



PENSION SIMPLIFICATION

Lifetime Allowance Charge and Benefits after Age 75

Lifetime Allowance Charge

The Pension Simplification legislation introduces a charge based on the value of an individual's total pension funds at the point at which benefits are taken. If the value of the benefits taken from the pension fund(s) exceeds the lifetime allowance figure then a charge will be applied on the value of the fund in excess of the lifetime allowance level. During 2006/07 the lifetime allowance level has been set at £1.5m.

In future years the lifetime allowance level has been increased up to the year 2010/11. No details have been given as to how the increase in the lifetime allowance level, if any, will be determined in future years.

The lifetime allowance charge is currently 25% of the excess values over the prevailing lifetime allowance level at the time the pension benefits are taken.

Protection from the charge

Under the Pension Simplification legislation it will be possible for anyone who has accumulated pension benefits as at 5th April 2006 to protect their benefits from the application of a lifetime allowance charge. There are two ways in which this can be done.

Primary Protection

This is available where the value of the accumulated benefits at 5th April 2006 is in excess of £1.5m. Under this method of protection the individual will be given their own personal lifetime allowance level which will increase in line with the increases in the standard lifetime allowance level. Any excess fund value at the time benefits are taken will be subject to a lifetime allowance charge.

Enhanced Protection

This is available where no further contributions or accrual of pension benefits are to occur after 6th April 2006. Under this form of protection the lifetime allowance charge will not apply in any instance.

This protection can be granted on any size of fund value and as long as no contributions towards pension benefits are made in future will remain in force until age 75, when the application of a lifetime allowance charge ceases.

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Benefits after age 75

Tax free cash sum

At age 75 any benefits in the form of a tax free lump sum available under any pension arrangements have to be taken or will be lost.

Annuity purchase or income withdrawal

It will however be possible to leave monies invested within the pension fund, as it is no longer necessary to purchase an annuity at age 75.

Income level to be withdrawn

It is no longer necessary for an income to be withdrawn from the pension fund at any time and therefore the monies can be left to grow intact.

If income is required, the maximum level of income allowed after age 75 is calculated as 70% of the income based on the Government Actuary's Annuity rates for a 75 year old, when applied against the value of the fund. The maximum income level is recalculated each year based on this formula. NB the annuity rate for a 75 year old is always used.

Death benefits – Income Withdrawal (Alternatively Secured Pension)

In the event of death after age 75 the value of accumulated pension funds must be used to provide a pension to a spouse or a financial dependent. They will be able to continue to withdraw an income directly from the fund or purchase an annuity.

If you do not leave a spouse or other financial dependants then it is possible for the value of the pension fund to be distributed to either

- A charity of your own choice
- Back to the provider or principal employer
- To another member of the same pension fund

The latter option has proved attractive however it is important to note that this option is for the payment to be made into their **pension fund** not to them personally.

The value of the pension fund available after age 75 on death which is passed onto 'another member of the same fund' will be subject to a tax charge at the rate applicable to the deceased member's Inheritance Tax rate if the value of the pension fund had been included in their overall assets at the time of their death. Effectively this will mean that there will be a 40% tax charge applied, under current IHT rules, on the full value of most funds. This tax will be paid by the scheme administrator and so taken from the fund directly prior to distribution.

Whilst this may appear to be a penal tax charge it is in line with current Inheritance Tax rules. It should be noted that prior to the Pension Simplification legislation it would not have been possible for any monies to be passed on to any other member in person or into their own pension fund, because an annuity would have had to have been purchased with an Insurance Company at age 75.



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