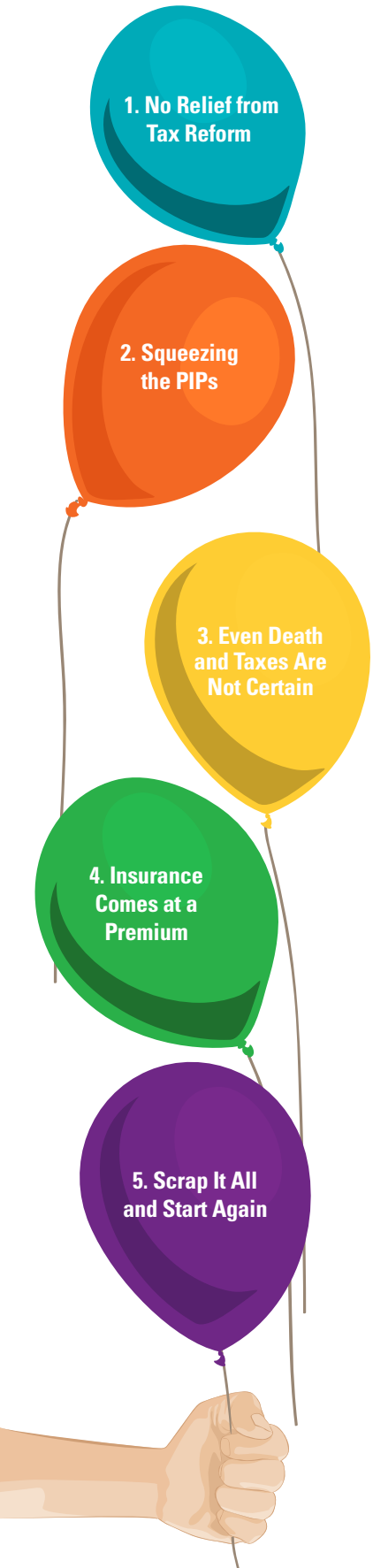
SQUIRE PATTON BOGGS

PENSIONS HOT TOPICS

Summer/Autumn 2015

Pensions Tax Changes



The Lifetime Allowance (LTA) will reduce from £1.25 million to £1 million from 6 April 2016 (before beginning to rise in line with inflation from April 2018). There will also be a tapered reduction in the Annual Allowance (AA) for individuals whose income (including the value of pension savings) is over £150,000. For the tax year 2016/17, for every £2 that an individual's 'adjusted income' exceeds £150,000, the AA will be reduced by £1, up to a maximum reduction of £30,000. This will be confusing for individuals and difficult to monitor in practice.

There will be transitional LTA protection for affected individuals. We have a sense of déjà vu…

A Pension Input Period is the period of time over which an individual's pension savings are assessed against the Annual Allowance. It can vary depending upon the individual and the pension plan. Linked with the AA changes, from 2016/2017, PIPs will be aligned with tax years. As a consequence of some complex transitional arrangements for ***this tax year***, individuals may be able to take advantage of an additional amount of AA. Employers who wish to make employees aware of this opportunity should take care that they are giving information and not advice. Pension plan rules, member communications and administration processes may need to be updated.

See our "PIP Squeak" blog posting

Draft legislation amends the tax treatment of lump sum death benefits paid on or after 6 April 2016. Some lump sum death benefits that currently attract a high tax rate will instead be subject to tax at an individual recipient's marginal rate of income tax. The change in legislation covers some lump sums where the deceased was over 75 or where the lump sum is not paid within two years of the administrator becoming aware of a member's death and is intended to make the tax system fairer. Different tax rates apply where the recipient is, for example, a trust or a company.

It may be advantageous to delay lump sum payments where the tax position is changing, although beware of any time limits for payment

Insurance Premium Tax (IPT) will increase from 6% to 9.5% from November 2015. Whilst some insurance arrangements that can form part of employee benefit packages are exempt from IPT (e.g. life insurance), others are not. Employee medical insurance policies will be subject to the tax hike which may encourage many more employers to explore corporate healthcare trusts as a way of providing employee healthcare benefits. Instead of paying premiums to an insurer, the employer pays cash into a trust for the benefit of its employees. The trustees then pay for medical treatment or reimburse employees for medical expenses.

