

A BIT ABOUT PENSIONS 2011/12- THE MAIN CHANGES

- **Annual Contribution Allowance has changed from £255,000 to £50,000 from 6 April 2011**
 - the ability to carry forward unused annual allowances has been introduced if you have contributed less than £50,000 and been a member of a registered pension scheme in each of the past 3 years.
 - personal contributions must be within 100% of earnings, whilst employer contributions should be reasonable for a person's position in the company.

The annual allowance is the maximum pension savings an individual can make each year that benefit from tax relief, and includes not only personal contributions but also that of anyone else, for example employers. From 2011/12 anyone exceeding the annual allowance will pay a tax charge at their marginal rate (40% or 50%) on the amount over the available allowance.

- **Lifetime Allowance is changing from £1.8m to £1.5m from 6 April 2012**

- **Drawing from a Pension**

- the requirement to take benefits before age 75 has ended
- the Pension Commencement Lump Sum remains at 25% of the value of the fund, and the remaining fund can either;
 - o buy an annuity which will pay out a regular income, or
 - o be drawn as income each year (currently known as Income Drawdown)*

**the amount that can be taken as income annually is determined by applying the appropriate rates provided by the Government Actuary Department (GAD). Currently 90% of the calculated figure if under 75 [known as an 'Alternatively Secured Pension'] and 120% if taken over 75 [known as an 'Unsecured Pension']*

*If the current 'Income Drawdown' is utilised, there are potential changes to how this happens which may affect the level of income you are allowed to take each year. The possible new arrangement is called 'Capped Drawdown', or if you satisfy certain criteria, 'Flexible Drawdown'.***

- *Capped Drawdown: 100% of the figure calculated by applying the appropriate GAD rate can be taken as income whether over or under age 75*
- *Flexible Drawdown: no restriction on the amount of income that can be taken provided you have a secured pension (i.e. an annuity or final salary pension) of at least £20,000 per annum*

- **Lump Sum Death Benefits**

- Under 75: if you haven't taken any benefits, the rules have not changed and therefore the lump sum death benefit remains to be paid tax free if taken within 2 years
- Age 75 plus: if you haven't taken any benefits, there is a 55% tax charge on the whole fund
- Income Drawdown: if the fund is in Drawdown, lump sum death benefits are taxed at 55% (whether over or under age 75)

If you would like to know more or if you have any questions regarding your current pension and the options available to you please feel free to contact us

***This detail reflects our understanding of the legislation at the time of writing.*