

# age old decisions



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**Adrian Walker** gives details of the upcoming change to the normal minimum pension age and subsequent planning requirements.

In just over eight months time the change to the normal minimum pension age at which members of registered pension schemes can begin to crystallise their retirement funds will move from age 50 to age 55. Detailed advice will be required for those affected to satisfy their ongoing financial planning needs.

The change to the minimum pension age will not affect those who have already crystallised benefits and used the capital after taking any pension commencement lump sum to secure income – whether through the use of a lifetime annuity, scheme pension or income withdrawal. Income payments using any of these options will continue to be treated as authorised payments even where the individual will be aged between 50 and 55 when the change comes into force on 6 April 2010.

However, those clients aged between 50 and 55 by 6 April next year with uncrystallised retirement funds will have serious decisions to make over the next eight months.

## planning considerations

If the client decides to defer taking any benefits from their registered pension scheme, they will need to consider the use of other investments to deliver retirement income before age 55. Depending on the length of that period at the beginning of the

next tax year, this may require consideration sooner rather than later.

Alternatively, if they are going to take benefits before 6 April 2010 do they need (or want to) increase their short-term funding against their available annual allowance to boost the value of their retirement fund? The additional pension commencement lump sum and income could help to meet their requirements and maximise the tax efficiency of contributing against their relevant earnings.

If the client is considering ‘phasing in’ their retirement income they need to be aware that any uncrystallised element of their pension funds will only be available to top-up their initial retirement income when they reach their 55th birthday. This will not only affect clients considering crystallising retirement benefits for the first time but also those who may have already started using phased retirement from their registered pension scheme funds. In the latter case uncrystallised funds will be subject to the age transition income thereby potentially restricting their ability to top-up retirement income from their pension funds.

## protected pension ages

A further group of clients impacted by the change to the normal minimum pension age

are those with protected pension ages.

The usual example is that of a sports person, where a protected pension age in respect of pension rights built up before A-Day, combined with any post A-Day funding to the same pre A-Day arrangement, could be as low as age 35. When crystallising benefits built up under the protected pension age arrangement, the individual concerned has those benefits tested against a reduced Lifetime Allowance (LTA). The current LTA of £1.75 million is reduced by 2.5% for each complete tax year between the date on which a client crystallises benefits and the normal minimum pension age.

With the normal minimum pension age extending to age 55 from the beginning of the next tax year, the test against the LTA would effectively use up a greater amount of their LTA. For example, a professional sports person aged 35 in this tax year could decide to crystallise their registered pension scheme benefits that have a protected pension age in this tax year. These benefits would be tested against a reduced LTA of £1.1375 million (ie 65% of £1.75 million). If that individual deferred crystallising benefits until the beginning of the 2010/11 tax year the test would be against a reduced LTA of £990,000 (ie 55% of £1.8 million).



This could create a LTA charge on any crystallisation benefit value in excess of the reduced LTA. The test against the available LTA will potentially benefit those crystallising benefits this tax year. However, they will be using up more of their available LTA by doing so. This will restrict the amount of funding available to them against future earnings when their current career comes to an end compared with delaying any benefit crystallisation until the 2010/11 tax year and beyond.

### occupational schemes

Some clients who were members of occupational schemes established on or before 10 December 2003 and who joined membership of the scheme before A-Day may have a protected early retirement age available to them. This would only apply where the individual was able to take benefits without the need for the consent of the employer or trustees.

Pre A-Day members of Skandia Executive Pension Schemes written under the Skandia Master Trust, which were established on or before 10 December 2003, have a protected pension age of 50 in relation to those benefits. They can only exercise the right to take the benefits at the protected pension

age provided they have left employment. It is possible, however, to transfer benefits into those arrangements from other registered pension schemes to allow the individual to crystallise more of their benefits at the earlier age and before age 55.

To use the protected pension age the client has to crystallise all benefits under that registered pension scheme at once and meet the eligibility requirements for the protected pension age to apply. The protected pension age is a transferrable benefit provided that it forms part of a block transfer to another registered pension scheme alongside funds of another scheme member. In order to still be able to crystallise benefits at the protected pension age a client will still have to have left the employment to which the protected age applied even though the benefits are held in an unrelated scheme.

Skandia will be communicating to pension customers in the coming weeks whose stated normal retirement age on their policy is below 55 and will be potentially impacted by this change. We will ensure that all advisers whose clients are affected will receive the communication to allow sufficient time to discuss and plan with those clients as to how these changes may affect their ongoing retirement plans. ●

“ Detailed advice will be required for those affected to satisfy their ongoing financial planning needs. ”

For further details on the changes to the normal minimum pension age and the relating Skandia mailing please email [skandiamarketing@skandia.co.uk](mailto:skandiamarketing@skandia.co.uk)

[www.skandia.co.uk](http://www.skandia.co.uk)

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