

get ready for the rise



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Adrian Walker outlines the immediate planning requirements relating to the approaching change to the normal minimum pension age.

In my *informer* article of June this year I highlighted the planning requirements brought about by the change to the normal minimum pension age (due to come into effect from 6 April 2010), focusing specifically on individuals who may have been preparing for retirement to start before they reached their 55th birthday. In its recent Pension Schemes Newsletter 37, HM Revenue & Customs (HMRC) highlighted a further specific area of impact which may have gone unnoticed in the wider aspects of the change.

Those affected are individuals who have benefited from having a protected pension age of below 55 applying to all or part of their retirement benefits. HMRC has confirmed that crystallising benefits from the registered scheme concerned before age 55 will still be permitted. The value of the benefits, however, will be tested against the lifetime allowance discounted by 2.5% for each complete tax year between the crystallisation age and age 50 (for this tax year) and age 55 (for next tax year).

planning considerations

The immediate planning issue surrounds the possibility that clients may wish to transfer their crystallised rights to another registered pension scheme before they reach the new minimum pension age of 55. If the benefits are transferred as part of a 'block transfer', ie alongside the rights of another member of that registered scheme, the protected retirement age will also transfer and any continuing income drawn will be treated as an authorised payment.

If the 'block transfer' rules do not apply to the transfer of the crystallised fund then any income taken from the transferred fund before the client reaches their 55th birthday will be treated as an unauthorised payment and taxed accordingly. If income is not taken from the transferred arrangement until the client reaches age 55 then an unauthorised payment will not be generated.

affected schemes

This is unlikely to affect clients who have drawn pension income from defined benefit schemes or lifetime annuities through

money purchase schemes as the transfer options in the marketplace are non-existent or very limited. There could, however, be significant planning issues for clients considering the use of income withdrawal or who have already crystallised their funds into income withdrawal under the protected retirement age rules.

For such individuals there is a need to review existing arrangements, taking into account the following issues:

- Is there a need to consider an alternative registered pension scheme to provide continuing income withdrawals?
- Will I need to crystallise my benefits before age 55 and if so will my current scheme offer what I need by way of post-retirement options?
- If I am drawing income from an income withdrawal arrangement and cannot transfer using the block transfer rules, do I have other assets that could generate income should I need to defer taking income from my arrangement until I reach age 55?

“ It is clear that for certain clients these changes will create an urgent need for advice to consider short-term changes to their retirement plans and take action accordingly. ”

Clients who have Skandia Buy-Out Bond contracts will, unless the transferring scheme certified a protected pension age, have a normal minimum pension age of 50 that will increase to age 55 next April. From the beginning of the 2010/11 tax year, they will be unable to crystallise benefits until age 55 unless a protected pension age applies.

Even then, access to an unsecured pension (USP) is contingent on it being transferred to another registered pension scheme before income is drawn. As block transfer rules cannot apply to this form of contract, clients with a protected pension age should consider one of the following courses of action to avoid unauthorised payment charges. Either:

a) wait until they reach age 55, or

b) if they have already reached age 50, consider crystallising benefits in this tax year and take some income before 6 April 2010 so that the USP transfer is completed before the new minimum pension age comes into effect. They will be able to reduce their income post-transfer to zero for the remainder of the initial five-year income period.

It is clear that for certain clients these changes will create an urgent need for advice to consider short-term changes to their retirement plans and take action accordingly. :

Adrian Walker's June 2009 **informer** article on the changes to the normal minimum pension age is available at www.informerlive.co.uk/informerarticle



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