



THIS NEWSLETTER HAS BEEN DESIGNED TO KEEP OUR CORPORATE CLIENTS AND PROFESSIONAL CONNECTIONS INFORMED OF TOPICAL NEWS AND VIEWS IN THE FINANCIAL SERVICES MARKET. IF YOU WOULD LIKE TO ASSESS THE ISSUES YOUR COMPANY MAY HAVE WITH THESE CHANGES OR THE BENEFITS OUTLINED IN THIS NEWSLETTER, PLEASE EMAIL ENQUIRIES@IIMIA.CO.UK FOR A QUESTIONNAIRE. WHEN YOU RETURN THE COMPLETED QUESTIONNAIRE TO US, ONE OF OUR SPECIALISTS WILL CONTACT YOU TO DISCUSS THINGS IN MORE DETAIL.

Automatic for the People - Preparing for the Introduction of Personal Accounts in 2012

If individuals are not in an employer-sponsored pension scheme by 2012, they will be auto-enrolled into either personal accounts or a qualifying scheme.

The Personal Accounts scheme is scheduled to be available from 2012 and is intended to be a low cost savings vehicle aimed at the millions of employees without access to a workplace pension scheme. It will be set up as an occupational scheme, run on a not-for-profit basis by a trustee corporation in the interests of its members and will be open to any employer that wants to use it.

The Personal Accounts Delivery Authority (PADA) has been tasked with setting up the trustee corporation. It is also responsible for procuring the administration and other services needed to run the scheme efficiently.

The Department for Work and Pensions will be consulting on detailed regulations later this year but the key design features of the Personal Accounts scheme have been published.

It is planned that employers will have to auto-enrol all employees between the ages of 22 and the State Pension Age into the Personal Accounts scheme unless they are automatically entered into a qualifying workplace pension.

Broadly speaking, a qualifying workplace scheme must have contributions that at least match the Personal Accounts minimum of 8% of qualifying earnings or provide for average salary benefits to a prescribed level.

Employees will be able to opt-out if they wish but, if they do, they will have to be re-enrolled every three years. The total contribution rate into the Personal Accounts scheme must be at least 8% of qualifying band earnings. Band earnings are shown in the Act as between £5,035 and £33,540.

These limits are based on the Primary Threshold and the Upper Earnings Limit for 2006/07 and are to be reviewed each year. Employers have to contribute at least 3% and a hot topic in pensions provision is that the employee will pay 4%, with 1% tax relief.

These contribution levels will be phased in, with employer and employee both paying 1% in year 1. In year 2, the employer will have to pay 2% and employees 3%. The full 8% will be payable from year 3 onwards.

There will be a maximum contribution limit, initially thought to be £5,000 a year, although this is undergoing further consultation. The choice of investment funds is as yet unknown.

“Early planning will be essential for employers to review their schemes against the qualifying criteria”

There will be a ban on transfers in or out of the scheme but this will be reviewed in 2017.

The Government does not want to undermine good quality employer sponsored schemes and intends the Personal Accounts scheme to supplement existing provision. For some, typically smaller, employers it may be the only scheme they have in place. For others, it can complement existing provision, potentially a foundation level for certain employee groups.

Early planning will be essential for employers to review their schemes against the qualifying criteria, agree any changes and ensure they are ready for 2012. Further consultations are due throughout the year and we will keep all of our contacts up to date on progress.



Change to Minimum Retirement Age

Where an individual reaches age 50 before 6 April 2010, if benefits have not been taken by then, the new minimum pension age of 55 applies.

All registered pension schemes must incorporate the normal minimum pension age of 55 into their rules by 6 April 2010. It is for schemes/employers to decide how and when to make this change in a way that best suits their needs. If schemes do not adopt a normal minimum pension age of 55 by 6 April 2010 and pay benefits out before that age, then they will be making an unauthorised member payment with consequential tax implications.

Where a member starts to take benefits after reaching the current minimum pension age of 50 before 6 April 2010, but they will not be 55 by 6 April 2010, benefits can still continue to be paid as authorised payments.

Protection for the rights of certain individuals to continue to take pension benefits before age 55 may be given in particular circumstances.



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Drawing Pension Benefits Early

Once an individual attains the minimum pension age it is possible to take benefits from their pension arrangements. There are various reasons why the decision to take benefits whilst still working may be made:

- Release tax free cash entitlement which can be used to reduce an outstanding mortgage or other accrued debts
- Change to part time working with the reduction in income being made up with pension income.

- Securing a pension income based on a known annuity rate (annuity rates have been under pressure and may fall in the future)

- Returns from deposit based pension accounts are historically low, consequently risk averse investors are only seeing limited growth on their pension assets. Securing pension income may produce a higher return.

