



private client | year end investment planning – personal pensions

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The pension contributions rules are to undergo another significant change from 6 April details of which are given below. The anti-forestalling rules outlined below will continue up until that date.

the anti-forestalling rules

These rules are complicated and if you have any doubt as to your position you should get in touch with your usual contact partner.

The first thing you need to do is to calculate your relevant income for the year ended 5 April 2011 which is total income less reliefs and pension premiums paid up to £20,000. If this is less than £130,000 in the current and two preceding years then you are entitled to relief of up to 100% of earnings subject to an overriding "annual allowance" of £255,000.

Higher rate relief is limited to £20,000 except in the circumstances given below:-

- if your relevant income was more than £130,000 and your contributions were paid regularly either monthly or quarterly and the arrangements were in place before 22 April 2009 then contributions may continue at that level and still qualify for higher rate relief
- if the contributions are made less frequently then if the average contributions for the last three years are more than £30,000 then £30,000 will be allowable. If the average contributions over the last three years are between £20,000 and £30,000 then the average figure will be allowed

If therefore you wish to make a further payment before 5 April you will need to ensure that you are able to do so in accordance with these rules.

the new rules in brief

- annual pension contributions "capped" at £50,000 but you may be able to carry forward unused relief for up to three tax years. For those caught by anti-forestalling measures, this may be a great opportunity to catch up on missed contributions
- pension input periods (PIP) – contributions paid in the current tax year may actually be assessed against next year's lower annual allowance.
- life time allowance reducing to £1.5M in April 2012. More people will be

caught by the reduced limit. Transitional protection is available but action is needed before April 2012

- capped and flexible drawdown to replace Unsecured Pension (USP) and Alternatively Secured Pension (ASP). The ability to cash in your entire pension, subject to a minimum income requirement (MIR) of £20,000 pa
- lower maximum income for those in drawdown. The maximum level that can be drawn from drawdown is currently 120% of Government Actuary Department (GAD) rates. This will reduce to 100% of GAD at the next policy review after April 5th 2011. In addition, new GAD tables have just been released with a drop in income levels especially for men
- changes to the death benefits for crystallised benefits from 35% tax pre-75 and 82% tax post-75 to a uniform 55% tax. Good news for those currently in ASP but bad for those in USP, although it is possible to improve the situation with some fairly basic planning
- removal of compulsion to take benefits at age 75. While this sounds like a triumph for those not in favour of annuities, the tax treatment of benefits means that most will continue to crystallise their pensions at or before age 75
- equalisation of annuity rates - the European Court of Justice has said that providing men with greater annuity payments than women (because men are likely to live shorter lives) is wrong. The result could be that men get worse value for their pension pots than they do now. On the contrary, rates for women may improve as a result

If you have any further queries or would like to discuss your situation please get in touch with your normal contact partner.

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