Autumn 2014 - A vintage year for pension aficionados.

It's been a remarkable year for pension legislation in the UK and the proposed reforms will have a long lasting impact. At Overseas Trust and Pension our immediate area of interest is the outcome for QROPS and QNUPS but it's useful to recap the highlights of an "interesting" year.

The Finance Act 2014 included: an increase to the maximum drawdown to 150% of the GAD rate, a reduction in the level of secure income in order to qualify for flexible drawdown (£12,000 down from £20,000) and a change to the trivial commutation and small pension fund rules (the triviality limit was increased to £30,000 and the limit for turning "small pots" of pension rights into cash is now £10,000 x 3).

The 2014 Budget report included a cryptic reference to QNUPS stating the intention to bring QNUPS in line with UK registered pensions with regard to their treatment for inheritance tax. As we know UK registered pensions are not subject to inheritance tax (unless there are extreme circumstances) rather a tax recovery charge is applied to lump sum death benefits paid from crystallised funds or where the member was 75 or over at the time of death. This tax recovery charge is due to be replaced by an income tax charge so the plot thickens.

Little did we know but the excitement had only just begun starting with publication of draft legislation in August. An outline follows of the rules due to be implemented from April 2015:

- ***Flexi-access drawdown*** The new drawdown for money purchase schemes allows you to draw what you want, when you want, from your drawdown fund, taxed as income. As now you will be able to draw a 25% tax-free lump sum. Flexible drawdown will disappear and capped drawdown will only remain if it was set up before 6 April 2015.

- ***Uncrystallised funds pension lump sum*** Instead of designating part of your fund to drawdown, making a 100% withdrawal and taking the related 25% tax-free lump sum, you can just take an uncrystallised funds pension lump sum, leaving the rest of your pension arrangement untouched.

- ***Annual allowance reduction*** To avoid the new rules being used as a tax reduction plan for those aged 55 or over, a new "money purchase annual allowance" of £10,000 for contributions to money purchase schemes will be introduced if you use either of the facilities described above to draw income.

- ***Taxation of death benefits*** The despised 55% tax on lump sum death benefits paid from crystallised funds or when death occurs after age 75 will be replaced. In future, when the deceased is 75 or over, all beneficiaries will have to pay their marginal income tax rate.

  When a member dies who is under age 75, the pension fund can be passed tax free to any nominated beneficiary.

The measure only applies to "income drawdown" pension funds. The changes do not apply to final salary or defined benefit, pensions or annuities, which have separate tax treatment.

- ***Defined benefit/ Final salary pensions*** Members of private sector final salary pension can request to transfer their funds into a defined contribution pension drawdown and thus access the new flexible benefit terms. However, transfer advice must be taken from a regulated adviser. There are transfer restrictions for those in public sector unfunded pensions e.g. nurses, teachers, armed forces where transfers would not be permitted.

- ***QROPS*** Changes are underway to let QROPS make flexible payments but in most cases this would require a change in local rules and little is known at this stage as to which, if any, jurisdiction would allow unlimited benefit payments. Additional, changes are planned to give HMRC wider powers to obtain information from current and former QROPS providers. The tax treatment of non-UK resident members and beneficiaries has not been specifically mentioned so for the time being the assumption is that tax would apply as per any double tax agreement.

- **Minimum retirement age** It is proposed to increase the minimum pension age from 55 to 57 with effect from 2028. It would then rise in line with the State Pension Age (SPA) so that it is maintained at 10 years below SPA. The Government is consulting on whether they should legislate to increase the minimum pension age further, for example so that it is five years below SPA.

An Ipsos Mori poll, commissioned by Hargreaves Lansdown, found that overall, 12% of those eligible were planning to cash in their entire pension funds next year. 13% responded that they would use some of their retirement savings to pay off debts, while 23% said that they would save it leaving 64% either undecided or planning less sensible investments.

Figures previously compiled by Hargreaves Lansdown indicate that someone with a £100,000 pension pot will pay £34,500 in tax if they take the money as cash on retirement. It's thought that some retiring workers, who have only ever paid tax at the basic rate, could find themselves unwittingly paying the top rate of tax if they want to access their entire pension fund immediately. Additionally, if these funds form part of their estate inheritance tax may be payable on death.

The research shows that the UK Treasury could be in line for a windfall of up to £1.6bn in tax as a result of savings withdrawals.

Currently we have a form of "flexi-access" for funds under £30,000 and for people with income of £12,000 pa and the statistics for total withdrawal are nowhere near 12% of those eligible. For those receiving death benefits from large pension a considerable amount may be taxed at 45% an improvement from 55% but still significant.

Conclusion

Although, UK pension legislation seems to be in state of flux the need for financial advice is constant. With greater choice making the right decision becomes harder and clients will turn to their trusted adviser for guidance. Individuals who have left or are leaving the UK will still need to consider QROPS and take specialist advice. For advisers understanding the different terms of the relevant DTA or lack thereof will be vital as will flexible investment planning.

The team at Overseas Trust and Pension continue to provide specialist support for advisers and their clients through these interesting times.