

Pensions Bulletin - Budget changes - March 2014

Major changes for DC funds

The Chancellor announced major changes in yesterday's budget to the ways in which individuals will in future be able to access their defined contribution ("DC") pension pots at retirement.

Under the current regime members with DC funds can usually take 25% of the pot as tax-free cash and with the remainder do one of the following:

- purchase an annuity from an insurer,
- enter a "capped drawdown" arrangement – under this option an amount up to a specified limit can be taken as income each year. The cap is currently 120% of the "typical" annuity payment that the remaining pot would have provided,
- take additional cash subject to 55% tax (with an additional tax on the Scheme at 15%).

There is also the option of a flexible drawdown arrangement - here any amount can be taken from a pension pot (without limit) in any year but the individual must have a secure pension of at least £20,000 pa from elsewhere in order to be eligible.

There are also special provisions where a member's benefits are small:

- Trivial commutation – if you are aged 60 or over and the total value of pension benefits from all your pension arrangements is less than £18,000 you can take the entire DC pot as cash (but will be taxed at your marginal rate on the cash in excess of the tax-free amount described above).
- Where a pot is less than £2,000, the benefit can be taken as cash regardless of any other benefits the individual may have – but a maximum of two personal pension arrangements can be taken in this way. (These are known as "stranded pots".)

The following changes will take effect from 27 March 2014:

- Trivial commutation – limit increased from £18,000 to £30,000
- Stranded pots – limit increased from £2,000 to £10,000, and the number of eligible DC pots is increased from two to three.
- Capped drawdown arrangements – the cap will increase from 120% to 150% of the "typical" annuity payment.
- Flexible drawdown arrangements – the amount of secure pension you need to be eligible for this option is reduced from £20,000 to £12,000.



Changes from April 2015:

Although the Government is consulting on the following it is expected that the changes below will apply from April 2015:

- Where an individual wishes to take their entire pension pot at retirement, tax will be deducted at their marginal rate of tax rather than the current 55%.
- Pension providers and trust based schemes must offer to each of their DC customers a “guidance guarantee” at the point of retirement. It is intended that a robust set of procedures will be put in place to ensure that individuals get impartial, good quality advice which is free to the customer, offered face to face, and covers the range of options available at retirement.

Other proposals

The Government is also considering the following:

- Increasing the minimum age at which pension benefits can be taken from 55 to 57 in 2028 in line with the State Pension Age increasing to 67 at that time.
- Removing the age limit of 75 on individuals being eligible for tax relief on pension contributions.
- Reducing the 55% tax charge on death benefits from drawdown pension arrangements.

What about defined benefit schemes?

The changes above relate to defined contribution schemes. In the past members of defined benefit schemes have had the option to transfer the value of their benefits to another scheme (defined contribution or defined benefit) up until 1 year before their normal retirement age.

The Government is proposing to introduce legislation to remove the option to transfer benefits from a defined benefit public sector scheme to a DC scheme, and is considering whether to introduce similar measures for private sector defined benefit schemes. Other options in relation to transfers from private sector schemes to DC arrangements are also under consideration – for example whether to continue to allow such transfers but to stipulate that they would be subject to the current tax treatment rather than the revisions introduced as a result of the March 2014 budget.

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