Latest pension changes from the Autumn Statement

December 2015

Rob Thorpe
Head of UK Sales

Contact us

0800 085 0383

sales.support@bmogam.com

bmogam.com/incomeinretirement

For technical queries on drawdown, contact our technical helpdesk:

drawdown.helpdesk@bmogam.com

Technical responses are handled in conjunction with independent technical tax and legal specialists Technical Connection.

There were no major surprises in the Autumn Statement for pensions. But given what we have experienced over the past few years that is perhaps unsurprising. The lack of "bombshells" does not however mean that there is nothing new to consider. The pension related changes announced in the Autumn Statement were as follows:

- **Basic State Pension** – will be increased under the triple lock guarantee to £119.30 a week from April 2016. The maximum Single Tier state pension that will apply for those with a State Pension Age on or after 6th April 2016 will be £155.65 a week, slightly more than previously announced £151 a week.
- **Automatic Enrolment** – pension contribution increases were originally scheduled for 1 October 2017 (on which date the contributions increase for employers to a minimum of 2% and 3% for employees) and 1 October 2018 (the contributions were set to increase to 3% for employers and 5% for employees). The effective dates of the increases have now been delayed by six months so that they are aligned with the tax year. The October 2017 increases will take effect from April 2018 and the October 2018 increases will take effect from April 2019. It has been noted by many commentators that this will save the government a meaningful sum in tax relief that would have been given on the (now deferred) increased contributions.
- **Local Government Pension Scheme (LGPS)** – the government will publish guidance for pooling scheme assets into British Wealth Funds containing at least £25 billion in each fund. The intention is to reduce costs, maintain investment performance and match the infrastructure investment levels of the top global pension funds.
- **Pension tax relief** – the government has confirmed that they have received several hundred responses to the tax relief consultation and will publish its findings at the Budget (March) 2016. This is perhaps the biggest story. The immense cost of pensions tax relief and the fact that so much of it flows in the direction of higher and additional rate taxpayers means that some change is inevitable. While the Centre for Policy Studies favours a shift to an ISA founded "TEE" model the sector and most specialists seem to be behind either no or minimal change or some form of flat rate relief. There is also some strength of feeling behind characterising the relief in monetary terms (e.g. £1 from government for every £2 contributed) as opposed to as "tax relief" as it is felt (with some justification) that people don't understand tax relief and are thus less motivated by it. The message for clients must be that, in the light of potential future change, if you believe the current system of relief is attractive, it is worth at least reviewing your pensions capability before the current tax year is out. This is certainly so for those with high income likely to be caught by the annual allowance tapering provisions operating from the next tax year.
- **Salary sacrifice** – although there have not been any changes made to the salary sacrifice arrangements, these are clearly on the government's radar. Further evidence

on salary sacrifice arrangements to consider if any action is required is being gathered. It is hoped that if any change is introduced new provisions will only apply to arrangements entered into after a specified date. That was the format of the salary sacrifice anti-avoidance provision introduced in relation to the definition of Threshold Income for the purpose of the annual allowance tapering for high income individuals.

- **Inheritance tax** – the government will introduce backdated legislation within the Finance Bill 2016 to ensure that an inheritance tax charge (under the "omission to exercise a right" provisions) will not apply where a pension scheme member dies with undrawn funds that had been designated to drawdown. The change is backdated to apply to all deaths on or after 2011. This is welcome confirmation of what HMRC have previously confirmed in writing.
- **Secondary annuity market** – further detail on creating a secondary annuity market and consumer protection will be published in December.
- **Bridging pensions** – legislation will be introduced so that with the introduction of the single tier state pension from April 2016, pension tax rules are aligned with DWP legislation on the operation of bridging pensions. Bridging pensions may be paid by occupational pension schemes when an individual starts receiving a pension before state pension age. The pension is higher at the outset and, when the individual reaches state pension age, it is reduced, to take account of the state pension.
- **Dependants scheme pension** – provision will be made in the Finance Bill 2016 to amend the complicated test that arises for defined benefit schemes when setting up a dependants scheme pension where the member dies on or after age 75 and the ongoing reviews that are required.

As well as all of the above announced in the Autumn Statement, there are other important changes to pensions that we already know about taking effect from 6 April 2016 which either have an immediate impact on planning in 2015/6 , such as the tapered annual allowance and pension input period (PIP) alignment. The changes are as follows:

- The introduction, with effect from 2016/17, of a tapered reduction in the level of annual allowance applying to contributions to registered pension schemes by certain high-income individuals. In order to introduce the tapered annual allowance, it is necessary to align all PIPs to the tax year so that 2015/16 has transitional arrangements.
- From 2016 Pension Input Periods will be tax year aligned and will not be capable of being amended.
- The lifetime allowance will be reduced from £1.25 million to £1 million with effect from 6 April 2016. Fixed Protection 2016 will be available to protect funds up to £1.25m from a lifetime allowance charge but contributions and/ or accrual will need to cease by 5 April. Individual Protection 2016 will be available to protect funds between £1m -£1.25m valued at a specific date, probably 5 April 2016 but contributions and or accrual can continue. Application process will be via an online system from July 2016 and HMRC will announce an interim process for those that need to rely on the protection before July.
- From 2016/17, lump sum death benefit payments on the death at age 75 or over will be taxed under PAYE as pension income of a recipient who is an individual. Payments to trustees will continue to be taxed at 45% but an appropriate tax credit will be given where a capital payment is later paid out of the trust to a beneficiary or beneficiaries.

For many of your clients, the changes we know about and those we expect (even if we don't know all of the detail yet) mean that a pension contribution and drawdown strategy review should be an important part of planning carried out sufficiently ahead of the current tax year.

Based on our understanding of legal and tax regulations and practice at the time of writing (December 2015). Produced for information only and should not be construed as investment advice. No action must be taken or refrained from being taken based on this document alone.

BMO Global Asset Management

© 2015 BMO Global Asset Management. All rights reserved. BMO Global Asset Management is a trading name of F&C Management Limited, which is authorised and regulated by the Financial Conduct Authority. CM07399 (12/15).