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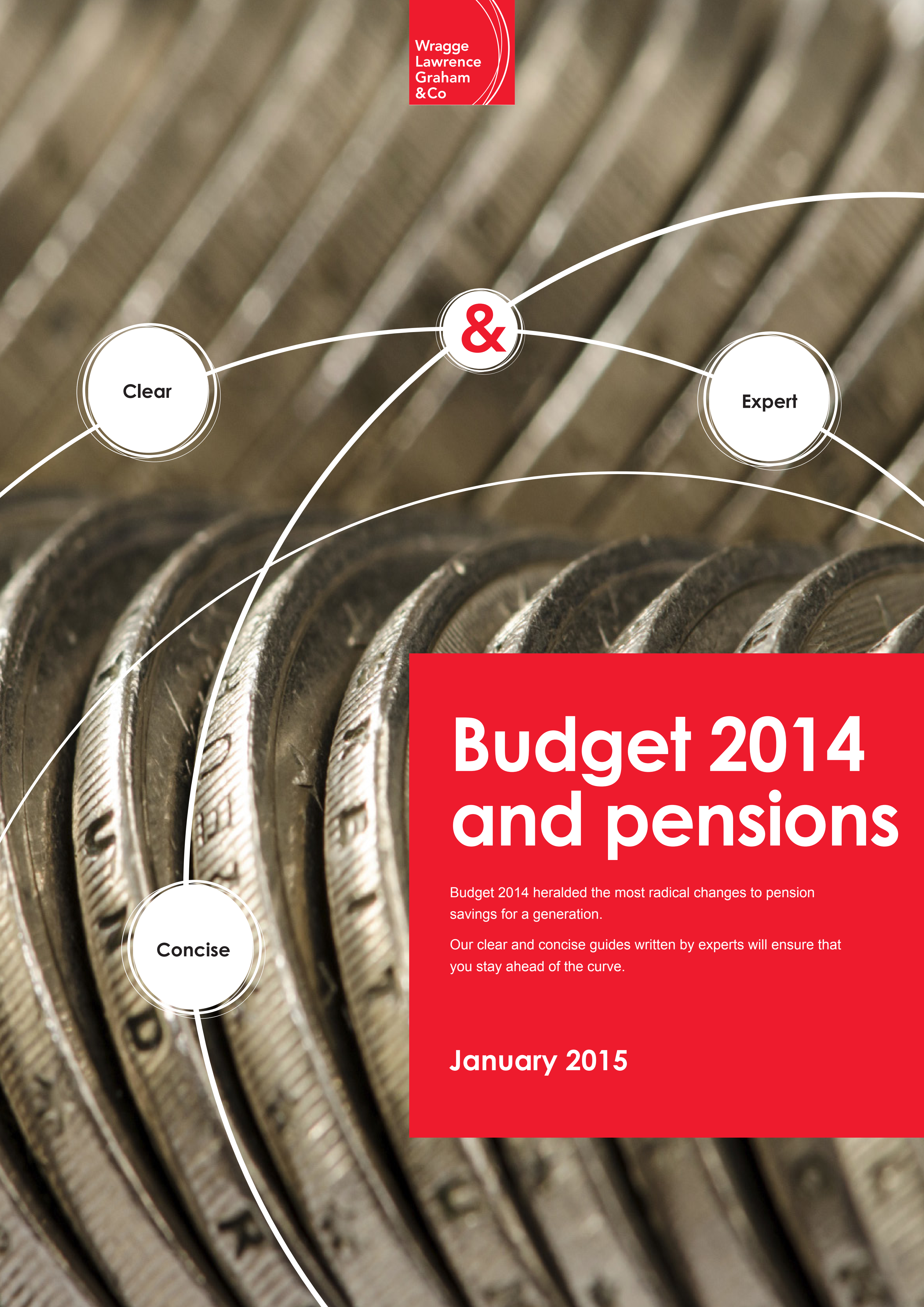


Budget 2014 and pensions

Budget 2014 heralded the most radical changes to pension savings for a generation.

Our clear and concise guides written by experts will ensure that you stay ahead of the curve.

January 2015

The UK pension system is changing...

The Budget Statement delivered on 19 March 2014 promised some of the most radical changes to pension savings for a generation. Since then, a flurry of draft legislation, consultations and guidance has been issued. Are you ready?

"The most radical changes to pension savings for a generation"

Trustees, employers and pension scheme providers will all need to get to grips with the new regime. Wragge Lawrence Graham & Co's pensions team's series of clear and concise guides written by experts will help to ensure that you stay ahead of the curve.

What has already changed?

