



Association of British Insurers



Important changes affecting your pension

From 6 April 2006, the Government is introducing new rules to make private pension arrangements simpler. There will be one set of tax rules covering all existing and new pension arrangements. This factsheet provides information about the main changes that might affect you. Your pension provider may be able to give you a more detailed general booklet.

If you think you need information or advice about your personal situation and how the changes affect it, you should contact your employer or a financial adviser.



How much can be paid into my pension fund?

There will be no limits on the amount you can pay into a pension but there will be limits on the tax relief given. Under the new tax rules, you can pay into as many pensions as you like (as long as they have been registered with HM Revenue and Customs) and receive tax relief on yearly contributions up to:

- £3,600; or
 - 100% of your UK earnings;
- whichever is more.

Also, there is an yearly allowance of £215,000 (tax year 2006/2007) which applies to all contributions made on your behalf (including from an employer). If total

contributions made by and for you in any year are more than the yearly allowance, you will have to pay 40% tax on the amount above the allowance.

If you belong to a scheme where the benefits do not depend on the contributions paid over your period of membership, but on the benefits (for example, one $\frac{1}{60}$ for each year in the scheme), there is a formula that will convert the pension benefit built up for you in each year to an equivalent pension contribution. Only people on high salaries and people who are members of schemes that provide generous pension benefits will be affected by the tax charge.

What is the lifetime allowance?

The lifetime allowance is the total amount of your pension savings in registered pension schemes that can benefit from tax relief. The lifetime allowance has been set at £1.5 million for the tax year 2006/2007, rising in stages to £1.8 million by 2010/2011.

If at the time you take benefits the combined total of all your pension funds is higher than the lifetime allowance, you may take the amount above the allowance:

- as a lump sum (although you will have to pay 55% tax on that amount); or
- as an income (although you will have to pay 25% tax on top of the tax on the income paid through the "Pay as you earn" scheme).

You may think you will not be affected by the lifetime allowance but you should check what your pension funds are worth currently. If you think you are close to the lifetime allowance, you should get financial advice before 6 April 2006.

When can I retire?

You do not need to retire before you can take your benefits. In general, until 5 April 2010, the earliest you can start to take your pension will be any age between 50 and 75. But after that, it will be any age between 55 and 75. A few people, including those who have an existing right to take their pension before age 55 and those whose ill-health meets certain conditions, may be able to start their pensions earlier. If you think you may be affected, you should get financial advice.

Is there flexibility in taking income when I retire?

All the current options for your pension will still be available, but there will be some extra flexibility as well.

You will be able to take a pension income from your scheme (**a scheme pension**) or buy one from an insurance company (**an annuity**).

Or

You will be able to leave your pension fund invested and draw income from it, up to a limit set by the Government, until you are 75 (**unsecured income**.)

There will also be a new option - **alternatively secured pension**. This allows you to draw income from your fund from the age of 75. This is similar to unsecured income but the maximum amount of income you can take is lower.

If you are getting close to retiring, you will have many choices for when and how to draw your retirement income. A financial adviser will be able to help you choose the retirement package that is best suited to you.

My pension funds are very small, what can I do with these?

If the combined value of all your pension funds is less than 1% of the lifetime allowance (that is £15,000 in 2006), you may be able to take them as a lump sum. This is known as 'trivial commutation'. It is available after the age of 60 and all pension funds must be cashed within a 12-month period. If you do this, you may take 25% tax-free but will have to pay tax on the rest.

How much tax-free cash can I take?

The maximum tax-free lump sum you will be able to take is 25% of your total fund at the time you take your benefits, as long as your fund does not go over the lifetime allowance. If you are entitled to take more than 25% currently, you may be able to protect this entitlement. If you think this applies to you, you should get financial advice.

What death benefits can be provided?

If you die before you take your retirement income

If you die before you take your retirement income, the value of your fund up to the lifetime allowance may be paid to your beneficiaries with no lifetime allowance charge. Any lump-sum payment over the lifetime allowance will be taxed at 55%. You can also provide for pensions to be paid to your dependants.

Many people will now be able to take out life assurance through their pension and receive tax relief on their contributions to provide this.

If you die after you take your retirement income

The type of death benefit which will be paid, and how it is taxed, will depend on the terms of the pension arrangement and the type of pension being paid. If you want more information, you should talk to your financial adviser. If you are in an occupational pension scheme, talk to your scheme trustees.

What do I need to do?

If you might otherwise have to pay tax under the new rules, you may be able to protect any pensions or lump sums already built up. If you think this might apply to you, you should get financial advice as soon as you can and well before 6 April 2006.

It is important to review your pension arrangements regularly. To help review your position and understand

the effect of these changes on your own pension you should speak to your financial adviser. If you do not have one, IFA Promotion (IFAP) Ltd or the Personal Finance Society will be able to give you information about financial advisers in your area. You can visit the IFAP website at www.unbiased.co.uk or call them on 0800 085 3250. You can also visit the Personal Finance Society website at www.thepfs.org.

Before you speak to an adviser, you should check what pension arrangements you do have (even very small funds could be important) and make sure you have all the information with you when you talk to the adviser.



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This fact-sheet is published by the ABI and AIFA. It outlines our understanding of the new tax arrangements. However, it is not a full statement of the law and does not claim to give advice on the matters discussed. The Financial Services Authority (FSA) commented on it before we published it.