The New Future for Pensions Planning -

Report

prepared by

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Introduction –

This Report covers the recent changes in legislation and the development of a new breed of pension plans – Self Invested Personal Pension Plans (SIPPs).

As with any changes, new opportunities arise which can alter pre-conceived notions.

PENSIONS & APRIL 2006 (A-DAY) –

There were important changes to pensions legislation from 6th April 2006, as detailed below:-

(1) With effect from A-Day, all pension arrangements will be governed by a lifetime allowance of £1.5m. This will be the maximum amount that an individual can accumulate in their pension plans and this allowance will increase as follows:-

2007	£1.6m
2008	£1.65m
2009	£1.75m
2010	£1.80m

(2) In order to fund the lifetime allowance, the maximum contributions payable will be £215,000 per annum or 100% of earnings if personal contributions. Again, this annual allowance will increase, rising to £225,000 by 2010.

(3) Those who may currently have more than the lifetime allowance of £1.5m in their pension funds, or wish to fund so that they exceed that figure by April 2006, can protect this higher figure by registering it, otherwise there will be a tax charge of 55% on the excess over the lifetime allowance.

(4) At present the maximum lump sum death-in-service benefit for those in occupational schemes is four times salary, paid of course under trust and therefore free of any tax. After A-Day the maximum benefit will be equal to the lifetime allowance, which starts at £1.5m on 6 April 2006.

(5) The current requirement to take a level of income for those who elect to take the Pension Drawdown route rather than annuity purchase will go. From A-Day, there will be no minimum income requirement so tax free cash can be accessed without the necessity to take any income.

(6) After A-Day, the tax-free cash calculation will be 25% of the fund. Presently, those in occupational schemes may have an entitlement by registering this, with the necessary supporting evidence, with the scheme administrator.

(7) The earliest date at which retirement benefits can be taken will increase from 50 to age 55.

The changes to Pensions Legislation on 6th April 2006 has brought to the attention of many people the tax efficiency and flexibility of the modern generation of Self Invested Personal Pension Plans (SIPPs).

In the recent past, pensions savings have declined. The general public have cited poor fund performance, the necessity to spend the accumulated capital buying an annuity and the problems, starting with Robert Maxwell and more recently with underfunding of schemes due to companies being unable to meet their contractual liability to make contributions.

The lack of investment fund performance followed 4 years of negative returns from the world's stockmarkets from 1999 to 2003. Also, the problem of underperforming with-profit endowment contracts which were intended to repay mortgages, left many policyholders naturally wary of insurance companies and their products.

A-Day legislation and the growth of the SIPP market has done much to address these problems. Pension Schemes have always been a tax-efficient means of saving for an income in retirement, particularly for higher rate tax payers and now the choices offered put the policyholders in control of their pension scheme assets and the way in which benefits can be taken in retirement.

What can you do?

Firstly, the limits on contributions are much simpler than previously. It has to be noted, though, that contributions can only be based on income on which tax and National Insurance is paid and not dividends.

Secondly, a pension scheme can now buy from the policyholder assets that they already own. Previously this was not allowed but now cash or encashed investments in a pension plan can be used to do this and it is a good way of recycling money and making available cash to a SIPP policyholder.

Rather than finding cash to make a pension contribution, an existingly owned asset can be used as a contribution “in specie”. The procedure for this is to deem that an asset – property, shares, etc. – be the premium and then it is placed in the SIPP. Being in the pension plan then means it grows free of any future Capital Gains Tax. Also, as pension premiums are paid net of basic rate tax, the SIPP is then paid 22% of the value of the asset by the Inland Revenue. Higher rate relief is given through the policyholders tax coding.

SIPPs can invest in commercial property, but not residential. There is an obvious attraction for businesses to put their premises in a SIPP.

Other permitted investments include shares – quoted and unquoted – unit trusts, government securities, second-hand endowments, futures and options, Real Estate Investment Trust (REITs) and even intellectual property.

SIPPs can borrow up to 50% of the pension funds net value to finance any of the permitted investments.

Having reached retirement the way of taking pensions income is much more flexible and annuity purchase is not the only option. A policyholder can go into drawdown, the fund remains intact and income is drawn off the investment returns achieved by the fund.

The fact that the fund is not spent means that a valuable death benefit remains in place for spouses and financial dependants.

Income can be varied each year and nil income can be taken. Tax-free cash can be taken at any age after 50 with no requirement to take income.

The foregoing is only a brief outline of the opportunities available, but pensions planning now is a more attractive proposition than previously.