

## More to think about

As soon as we catch our breath after one set of Government announcements on pensions we seem to be hit by another lot of changes.

This time the Government has delivered on its promise to abolish compulsory annuitisation at 75 (see Summer 2010 Newsletter) by making significant changes to the rules for operation of income drawdown - and at the same time changing the rules on taxation of lump sum death benefits.

Also rapidly approaching is the abolition of default retirement ages for employees. This has a significant impact on workplace benefits and comes into effect from 1 October 2011.

If that weren't enough there are previously announced changes to contribution limits coming into effect from 6 April. And last, but by no means least, the recent European Court of Justice ruling outlawing gender pricing for insurance products which affects the cost of annuities and of risk benefits.

As usual, we at Johnston Financial are here to help you understand the impact on you and your employees and take appropriate action.

**Adrian M Johnston,**  
Managing Director



## Abolition of the default retirement age

Most employers will be well aware of this but it is worth highlighting the impact on company pension schemes and company provided life assurance or health benefits.

With effect from 6 April 2011 any notice of compulsory retirement given to an employee must be objectively justified, for example on grounds of physical inability to do the job. This means that the concept that pension scheme benefits stop accruing when an employee reaches the company's 'normal retirement age' ceases to exist.

Before 1 October 2011, an employer needs to decide whether the company will continue to support membership through payment of contributions, or accrual of benefit, until the employee actually decides to retire, or is given retirement notice, or whether employer support stops at some predetermined age, for example State Pension Age.

Withdrawal of employer contributions to a pension plan could be seen as an incentive to encourage someone to retire so you need to make sure that the rules are clearly set out and applied consistently.

## Risk benefits

Some employers provide group risk insured benefits (including income protection, sickness and accident insurance, as well as private medical insurance) for their workers.

These benefits will be exempt from the principle of equal treatment on the grounds of age so that it will remain possible for employers to cease to provide or offer these benefits once a worker has reached the age of 65 or the State Pension age for men, even if he or she decides to continue working beyond that age. The age at which group risk insured benefits can be withdrawn will increase in line with increases to State Pension Age.

## Gender equalisation

Another piece of jargon we're sure to hear a lot more about. Although the Test-Achats case has been in the pipeline for some years, and the result is not particularly surprising, the industry has tended to ignore it for as long as it could. While a lot of the press comment has been around the impact on motor insurance, the judgement also has implications for employers.

The impact on employee benefits is potentially two fold. Firstly, any death or health risk benefits, which are currently costed on a gender specific basis, will move to a unisex basis. This could result in an increase in costs, at least initially, as health benefit premium rates for males and life assurance premium rates for females are increased in line with the corresponding female and male rates, respectively. Secondly, male annuity rates are normally lower than the corresponding female rate for someone of the same age and health. The effect of gender equalisation is therefore likely to be an increase in the cost of pensions for males and a reduction for females. This will mean that contribution rates will have to be reviewed if males are to target the same level of income in retirement.

## Watch this space

Just to complicate things, there is an argument that, as workplace arrangements are exempted from the judgement, the comments made above would not apply to group pension schemes or group risk benefits. However this will cause serious problems for insurance companies in pricing products, with obvious opportunities for selection against them. We will have to wait and see!

## Pension drawdown - the new name for unsecured pension

Five years after creating a new name for income drawdown - unsecured pension - HMRC has decided that it's time for another change - this time to pension drawdown. Sounds familiar?

The new rules come into effect from 6 April 2011 and the key features are:

- The maximum income that can be taken from a pension fund each year has been reduced from 120% to 100% of the GAD limit (roughly the amount of annuity which could have been secured with the same fund)
- There is no requirement to use any remaining funds at age 75 to buy an annuity, and pension drawdown can continue
- The drawdown limit must be reviewed at least every three years, and every year after 75.
- The tax charge payable on pension drawdown funds paid out on death as a lump sum is increased to 55% from 35%
- While payment of lump sums on death from 'uncrystallised' funds, i.e. not in drawdown, remain tax free if death occurs before age 75; a 55% tax charge will apply to lump sums paid on death after 75
- The option to avoid the tax charge on lump sum death benefits by giving the payment to a registered charity has been extended to under 75s and to uncrystallised benefits, but only if there are no living dependants
- A new option - flexible drawdown - allows individuals to drawdown as much income as they want in a given year, provided that they already have a secured 'lifetime pension income' (a pension from a company pension scheme and the State Pension for example) of at least £20,000pa. No further contributions can then be made to that plan without incurring a tax charge.

## Transitional arrangements

The new rules come into effect from 6 April 2011 but there are some opportunities for individuals to take advantage of the higher limits for a bit longer:

- Starting a new drawdown plan before 6 April
- Designating benefits as unsecured pension for the first time before 6 April
- If your plan is in drawdown and the current pension year ends before 6 April, ask for an ad hoc review
- If your plan is already in drawdown, further amounts can be designated for drawdown up until the next mandatory review date, without triggering a reduction in the 120% limit.

**This is a very complex area. Please contact us as soon as possible if you think that you might be affected.**

## And finally...

As discussed in the Winter Newsletter, the reduction in the maximum amount which can be paid into pension arrangements each year (the Annual Allowance) from £255,000 to £50,000 comes into effect from 6 April 2011.

Although many people will already be subject to the new limits, there are still a few opportunities for individuals who can afford to make contributions in excess of £50,000 to do so before the new cap bites.

Technically the rules depend on what are called pension input periods rather than tax years so will depend on an individual's particular circumstances but there are a few basic rules:

- If you made the first contribution to a plan in the 2010/11 tax year you may still have the option to contribute up to £255,000 before 6 April 2011.
- If you start a new pension plan before 6 April it is possible to arrange it so that it is subject to the old limit, rather than the new one.
- If you paid more than £50,000 in the current pension input period before 16 October 2010 there is the option to pay a further £50,000, provided total payments do not exceed the limit of £255,000.

**Again, this is a complex area and we recommend that you seek advice from us before taking any action.**

## More information

If you want more information on the topics covered in the Newsletter - or any other pension query - please contact us on 0845 166 4540 or e-mail [mail@johnstonfinancial.co.uk](mailto:mail@johnstonfinancial.co.uk). We're here to give you advice and help with your pension problems or issues. The information given in this document is based on our understanding of current and proposed tax and pension legislation. Tax reliefs may change in the future. The value of your investments can go down as well as up and past performance is not a reliable guide to future performance.

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