Transitional amendments to the tax regime applied with effect from 27 March 2014. This table summarises the changes to the taxation system dealing with certain lump sums and drawdown requirements.

		27 MARCH 2014	
Trival commutation	£18,000	→	£30,000
Small lump sums	£2,000	→	£10,000
Flexible drawdown income requirement	£20,000	→	£12,000
Capped drawdown withdrawal limits	120%	→	150%

These changes to the tax regime will only apply if the rules of the relevant scheme allow for them or are amended to do so.

What is changing on 6 April 2015?

1. Flexible access and tax changes

Individuals with savings in DC pension schemes may be able to make use of one of two new options:

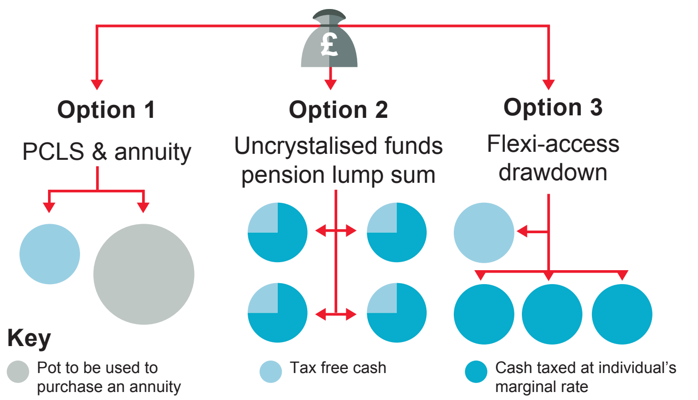
- uncrystallised funds pension lump sums ("UFPLS"); and
- flexi-access drawdown ("FAD").

This is subject to the rules of the pension scheme or whether the statutory permissive override is being used.

Each time an individual takes a UFPLS, one quarter of each lump sum will be paid tax free. The rest will be paid at the individual's marginal rate.

A payment under a FAD account is subject to tax at the individual's marginal rate. Under a FAD the individual can continue to take up to 25% of their DC pension savings as tax free cash when they designate their pot as being available for drawdown.

Defined contribution pension pot options



2. Taxation of pension savings at death

This is referred to in the press as the abolition of the 'Death Tax'. The tax treatment of pension benefits after death is dependent on the age of the member at the time of their death and whether their pension benefits were already paid or in payment (i.e. crystalised) or not yet brought into payment (i.e. uncrystalised). This table summarises the position **on and after 6 April 2015.**

	Crystalised	Uncrystalised
Below age 75	Any beneficiary can receive a tax free lump sum or drawdown pension.	Any beneficiary can receive a tax free lump sum (up to the lifetime allowance).
Above age 75	Beneficiary can drawdown at marginal rate. 45% charge on lump sum (moving to marginal rate from 2016 – 17).	Beneficiary can drawdown at marginal rate. 45% charge on lump sum (moving to marginal rate from 2016 – 17).

3. Guidance guarantee

DC pension schemes will be required to signpost the availability of guidance under the guidance guarantee. This will be guidance and not advice.

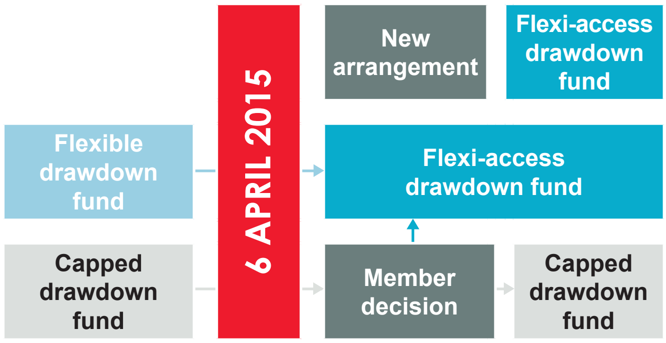
4. Money purchase annual allowance (MPAA)

The new MPAA of £10,000 will apply if an individual accesses their pension savings flexibly. If the MPAA is triggered, the individual's annual allowance for saving into money purchase pension arrangements is reduced to £10,000. The individual can still use any of their remaining full annual allowance for payments into a defined benefit scheme.

5. New and existing drawdown funds

A drawdown fund created after 6 April 2015 will be a FAD fund. Any pre-existing flexible drawdown fund will be converted into a FAD fund on 6 April 2015.

Pre-existing capped drawdown funds can be either converted into FAD funds or be continued as capped drawdown funds.



What else is changing?

The Budget 2014 changes are just part of major changes to the defined contribution landscape. As well as promoting flexibility, there are reforms to defined contribution pensions:

- governance requirements; and
- charges (including caps).

We will cover the broader picture in our upcoming DC 2015 factsheet.

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