Pensions Talk, November 2016

Budget News

Although this month's budget was fairly light on pension related issues, there were some announcements that will impact on pension and employee benefits. A summary of these is given below:

Annual Allowance to reduce for those who flexibly access their pension pot

Subject to consultation, with effect from April 2017, the Money Purchase Annual Allowance will be cut from £10,000 to £4,000. The measures are being introduced to "prevent inappropriate double tax relief"

What is the Money Purchase Annual Allowance?

The maximum an individual can pay into his or her pension with tax relief is subject to a limit known as the Annual Allowance. The standard Annual Allowance is currently £40,000, although some high earners may be subject to a reduced Allowance. In addition to this there is also a further restricted allowance known as the Money Purchase Annual Allowance. This applies to anyone who has flexibly accessed their pension pot. This reduces the Annual Allowance from £40,000 to £10,000. From April next year this limit is set to reduce further to just £4,000 a year. This limit must include contributions an individual makes to all pensions plus any contribution an employer pays on his or her behalf.

What does "flexibly accessing a pension pot mean"?

Since April 2015 there has been greater flexibility as to how an individual can take their money from their pension pot once they reach age 55. To prevent individuals receiving excessive double tax relief by recycling this income into a pension pot with further tax relief, the Money Purchase Annual Allowance was introduced to limit how much could be paid in. However, this will only apply if:

- You have taken money from your pension pot as a cash lump sum. The exception to this is if your entire pension pot is worth £10,000 or less. You can take up to three pension pots in this way without triggering the reduced allowance.

- You take income from an Income Drawdown policy set up since April 2015. Note that if you use Income Drawdown just to access your tax free lump sum you will not be subject to these rules but as soon as you take any income, you will be.
- If you set up a capped drawdown policy before April 2015, you will not be subject to these new rules so long as the income withdrawn is within the previous limit in place.

Is there anything else I need to consider if I am subject to the Money Purchase Annual Allowance?

Two key points to note for anyone who is subject to this allowance:

- It is no longer possible to use carry forward. This is a means of enhancing the amount you can pay into your pension by utilising unused relief from the previous three tax years. If you are subject to the Money Purchase Annual Allowance, you will no longer be able to use this mechanism.
- You will need to notify your pension provider(s) (for all active pensions you have) that you are subject to these rules within 90 days of triggering the reduced Allowance or let a new provider know within 90 days of starting the pension.

Salary sacrifice use to be restricted – but no impact on pensions

The Chancellor announced that with effect from April 2017, most salary sacrifice arrangements will be subject to the same tax as cash income. However, this will specifically exclude salary sacrifice arrangements put in place for pensions, pension advice, childcare, cycle to work schemes and ultra-low emissions cars. Arrangements in place prior to April 2017 will be protected until April 2018. Arrangements for cars, accommodation and school fees will be protected until April 2021.

Insurance Premium Tax to increase

Yet another increase to Insurance Premium Tax is due to take place taking the rate from 10% to 12%. This increase will come into force from June 2017.

This represents the third such increase to this tax in less than two years. Insurance Premium Tax was increased from 6% to 9.5% in November 2015 and then again to 10% with effect from October 2016. This increase will not impact on group risk insurance such as Group Life Assurance, Group Income Protection and Group Critical Illness policies but will impact on general insurances such as private medical insurances.

State Pension News

One of the measures that could potentially have been considered was to remove the “triple lock” which applies to the State Pension. This guarantees that the State Pension will increase each April by the higher of the growth in average earnings, the Consumer Price Index or 2.5%. Earlier this month, a report from the *Work and Pensions Select Committee* recommended this was reviewed and potentially replaced by a link to earnings increases. However, in this month’s statement, Hammond announced that the triple lock would remain in place until 2020. The triple lock has been described by many as unsustainable so it may well be that this guarantee is removed in future.

In other news, the government has commissioned a review for the State Pension Age. At the moment the State Pension Age is 65 for all males and most females. For some females this may be lower but the ages are due to be equalised at 65 for both males and females by 2018. The State Pension Age will then start to increase so that it is 66 by 2020 and 67 by 2028. We also expect the State Pension Age to increase to 68 and 69 but exact dates for these increases have yet to be announced. The government has committed to reviewing the State Pension Age every six years and the first review in this respect is due by May 2017. This may well bring further changes to the State Pension Age.

Government scraps secondary annuity market plans

When pension flexibility was first announced back in 2014, there was some criticism raised by those who had, prior to the announcements, purchased an annuity as at that point they had no further options available. To combat this, the government subsequently announced that they would look at introducing laws to allow anyone who had purchased an annuity to effectively sell this on to a third party for a cash sum. These plans were initially due to come in in April 2016 but were postponed further to 2017. The government has now announced that these plans will be scrapped as “the consumer protections required could undermine the market’s development”.

The information contained in this document is based on One Pension Consultancy’s understanding of legislation and proposals as at November 2016. This document is for information purposes only and does not constitute advice.

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