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SUMMER BUDGET 2015 - PENSIONS CHANGES

The Summer Budget 2015 includes a number of changes to pensions tax relief and other measures. Alongside it, the government has published a consultation document on further radical changes to pensions tax relief.

PENSIONS TAX CHANGES

From 6 April 2016, the annual allowance will be tapered from £40,000 for those with earnings of £150,000 or less to £10,000 for those with earnings of £210,000 or more. Earnings for these purposes are adjusted to include employer pension contributions or benefit accrual for defined benefit members. The annual allowance will reduce by £1 for each £2 of adjusted earnings above £150,000. The annual allowance is the amount that can be contributed each year to a pension scheme with tax relief.

A wider change impacting all pension savers and scheme administrators is the harmonisation of "pension input periods" (PIPs) with the tax year. Currently, each pension arrangement can have its own PIP (which must be a 12 month period). Pension contributions are tested in each year against the annual allowance using the amount contributed to the arrangement in the PIP ending in that tax year. Under transitional arrangements, all current PIPs will be closed early on 8 July 2015 and a new short PIP will run from 9 July to 5 April 2016 and PIPs will then match the tax year. To ensure no one is retrospectively disadvantaged under the harmonisation, the annual allowance for all PIPs ending in the current tax year will be £80,000 provided no more than £40,000 can be contributed in the period from 9 July 2015 to 5 April 2016. There is further detail for defined benefit and cash balance schemes and for those flexibly accessing money purchase benefits.

The taper to the annual allowance will restrict the ability of high earners to benefit from tax relief on pension savings. It will present significant complexity for employers operating defined benefit arrangements for high earners, including those earning between £110,000 and £150,000 who may be caught as a result of the value of their pension accrual.

The harmonisation of PIPs with the tax year will present defined benefit scheme administrators with some additional challenges to cope with the transitional arrangements.

The Budget statement also confirms the reduction in the lifetime allowance from £1.25m to £1m from 6 April 2016. The lifetime allowance will thereafter increase in line with increases to the Consumer Price Index.

Another change trailed in the spring is the reduction of the 45 percent tax rate for lump sum death benefits paid from pensions following death over age 75 to the marginal rate of the recipient from 6 April 2016.

SECONDARY MARKET FOR ANNUITIES

The government will set out plans for a secondary annuities market in the autumn but that implementation will be delayed until 2017 to ensure that consumer support measures can be put in place.

PENSIONS WISE

The Pensions Wise free pensions guidance service will be extended to those aged 50 and above. This should encourage better planning for those approaching retirement and reduce the risk of this group being targeted by "pensions liberators".

CONSULTATION ON PENSIONS TAX RELIEF

The government has published a consultation document alongside the Budget statement with proposals for further radical reforms to pensions tax relief. Options for reform range from an ISA-style pension regime to retaining the current system with alterations to the lifetime and annual allowances. The intended objectives are for the new regime to be simple and transparent, to encourage saving but also to be sustainable, ensuring the cost of pensions tax relief is controlled. The consultation will close on 30 September 2015.

EIOPA CONSULTATION ON A PAN-EUROPEAN PERSONAL PENSION

Coincidentally, EIOPA, the body of pensions regulators which advises the European Commission on new law proposals on pensions, has issued a consultation on a pan-European pension plan. A key issue is whether to legislate for a one-size-fits-all regime for all personal pensions across Europe or to legislate only for one type of passported product to be available across the EU, but allowing other models to coexist under member state regulation.

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