See our Compensation and Benefits blog posting

The Government's consultation on pensions tax relief examines the case for changing the current tax relief system and the possibility of moving to a 'Taxed-Exempt-Exempt' (TEE) position. Respondents may raise the option of the single rate of tax relief preferred by former Pensions Minister Steve Webb. This could be set at a level that increases tax revenues whilst not disturbing the 'Exempt-Exempt-Taxed' model and still incentivising pensions saving. In addition, the Government is monitoring the growth of salary sacrifice arrangements and their effect on tax receipts, and is also set to consult on unfunded unregistered pension plans.

Consultation closes on 30 September 2015. We expect great resistance to the TEE model

Refunds and transfers

6. The End of the 'Money Back' Guarantee

From 1 October 2015 new members of occupational pension plans with money purchase benefits will no longer be able to take a refund of their contributions if they have 30 days of qualifying service. (This qualifying period is reducing from two years.) Trustees should ensure that pension plan rules reflect legislation, and new member communications and administration processes should be updated. Employers should note the cost implications – at present the portion of the refund relating to employer contributions typically stays in the pension plan and this amount can reach significant levels where there is a high turnover of staff.

This will increase the number of small pension pots. Look out for the 'pot follows member' transfer reforms from Autumn 2016

7. The Price of Freedom

HM Treasury has published a consultation on 'Pension transfers and early exit charges'. The Government is keen to assess how the pension freedoms introduced in April 2015 are working in practice and the extent to which exit charges and transfer legislation act as barriers to individuals who wish to flexibly access their benefits. The Pensions Regulator and the FCA are also gathering evidence on this issue. This is a good opportunity for the diverse sectors of the pensions industry to provide feedback to the Government. The consultation closes on 21 October 2015.

"The Government would welcome submissions on any wider issues and challenges regarding the new pension freedoms."

More Items for Your Agenda

8. Here We Go Again

Automatic re-enrolment is now a live issue for larger employers. An employer can choose its re-enrolment date which must fall within a window three months either side of the third anniversary of its staging date. Employers should assess their workforce for re-enrolment purposes, noting recent relaxations to legislation which, for example, provide that workers who benefit from LTA protection do not have to be re-enrolled. The process should be carefully planned and trustees should be kept informed (where applicable). Employers must complete a re-declaration of compliance for the Pensions Regulator within two months of the re-enrolment date.

This may be an opportunity to revisit processes that were rushed the first time around. See the Regulator's detailed Guidance No.11. Also see our blog posting for a summary

9. Independence from the State

The state pension system will undergo major reform in April 2016 with the existing two-tier state pension system being replaced with a single-tier flat rate state pension. Pension plans that are integrated with the basic state pension will be affected by the reform, and plans that are contracted-out of the State Second Pension should consider reconciling GMP records and should prepare for the forthcoming increase in national insurance contributions. Some employers may look to offset the additional cost with benefit changes and/or increased member contributions. In the meantime, the Government is still exploring GMP conversion and equalisation...

Our contracting-out publication and blog posting highlight key issues for employers and trustees

10. A Bit of Light Reading

The Pensions Regulator's annual funding statement for 2015 should be on the reading lists of trustees and employers with defined benefit plans, particularly those undertaking an actuarial valuation with an effective date in the period 22 September 2014 to 21 September 2015. The Regulator notes that many pension plans are likely to have larger deficits than at their last valuation due to challenging market conditions and it reinforces the principles in the revised code of practice on funding defined benefits. More recently, the Regulator has issued practical guidance on assessing the employer covenant.

See the Pensions Regulator's statement and covenant guidance

Further Information

For more information about any of our hot topics please contact any of the lead partners listed or your usual contact in the Squire Patton Boggs pensions team.

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