Queens Speech 2014

The Queens speech reiterated some significant changes to the UK pension regime announced in the April budget. The UK Government has for some time seen pensions, both private and State as being a source of saving money in difficult times. We have continued to see savings by raising State pension ages and reducing the annual increase index. They have also looked to reduce benefits under local government schemes and generally have increased tax and reduced tax free benefits under private pensions.

We saw a significant turnaround in the later at the last budget with relaxation on controls on how private pension benefits can be taken.

In general terms, UK changes that relate to pensions are;

Capped Drawdown
Maximum income able to be drawn per annum is limited by the UK Government Actuary Department (GAD) rates. Limits were multiplied by 120% to obtain the amount. On 27 March 2014, this increased to 150% giving potential of greater annual income withdrawal. As QROPS providers use these limits there they too have the increased flexibility when compared with UK scheme pensions and annuities.

Flexible Drawdown
Currently, if you can show HMRC a fixed income of £20,000 then you can draw some or the entire remaining fund as a lump sum, subject to income tax. This limit reduced to £12,000 from 27 March 2014, giving more flexibility. From 6th April 2015 the £12,000 limit will reduce to nil, allowing full withdrawal which is taxable at the member's marginal rate.

Annuity providers will be affected. This is only available in the UK, not QROPS.

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AIMS Pensions and Investments

Trivial pension pots

Most changes were from 27 March 2014. There was an overall limit of £18,000 which increased to £30,000. This means that if the total of all pension pots is under the limit some or all can be commuted for a taxable lump sum (25% tax free). There was also a side limit of £2,000 per pot to a maximum of two pots meaning that anything valued at under the limit can be commuted as a small pot, subject to the same income tax. This increased to £10,000 with a maximum of three pots. Currently you have to wait until age 60 to access triviality pensions but this reduces to 55 from 6th April 2015, although there is a consultation point that it may in future be linked to 10 years below state pension age, which is rising. Changes should give better value for money with less small expensive annuities and immediate access.

Personal Allowance

Increased to £10,000 and will rise again to £10,500 in April 2015. Will give pensioners more tax free income as all UK pension income is taxed as if it had been earned. Also increases to the 40% rate.

Member Payment Charge

On death in drawdown there is currently a 55% charge on lump sums paid. The Government is engaging stakeholders to review the rules as they believe it may be too high. Logic says this would be 40% in line with IHT but we will see.

Government Funded Schemes

There was a one liner in the budget details relating to future restriction of transfers from Government funded schemes which rang some alarm bells. This could include, Teachers, NHS, Police, Armed Forces, Civil Service, Local Government, etc. This does have the potential of closing off both QROPS and any other option to this category.

AIMS View
Generally, any changes which introduce flexibility are a good thing. The changes will make an already very technical advice area even more complex for UK advisers. Overseas advisers will also need to understand the process to assess the full options available to clients.
For QROPS, where they were previously suitable due to the tax advantages will still need them, but the changes will affect the extent of benefits, which comes into the advice process.

The potential restriction on Government funded transfers is worrying. People may be tempted to move before such restrictions, but must ensure the advice is appropriate.

This is one of a series of ongoing briefings to keep you informed of important pensions and investment news which may affect you.
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