



## **Pension Changes**

### **Reduction in Annual Allowance from 6<sup>th</sup> April 2011**

#### **Key Points**

- The Annual Allowance has been reduced from **£225,000 to £50,000** from 2011/12.
- For each subsequent tax year the annual allowance will remain at £50,000 or such other amount as may be specified by treasury order. In other words Government have the freedom to set the annual allowance as they see fit and there is no guarantee that it will increase year on year.
- Carry forward of unused annual allowance is now possible from three previous tax years.
- You cannot carry forward unused relief from an earlier tax year unless at some point in that tax year you were a member of a registered pension scheme. There is no requirement to have actually accrued any pension in the earlier tax year.
- In order to qualify for tax relief the maximum individual contribution in a tax year is still 100% of earnings, or £3,600 if greater, regardless of whether or not there is unused annual allowance to be carried forward.
- The tax charge for exceeding annual allowance is based on your marginal rate rather than flat 40%

### **Retirement Options Change from 6<sup>th</sup> April 2011**

#### **Key Points**

- Retired individuals will no longer have to buy an annuity from age 75.
- Existing Unsecured Pension (USP) and Alternatively Secured Pension (ASP) arrangements will be replaced by a new 'capped drawdown' product available from age 55.
- The maximum income under capped drawdown will be 100% of the equivalent annuity, reviewable every 3 years until age 75 and yearly thereafter.
- A recovery charge of 55% will apply to lump sum death benefits.

A new '**flexible drawdown**' model will enable individuals to withdraw more than the capped annual limit provided they have a secured relevant income that meets a Minimum Income Requirement (MIR) of, currently, £20,000. If you qualify for flexible drawdown you will be allowed to take **unlimited income withdrawals** from your pension fund.

Flexible drawdown reduces your annual allowance to zero so you cannot make any further pension contributions once this option is selected.

Flexible drawdown is not available for protected rights funds.

**Flexible drawdown may be suitable for you if:**

- You have at least £20,000 a year secure income\*.
- You have other sufficient sources of income to meet ongoing needs.
- You want to draw as much income as possible now, even if this means a reduced income later.

\* secure income includes lifetime or dependants annuities and social security benefits such as state pension and graduated retirement benefit.

It is worth noting here that an individual can only make a declaration for flexible drawdown if :

- No contributions by them, or on their behalf, have been made in the tax year the declaration is made; and
- At the time of the declaration the individual is not an active member of a defined benefit or cash balance scheme.

This information is based on Thomas, Carroll's understanding at the time of writing of the relevant law, rules, guidance or HMRC practice, which may change. It does not constitute legal or tax advice and must not be treated as such. Whilst every effort has been made to ensure the accuracy and completeness of this information, no representation or warranty, express or implied, is given in respect of it. Thomas, Carroll Group can take no responsibility for any loss which may occur as a result of reliance on this information.