

## **Government changes in Pension Legislation from April 2006**

On 6 April 2006 HM Revenue & Customs (HMRC) is changing the way it limits tax-free pension savings in approved schemes like the University's occupational pension schemes (USS, KSS, LGPS, and NHS). The results of the change will be that a single tax regime applying to all pension arrangements will be introduced on 6 April 2006 (known as 'A-Day').

This 'leaflet' is designed to tell you about the main changes and where to find more information if you are affected.

Some of the measures must be introduced by all pension schemes and others may be introduced if the scheme's rules are amended to permit the changes. The University's Pensions Schemes are already reviewing future scheme arrangements.

Areas under consideration include more choice about the timing and level of benefits members can receive and the amount they can save for retirement. As pensions scheme administrators make more information available, this will be communicated to staff.

### **Key changes**

There will no longer be a 40-year limit on membership. Instead there are two key controls – a **Lifetime Allowance (LTA)** and an **Annual Allowance (AA)**.

There will be a new single LTA. The LTA is the total amount a person can have in their pension pots before HM Revenue and Customs (HMRC) applies a tax recovery charge. Please note that the LTA applies to all pensions held by an employee. HMRC have published the LTA amounts for the 5 years following A-Day, these are:

Tax year	Lifetime Allowance
2006/07	£1,500,000
2007/08	£1,600,000
2008/09	£1,650,000
2009/10	£1,750,000
2010/11	£1,800,000

When pension benefits are taken, any fund exceeding this allowance will be taxed at 25% if benefits are taken as an income (pension), or 55% if taken as a cash lump sum.

### **Assessing whether benefits are likely to exceed the LTA**

You can check your likely LTA value of your occupational pension benefits simply by, multiplying the annual pension you think you will get when you retire by 20 and then adding your lump sum. :

**For example:** With 40 years' membership and pensionable pay of £100,000 at retirement –  
Predicted pension = £50,000  
Lump sum = £150,000

LTA example calculation:

Pension (£50,000 x 20) = £1,000,000  
Plus lump sum = £150,000

**LTA value = £1,150,000**

You can see that even with high Scheme membership and pay, the benefits of £1,150,000 are comfortably within the LTA limit of £1,500,000. A retiring member in this position would only be affected if they had an additional pension or pensions with a LTA value totalling more than £350,000 taking them over the £1.5m limit. The likelihood is, therefore, that few members will be adversely affected by the new LTA.

### **Do you need to do anything?**

All employees applying for their pension on or after A-Day will in future be asked if their TOTAL benefits from all pension savings are under or over the LTA. If your total pension's benefits are likely to be more than the new LTA on or after A-Day, you need to know that HMRC is introducing 'special protection' measures that may help you to avoid paying undue tax. More information can be obtained on this by visiting the HMRC website at [www.hmrc.gov.uk](http://www.hmrc.gov.uk) or from an Independent Financial Adviser.

### **Primary and Enhanced Protection**

For those whose total pension benefits were within the limits permitted by the old tax regimes, but could now exceed the new tax regime, HMRC have introduced Primary and Enhanced Protection, on application. Members have until **5 April 2009** to apply formally to HMRC for protection of their pension fund. Although those members, whose intention is to take advantage of enhanced protection, must take the appropriate action to ensure that their accrual of pensionable service ceases at or near A-Day. Both types of protection can be applied for if the relevant criteria are met. To benefit, you must make an appropriate election and an independent financial adviser should be able to provide you with more details about this.

Note: Individuals are required to inform both USS and the employer that you have elected for Enhanced Protection.

### **Annual Allowance (AA)**

The AA is the limit up to which you can contribute to or gain benefit from a pension scheme/s over a tax year, and still receive tax relief. For final salary schemes the AA is measured upon the level of benefit a member accrues during the year. HMRC has confirmed the AA for the first five years the amounts will be:

Tax year	Annual Allowance
2006/07	£215,000.00
2007/08	£225,000.00
2008/09	£235,000.00
2009/10	£245,000.00
2010/11	£255,000.00

### **Increase in the contribution limit**

There will no longer be a 15% pensionable pay limit on contributions; an individual could, if s/he wished, pay all of their annual pay into their pension arrangements – subject to the relevant occupation pension scheme arrangements. In order to gain full tax relief the member will also need to ensure that the AA is not breached. As further information is made available from the pensions administrators it will be communicated to members.

### **Statutory Earnings Cap removal**

An earnings cap for high earners will no longer be imposed from April 2006 onwards.

### **Tax-free cash**

Members will be able to take up to the maximum of 25% of their benefits as tax-free cash on retirement.

### **Minimum Retirement Age**

The Finance Act 2004 has increased the minimum retirement age from 50 to age 55 from April 2010. Note this does not apply to members retiring early owing to ill-health.

**Gender Recognition**

The Gender Recognition Act 2004 became law on 4 April 2005. It allows transsexual people to apply to a Gender Recognition Panel for legal recognition of their chosen gender.

Anyone who applies for and obtains a Gender Recognition Certificate should send to the Payroll & Pensions Office who will forward to the individuals appropriate pension scheme in order that their records can be amended accordingly. .

**Civil Partnerships**

The Civil Partnership Act 2004 came into force on 5 December 2005. After this date, same-sex couples can obtain broadly the same legal rights as a married heterosexual couple, by registering their partnership in a formal ceremony. You can find out more about civil partnerships from the Government Unit for Women & Equality website at [www.womenandequalityunit.gov.uk/lgbt/partnership.htm](http://www.womenandequalityunit.gov.uk/lgbt/partnership.htm)

More information on rule changes regarding Gender Recognition and Civil Partnerships will be available from your pension scheme administrator: - USS [www.usshq.co.uk](http://www.usshq.co.uk), NHS [www.nhsbsa.nhs.uk/pensions](http://www.nhsbsa.nhs.uk/pensions), LGPS [www.staffordshire.gov.uk/pensions](http://www.staffordshire.gov.uk/pensions), KSS in the first instance via the Payroll & Pensions Office.