the knowledge

for financial advisers only

a closer look at the pre Budget proposals

December 2007

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benefiting from change

Adrian Walker delves into the pensions detail within the pre Budget report to highlight a clear opportunity for added-value advice.

Hidden away in the recent pre Budget report was mention of a series of 'Technical Improvements' that HM Revenue & Customs (HMRC) is proposing to make to the current pension regime.

The draft legislation for one of these proposals is yet to be published by HMRC and – if implemented unaltered – will have a significant impact on a certain segment of the pre A-Day pension market.

HMRC has signalled an easement to the basis of provision of a protected pre A-Day pension commencement lump sum from a registered pension scheme where there is no post A-Day accrual. Currently, for clients with such protection, the eventual pension commencement lump sum on vesting benefits would be the greater of 25% of the fund value or the A-Day value increased by the rise in the Lifetime Allowance.

However, when the A-Day legislation came into force, clients who could add a post A-Day relevant benefit accrual to their pre A-Day rights in the same scheme were able to have the potential benefit of an additional pension commencement lump sum. This was 25% of any real investment growth achieved in the period to benefit crystallisation after A-Day in excess of the A-Day fund value (increased by the increase in the Lifetime Allowance).

This created significant problems for clients with deferred pre A-Day rights in occupational schemes or pre A-Day s32 contracts where the ability to fund a post A-Day contribution did not exist.

what is being proposed?

The proposals indicate that when the legislation becomes effective, probably at the end of July next year, there will no longer need to be a post A-Day contribution to such arrangements for clients to benefit from real investment growth on deferred funds and generate a further pension commencement lump sum in addition to the protected pre A-Day entitlement.

summary

This change provides the opportunity and need for advice that will add real value and offer certain clients the best opportunity to benefit from these proposals in the longer term. It is of particular importance to identify clients approaching retirement decisions who may require a change in strategy. ■

This article is based on Skandia's interpretation of the law and HM Revenue & Customs practice as at 30 November 2007. We believe this interpretation to be correct but cannot guarantee it. Tax relief and the tax treatment of investment funds may change.

points for review

In terms of potential activity, advisers should be reviewing clients' existing pre A-Day arrangements where the following circumstances apply:

Approaching taking benefits

If since A-Day clients have achieved investment returns that exceed 10% (the increase in the Lifetime Allowance applicable to the 2008/09 tax year) where post A-Day benefit accrual is not available, there is a potential benefit of an increased pension commencement lump sum. To qualify for the increased benefit the taking of benefits will need to be deferred until after the new legislation comes into effect in July next year.

Longer term review

There will be clients with pre A-Day s32 arrangements or deferred one man EPP benefits where protected pre A-Day tax-free cash rights exist, but investment performance has not been delivered since A-Day.

There is a need to either review the investment strategy of the existing arrangement, or to consider transferring benefits to a post A-Day s32 arrangement where there is greater potential to outperform the increase in the Lifetime Allowance. The client will benefit from an increased pension commencement lump sum when the benefits under the scheme are eventually crystallised.

Arrangements such as the Skandia Buy-Out Bond contract, which also include an income withdrawal facility to provide an alternative retirement planning source to purchasing a Lifetime Annuity, can provide a solution in such circumstances.

Multi-member schemes

For schemes where there are multiple members with protected pre A-Day rights, the use of block transfer rules can allow two or more members of the scheme to request a transfer of the protected rights to another registered pension scheme which they have not been members in the previous 12 months.

Alternatively, employers may wish to wind up such schemes in light of the ongoing trustee responsibilities of running an occupational scheme. In which case, the movement to post A-Day s32 contracts can provide individuals with the same level of protection.