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news

sackers extra

Double Act – Finance Act 2007 and Pensions Act 2007

The stream of pensions legislation is never ending. Whilst we are still learning to walk in the twin worlds of the Pensions Act 2004 (PA04) and Finance Act 2004 (FA04), more changes are on the cards. We now have a new double act – the Finance Act 2007 (FA07) and the Pensions Act 2007 (PA07). Here we look at some of the upcoming changes.

Double Act

- Inevitably there have been teething problems with the tax regime introduced by FA04. FA07 fixes some past hiccups and also introduces further anti-avoidance measures.
- PA07 looks to the future and is destined to deliver on promises on state pensions made in the White Paper[1].

FA07

Ill-health pensions can be reduced

- Under FA04 schemes were only allowed to suspend an ill-health pension, not to reduce it to reflect partial recovery (a facility built into many scheme rules).
- The only means of reducing the overall ill-health pension was therefore to provide for eligibility to arise under several arrangements (or tranches of pension).
- But changes made by FA07 allow an ill-health pension to be reduced (as well as stopped) temporarily or permanently if certain conditions are met.

FA07

Lump sum time limits extended

- For the payment to be authorised, the tax rules gave trustees two years to pay out a lump sum after a member's death.
- This could cause problems where trustees did not find out about the member's death immediately. Time will now run from the date the trustees first knew of the death (or from when they ought reasonably to have been aware of it, if earlier)[2].
- Representing a big step up from the current 3 months, it is now possible to pay a pension commencement lump sum (tax-free cash on retirement) at any time during an 18 month window (from 6 months before to 12 months after the member becomes entitled to the related pension).

[1] See Sackers Extra Alert: "The Pensions White Paper" dated 25 May 2006

[2] Inheritance tax rules will be updated to reflect this

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PA07

Changes to state pensions, part I

- From 2012[3], the link between earnings and basic state pension (BSP) will be restored.
- The State Pension Age will be increased to 68 by 2046 (although its introduction will be phased in).
- Pensions for all, but particularly women and carers, will be improved from 2010 by reducing the number of years (from 39 to 30) it takes to build a full BSP.

PA07

Changes to state pensions, part II

- In addition, a savings scheme will be established as a top up to the BSP – called "Personal Accounts". Aimed at lower earners, there will be a limit on contributions[4].
- PA07 also establishes the Personal Accounts Delivery Authority (PADA) to undertake the preliminary work, with Paul Myners as the first chairman of PADA.

PA07

Changes to occupational schemes

- The PA04 changes to internal dispute resolution procedures (IDRP) were postponed as a result of concerns raised that, unlike now, individual trustees would have been forced to make all IDRP decisions.
- But PA07 will fix the problems in the legislation and schemes will have the option of moving to a simplified one-stage IDRP[5].
- PA07 also introduces a GMP conversion facility and provides for the abolition of contracting-out in defined contribution schemes at some future date.

Expanding the pensions family

Issues remain outstanding

- The Revenue have consulted on the operation of the Lifetime Allowance relating to pension increases and dependants' pensions. Changes may be made in the Finance Bill 2008.
- We are also waiting for the flesh on the bones of Personal Accounts.
- Even though there have been five major Pensions Acts in 15 years, it looks like the Government is not finished yet.

[3] If fiscal conditions are right, or by the end of the next Parliament at the latest

[4] £3,600 a year based on 2005 figures (to be increased in line with inflation)

[5] However, as implementing regulations are required, this is unlikely to be a reality until some time next year

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