alternatively Secured Pension (ASP) rules are being repealed for new and existing pensioners, so removing the effective requirement for pension savers to buy an annuity by the age of 75;
- the maximum income that an individual may withdraw from most drawdown pension funds will be capped at 100 per cent of the equivalent annuity but will apply for as long as an individual retains the fund;
- the minimum annual withdrawal amount from age 75 is abolished;

- this means that, for all ages the drawdown limits will be zero and 100% of Government Actuary Department (GAD) rates;
- the maximum capped amount that may be withdrawn will be determined at least every three years until the end of the year in which the member reaches the age of 75, after which reviews will be carried out annually;
- any new pension savings for an individual once a scheme has accepted an application to access the whole of their drawdown pension fund will be liable to the annual allowance charge on all pension input amounts;
- most of the rules preventing registered pension schemes from paying lump sum benefits after the member has reached the age of 75 are being removed;
- the tax rate for all lump sum death benefits is to be set at 55 per cent, apart from death benefits for those who die before age 75 without having taken a pension or lump sum, which will remain tax free;
- unused drawdown pension funds of a member who dies with no living dependants may be donated tax free to a charity.

Flexible Drawdown Introduced

Individuals with drawdown pensions who can meet the Minimum Income Requirement (MIR) of at least £20,000 a year will be able to access the whole of their drawdown funds as pension income without a limit on annual withdrawal (subject to their provider offering flexible drawdown pensions) – but of course any such drawdown income will be subject to tax at the individual's marginal rate.

What qualifies for the "MIR"?

It is to be defined as the following income:

- (a) payments of a scheme pension or dependants Scheme pension provided by a registered pension scheme;
- (b) payments of a lifetime annuity or dependants annuity made by a registered pension scheme;
- (c) payments under an overseas pension scheme which, if the scheme were a relevant non-UK scheme would fall within paragraph (a) or (b);
- (d) payments of a social security pension.

But relevant income does **not** include:

- (a) drawdown pension or dependants drawdown pension, or
- (b) any payments under an overseas pension scheme which, if the scheme were a relevant non-UK scheme, would be drawdown pension or dependants drawdown pension.

Our View

Broadly speaking, the draft Bill delivers what was expected although it is disappointing to see that on death in drawdown before the age of 75, funds will now be taxed at 55% instead of 35%.

The good news is Flexible Drawdown will be of great interest to those with the larger fund sizes. Provided they can meet the MIR, they will have flexibility as to how and when they drawdown the balance of their pension funds.

For either solution, financial advice is going to be required by more investors than ever before, and for longer, as more of those clients will need support beyond age 75.

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