

# Technical Briefing

No. 38



## Review of 2009

### 2009 Budget

On 22 April 2009 the Chancellor of the Exchequer, Alistair Darling, announced that higher rate tax relief (currently 40%) on contributions to registered pension schemes would be restricted for those earning more than £150,000 per annum. Following the introduction of a taper in April 2011, tax relief would reduce to the standard rate of (currently) 20%. In addition, anti-forestalling measures were enacted by the Finance Act 2009 to prevent affected individuals making irregular pension contributions on the run-up to April 2011. Please refer to **cprm's** Technical Briefing No. 31 for more details.

### Guaranteed Minimum Pensions

Section 14 of the Pensions Act 2007 came into force on 6 April 2009 and provided the option to allow trustees to convert members' Guaranteed Minimum Pensions (GMPs) accrued between 6 April 1978 and 5 April 1997 under a contracted-out defined benefits scheme into ordinary scheme benefits. The trustees must first obtain the consent of the Principal Employer and then seek actuarial advice to determine whether the replacement benefits are at least 'actuarially equivalent' to the pre-conversion benefits to ensure that members' benefits do not fall as a result of the change.

The conversion of GMP benefits may not be straightforward because of different revaluation rates, escalation rates in payment, dependant's pensions and equalisation issues. However, if these can be overcome then the benefits structure of the scheme would be greatly simplified which should also improve members' understanding.

### Revaluation of Preserved Benefits

The Pensions Act 2008 contained provisions to reduce the cap on the rate of statutory revaluation of deferred defined benefit pensions from 5.0% to 2.5% per annum. The change in the revaluation cap is not mandatory but could be automatic if the Scheme Rules make direct reference to the relevant provisions of the Pension Schemes Act. Otherwise, trustees would have to make a Rule Amendment to implement this relaxation. The new lower cap only applies to benefits accrued from 6 April 2009 (or date of implementation if later) so that benefits accrued before that date will be unaffected by the change. Please refer to **cprm's** Technical Briefing No. 30 for more detail.

### Early Retirement

Legislation introduced under the Finance Act 2004, which comes into effect from 6 April 2010, prevents members of most occupational pension schemes from taking early retirement before age 55 – the current minimum age is 50 (the Normal Minimum Pension Age). Trustees and employers of affected schemes may wish to check that communications are in hand to remind members of this change.

### Scheme-specific Trivial Commutation Rule

Under the simplification rules, from 6 April 2006 a member can only commute all of their pension for a lump sum if the value of all of their pensions from all different arrangements is less than 1% of the Standard Lifetime Allowance (SLA). However new regulations came into effect on 1 June 2009 which allows for the payment of trivial lump sums from 1 December 2009 under a new scheme-specific





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trivial commutation rule (or de minimis rule) for occupational pension schemes without reference to other schemes, if all of the following conditions are met:

- the member has reached the age of 60, but has not reached the age of 75
- the member is neither a controlling director of a sponsoring employer of that or any related scheme, nor a person connected to such a person
- the total value of the benefits the member is entitled to under this and all related schemes does not exceed £2,000 in total
- the total value of the payments made by all related schemes does not exceed £2,000
- the payments extinguish the member's entitlement to benefits under the scheme
- no recognised transfer has been made out of any of the related schemes (broadly schemes with less than 50 members) in the last 3 years.

The first 25% of the payment is tax-free, with the remaining 75% taxable under the Pay As You Earn system. The new simpler "per scheme" facility will allow occupational pension schemes to pay small pension pots entirely as a lump sum, without taking into account any other pension benefits. However schemes may require a rule change to implement the new legislation and therefore trustees or their advisers should review the scheme's documentation to determine whether or not a Rule Amendment is required to introduce the new provisions.

### **The Pensions Regulator (the Regulator)**

The Regulator recently published the Purple Book 2009, which showed deterioration in funding levels due to the dramatic deterioration in the economic and financial market environment over the 12 months to 31 March 2009.

It is clear that recent economic conditions have had a profound impact on schemes and the Regulator expects to see this reflected in both funding levels and the length of recovery plans. However the Regulator maintains the primacy of the Technical Provisions and recognises that the best support for any pension scheme is a viable employer paying affordable contributions.

### **Financial Assistance Scheme (FAS)**

The Government published a consultation on the draft regulations which proposes to extend the FAS assistance to cover the payment of tax-free lump sum benefits to affected members as is the case with authorised lump-sums paid by registered pension schemes.

### **Pension Protection Fund (PPF)**

The PPF is currently working on proposals for the future development of the PPF levy to more accurately reflect the long-term risk that all levy-paying schemes pose to the PPF.

The two key features of the proposals are to assess the probability of a scheme's sponsoring employer going bust during a five year period (as well as separately assessing the probability of it going bust during a one year period, as is the case now) and also take account of the risk that a scheme's investment strategy poses to the PPF when calculating its individual levy. Please refer to **cprm's** Technical Briefing No. 36 for more details.

### **Looking Forward to 2010**

The following are some highlights of forthcoming pension developments in 2010 and beyond:

- Gradual raising of the female State Pension Age from 60 to 65 begins from April 2010 until 2020,



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at which time the State Pension Age for both sexes will then begin to increase to 68.

- The link between state pensions and earnings is to be re-established from 2012.
- Introduction of Personal Accounts from 2012.

Please contact your usual **cprm** consultant if you have any questions on the contents of this Technical Briefing or would like some additional information.

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