It must be appreciated that if an individual continues to work, the early payment of pension will lead to additional income tax being payable. However, it does give the opportunity to remove assets from a pension environment and build up cash reserves.

Alternatively the pension income can be “recycled” into a pension arrangement which would negate the tax paid on the income and enable further pension funds (and tax-free cash) to be accumulated.



Budget 2009 – Tax Relief for Higher Earners

As widely reported over recent weeks the recent Budget moved to restrict tax relief available to higher paid individuals. In the Budget, the Chancellor announced two changes to tax relief on pension savings for individuals with income above a certain level:

- The Government intends from 6 April 2011 to restrict tax relief for individuals with an annual income of £150,000 or more. Relief will be tapered so that for those earning over £180,000, only basic rate tax relief will apply.
- In the meantime, new rules apply from 22 April 2009 to restrict tax relief on pension contributions for high earners. The restrictions will apply to people:
 - whose total income is £150,000 or higher in the current or either of the last two tax years, and
 - whose total pension savings exceed £20,000, and
 - who increase their normal ongoing regular pension savings

These new rules aim to remove any loopholes for high earners hoping to increase their pension contributions in excess of their normal pattern. The vast majority of individuals should be unaffected by the proposed changes.

The special annual allowance, which is set at £20,000, sets an upper limit on the amount of additional pension savings for which full tax relief at the higher rates of tax can be given.



Tax relief on additional pension savings above the amount of this allowance will be at the basic rate of tax only. The special annual allowance tax charge which restricts relief on additional contributions to basic rate is a charge on the individual, collected via their Self Assessment tax return and therefore the scheme administrators and employers will not be involved in the reclaiming process. The rate of charge is the difference between the highest rate of income tax and basic rate (20% for 2009-10).

Individuals earning more than £150,000 may be able to take advantage of 50% tax relief for the tax year 2010-11.

Next stage

With HM Revenue & Customs publishing a 52 page technical guide on the day of the Budget, it is clear that the Government is taking all possible precautions to ensure the reduction of tax relief for high earners is not abused prior to final legislation being enacted. As some press reports discussed the possibility of higher rate tax being abolished across the board, there has been some relief that only a relatively small number of individuals will be affected. Regrettably, this is another nail in the coffin for so called 'pensions simplification' introduced in 2006.

N.B. These changes are subject to further consultation.

Don't Overlook the Advantages of Salary Sacrifice

Salary sacrifice is a term used to describe an employee giving up the right to future remuneration in return for their employer paying the remuneration given up into the employee's pension policy instead.

The big advantage of this is that both the employer and the employee will avoid having to pay National Insurance Contributions (NIC) on the remuneration foregone. In many cases employers are prepared to pay part or all of their NIC savings as extra pension contributions for the employee. Alternatively the employer's NIC savings can be used towards the cost of advice for setting up the arrangement and/or used to offset the employers administration costs.

For example, an employee who is earning £25,000 decides to give up £1,000 of their salary and the agreement between the employer and the employee would be that the employer would pay the "sacrificed" £1,000 of salary into the employee's pension scheme instead.

As employees pay 11% in NICs on earnings above the Primary Threshold (£5,715 in the 2009/10 tax year) and employers pay 12.8%, the respective savings in NIC on the £1,000 of 'sacrificed' salary are £110 and £128.

From the employee's point of view this means that the real cost of the £1,000 pension contribution, is only £890 (£1,000 - £110). If the employer's NIC savings is added to the pension contribution, in this example the gross pension contribution would increase to £1,128 i.e. an increase of approximately 27%.



Not only that, but they would also benefit from not paying tax on the sacrificed salary either and that would further reduce the real net cost of the pension provision.

Done carefully this can be tailored for individuals so that they get higher pension contributions without affecting their take-home pay and without costing the employer any more.

N.B. Please note that sacrificing salary could have an impact on other salary-related benefits.

If you would like to discuss any of these topics in more detail, please contact your local office.

Bournemouth Office

Helting House
35 Richmond Hill
Bournemouth
BH2 6HT
t: 01202 446400
e: bournemouth@iimia.co.uk

Exeter Office

23 Cathedral Yard
Exeter
EX1 1HB
t: 01392 475900
e: exeter@iimia.co.uk

Falmouth Office

Bickland House
Bickland Water Road
Falmouth
TR11 4SB
t: 01326 377990
e: falmouth@iimia.co.uk

Northampton Office

16 Queensbridge
The Lakes
Old Bedford Road
Northampton
NN4 7BF
t: 01604 615840
e: northampton@iimia.co.uk

Plymouth Office

164 Armada Way
Plymouth
PL1 1LB
t: 01752 660282
e: plymouth@iimia.co.uk

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