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INDEPENDENT FINANCIAL ADVICE

A Guide to Pension Allowances & Contributions

Pension Age:

The earliest age from which you may draw your benefits (now known as 'crystallisation' of benefits) from a 'registered pension scheme' is 55.

Benefits on ill health early retirement can potentially be taken earlier.

Contribution Limits

You may contribute up to £3,600 each tax year into a registered pension scheme - irrespective of whether or not you have any annual earnings - and receive tax relief on the whole contribution, at your highest marginal income tax rate.

Employer contributions do not receive tax relief

If you contribute more than £3,600 in a tax year, you can contribute up to 100% of your annual earnings, although the maximum contribution on which you will receive tax relief will be £50,000 for the 2011/12 tax year - referred to as the "annual allowance".

The value of the annual allowance has reduced from £255,000 in the 2010/11 tax year, £245,000 in the 2009/10 tax year and £235,000 in the 2008/09 tax year.

Anyone will be able to join any type and any number of registered pension schemes at the same time.

Standard Lifetime Allowance

The 'standard lifetime allowance', represents the maximum amount that may be accumulated within all of your pension arrangements, excluding State pension(s), without incurring a tax liability.

The maximum standard lifetime allowance is £1.8m for the 2011/12 tax year. The value of the standard lifetime allowance will reduce to £1.5 million from the 2012/13 tax year

When you decide to crystallise your retirement benefits, either in part or in full, or in the event of your death, the accumulated value of all of your pension arrangements, excluding State pension(s), will be calculated. Occupational defined benefit ('final salary') entitlements, or pensions already in payment (including income drawdown) will be given a capital value, using factors as advised by HM Revenue & Customs (HMRC), in order to determine whether you are within your standard lifetime allowance. Any award under a pension sharing order may also affect your standard lifetime allowance.

If the standard lifetime allowance is exceeded and 'transitional arrangements' have not been put in place, (see the next section below), any excess funds taken as a lump sum will be subject to a one-off tax charge of 55%. If the excess fund is taken in the form of a taxable pension, there will be a one-off tax charge of 25% and income tax will also be payable on the pension at your highest marginal rate.

Pension Commencement Lump Sums
Your maximum pension commencement lump sum entitlement is 25% of all of your individual plan values (unless transitional protection has been sought), including those funds that did not, prior to 6 April 2006, allow tax-free cash sums to be taken, such as Protected Rights and (Free-Standing) Additional Voluntary Contributions.

If some of your benefits are in an occupational pension scheme, you should request details of your tax-free cash options from the pension scheme administrator, since they may be different from those of your individual plans.

It is possible to protect higher 'pre A-Day' tax-free cash entitlements, which are taken after 6 April 2006.

However, there is no protection for higher 'pre A-Day' tax-free cash entitlements under a Retirement Annuity Contract.

Pension Income Options
When you decide to crystallise a benefit, your options will include:

- **Secured Income:** This option would include, for example, an annuity policy purchased with an insurer that may include a death benefit, or a scheme pension payable from a defined benefit or defined contribution occupational pension scheme.

A new option, "Value Protection", was introduced on 6th April 2006, which provides for an annuity or scheme pension to provide a return of capital on the death of an annuitant before age 77. The maximum lump sum payable will be the initial annuity purchase price, less the total amount of income paid up to the date of death, and a one-off 35% tax charge.

- **Capped Drawdown:** This option is available up to a maximum age of 77 and involves the drawing of taxable income and/or pension commencement lump sum directly from your pension fund by way of Income / Phased Drawdown arrangements or by the purchase of short term annuities.

- There is no minimum income requirement; therefore, it will be possible for you to take a tax-free cash sum, whilst electing a nil income level

- By reference to Government Actuary's Department (GAD) annuity rates, the maximum income limit will be 100% of the GAD annuity rate available to you at the time of starting to receive income.

- The income level will be recalculated every three years, from the commencement of taking income benefits from your fund.

- On death before age 77, the prevailing fund may be used to provide dependants' incomes, or be paid as a lump sum, subject to a one-off tax charge of 35% of the fund value

- If you were already receiving income directly from your pension fund prior to 6th April 2006 (via an 'Income Drawdown' policy), the portion of the standard lifetime allowance consumed will be valued at 25 times the prevailing maximum GAD gross annual income limit, irrespective of what you are actually drawing.

- Short-term annuities may be used to purchase an annuity, or a series of annuities (on the open market, if required), with all or part of a pension fund. The annuity term cannot be more than 5 years or up to age 75 if earlier

Revised Triviality Rules

Once you reach age 60, you will be able to take all of your pension funds as a one-off lump sum, rather than as an income, provided that the total value of all of your pension arrangements is no more than 1% of the prevailing standard lifetime allowance, for the tax year in which you select this option. This value includes pensions that are already providing an income payment and all of the benefits under the scheme have to be taken at the same time.

Therefore, for the 2011/12 tax year, the maximum value is £18,000. If you select this option and, for example, your funds total £18,000, an amount of £4,500 will be paid to you as a tax-free cash sum (that is, 25% of the total fund) and the remainder would be payable as a one-off amount to you, but taxed on a PAYE basis, subject to your highest marginal rate of income tax at that time. The maximum Triviality sum of £18,000 will remain from the 2012/13 tax year.

The 2008 Budget also brought a welcome change that will now permit individuals to take very small benefits in an occupational scheme as a lump sum. The new rules will look at one scheme in isolation and allow benefits to be paid as a lump sum where the value is below £2,000. This is in addition to the Triviality rules above.

For further information or to book an initial consultation, please call us free on 020 8760 9940.