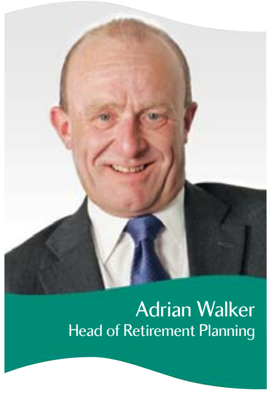
Adrian Walker explains the need to protect valuable pre A-Day tax-free cash entitlements held in occupational pension schemes.



identifying
transitional requirements

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The post A-Day pensions regime has now been running for some two and a half years, and the basic changes in legislation (in terms of funding and benefit entitlement) are largely understood and being confidently applied.

Despite this, there is one important segment of the pre A-Day pensions market where work is potentially outstanding which could have a significant impact upon how clients can take their retirement benefits. This neglected area is those clients with entitlements held in occupational pensions (including Section 32 buy-out contracts put into effect before A-Day).

identifying entitlements

It is vital for these clients to have their pre A-Day entitlements calculated to find out the pension commencement lump sum (PCLS) entitlement calculated from the funds in question. By doing so clients will be able to identify whether they have a protected pre A-Day lump sum entitlement, ie where the PCLS exceeds 25% of the pre A-Day fund value. Crucially, the latter will impact upon how retirement benefits are planned.

The information required for this calculation may, for some individuals, be as simple as providing remuneration details for the employment period concerned. However, some may also have to provide the A-Day values of other accumulated pension rights in order to determine the PCLS applying from employment at A-Day.

As time passes, access to this information may become difficult to obtain. In addition, obtaining A-Day valuations of retained benefits, which may have subsequently been transferred to other providers, will become an increasingly costly and complicated exercise.

danger of delaying

The longer this exercise is delayed, the harder it will become for clients to provide all the relevant information – meaning the trustees or scheme administrators will be unable to undertake the necessary calculation. This could result in a client's PCLS being limited to 25% of the fund value from those arrangements; a significant loss which could have been easily avoided.

multiple schemes

For clients who are members of multiple schemes for the same employment, the situation is further complicated by the calculations needed at A-Day to apportion the client's tax-free cash between the related schemes from the employment. Where there is a mixture of defined-benefit and money-purchase top-up arrangements, it is likely that the definitions of pensionable salary (and therefore the limits on tax-free cash) may differ between the schemes involved. This means the apportionment process (ie determining the share of the PCLS applied to each connected arrangement) may alter the pre A-Day position.

support from Skandia

Clients in Skandia occupational schemes benefit from the fact that the schemes operate through a Master Trust under which Skandia acts as the trustee and scheme administrator. It is still important, however, that employees provide Skandia with the relevant information to ensure analysis of members' pre A-Day rights as soon as possible.

Skandia has been active in this process since A-Day, and a maximum benefit A-Day questionnaire is available on the Skandia literature library to help you obtain the information required for occupational scheme members' A-Day benefit calculations.

protecting pre A-Day cash in the new world

Adrian Walker is also currently hosting a webcast looking at the need for advisers to address how best to protect valuable pre A-Day tax-free cash entitlements.

To view the presentation visit **www.informerlive.co.uk/knowledgelive**

For many schemes it will be the company or the directors who retain the role of trustee and scheme administrator, and will ultimately be held responsible if they penalise themselves as members due to a failure to act. They should also consider the consequences of failure to act for ordinary employees who are members of such schemes with low funding levels and longer periods of service, where it is more likely the issue of protected A-Day tax-free cash will arise.

transfer planning requirements

Skandia believes there will be an increasing movement of funds, particularly in the money-purchase marketplace, from occupational arrangements to personal pensions (including SIPPs). However, where part of the funds making up a client's historic portfolio is accumulated under pre A-Day occupational rules, clients and financial advisers must determine whether any issues may affect the pre A-Day tax-free cash entitlements.

Clients with protected cash wishing to either consolidate with other pension fund assets or aggregate with future funding through an alternative registered pension scheme need to be aware of the transfer process to be used to protect, on transfer, the higher pre A-Day lump sum entitlement.

Member-driven block transfer requests, where more than one member of the scheme transfers their occupational rights to another registered pension scheme, will probably be the more popular route. However, this will only work where the clients have not been a member of the recipient scheme for more than 12 months (unless membership relates only to contracted-out rebate monies).

The only other transfer alternative for funds held in occupational schemes would be where the employer or trustee wishes to wind up the scheme. To provide protection to the pre A-Day lump sum in this instance benefits could, as an alternative to the block transfer option, be transferred into a post A-Day buyout contract. However, clients should be aware that any subsequent transfer will invalidate their protected cash entitlement.

summary

There is an unquestionable need for action in this area to ensure members of occupational schemes identify whether their pre A-Day entitlements need to be protected or whether a PCLS of 25% of the fund will be their automatic default, falling into the same structure as other registered pension scheme accruals. This will also form part of a vital wider financial planning exercise for advisers to better define how they can effectively structure a client's retirement planning for the appropriate 'at retirement' solutions.