

## Article placed in Moneyfacts ILP

### Banishing the winter blues

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Over recent times we have all had to face up to the challenge of difficult economic conditions and the worst arctic weather for many a year. As daylight slowly increases and spring appears on the horizon there are a number of opportunities that should help us banish the winter blues.

Most providers are setting themselves up for an extremely busy 2011 tax year end period for benefit claims and new contributions as clients and their advisers look to make the most of changes to the pension regulations.

#### Income planning

The new regulations allow us to banish to history, for the moment anyway, the terms Unsecured and Alternatively Secured Pension. It is good to see the return of an old friend with a single type of income withdrawal, called a “drawdown pension”. The difference now is that we have variations of this “drawdown pension”.

- The old maximum, and for ASP minimum, limits are being scrapped. They will be replaced with a single maximum income based on 100% of the equivalent annuity calculated using the Government Actuary’s Department (GAD) tables.
- There will be no requirement to take a minimum drawdown pension at any age.
- The existing GAD tables will be extended to cater for over 75s. Previously they had not done so.
- The old five-yearly review of income limits for under 75s will revert to the three-yearly reviews that we saw before A-Day. Annual reviews for the over 75s will remain.

There are a few points worth paying particular attention to. HMRC has confirmed that the review of GAD rates will also involve the pre 75 rates. With increased longevity and mortality continuing to be a key factor, any change is likely to be negative for any investor looking to maximise income. Taking this along side the change to the maximum income from 120% to 100% may well significantly reduce the income available. This introduces a question for any pension investor who is aged 55 or above who has remaining unvested funds. The wording of the regulations allows individuals to crystallise an element of their fund now thus allowing them to lock in the existing 120% of GAD maximum for a period of 5 years for the encashed element and the remaining part of the non vested fund.

I have to admit that there are a couple of questions mulling about in the back of my mind about this area of change:

- Is there wide spread evidence that suggests a reduction in the maximum income figure is necessary? I have been involved in the manufacturing, sales and marketing of drawdown products since 1995. Over that period I have regularly run queries to look at the nature and experience of entire books of business of clients using drawdown. Whilst I am sure there are some out there, I have yet to find a single client that has got anywhere close to exhausting his or her fund. A recent query at A J Bell looked at clients taking maximum income and compared fund values when entering drawdown to the fund now after income and market movements. The difference between the two values was less than 10% across the entire book.
- Is it right that the wording of the regulations should drive behaviour? As outlined above, the regulations will encourage investors to carry out a benefit crystallisation to lock in the current 120% of GAD maximum for 5 years. Sometimes opportunities like this can mask a flaw in the wording and objective of the regulations. I tend to take the view that it should be client needs that drive behaviour and not the words used in the regulations. As suggested above, I believe there is a clear case for questioning whether this change is needed at all.

#### Contribution planning

The 6 April 2011 changes will also see:

- The annual allowance fall from £255,000 to £50,000;
- A re-introduction of Carry Forward that will allow contributions of more than £50,000 to be paid in a tax year;
- The death of the anti-forestalling rules.

For the current tax year the anti-forestalling rules only affect those with “relevant income” exceeding £130,000 for the current or last two tax years. As covered in a previous article the calculation of relevant income is more than a little complex but the key point is that anyone with relevant income of less than £130,000 is not limited by the special annual allowance of £20-30,000.

For these individuals, tax relief on personal contributions is still restricted to a maximum of their net relevant earnings. However, employer contributions can be made right up to the current annual allowance of £255,000. Care needs to be taken to ensure that employer contributions are not treated as salary sacrifice. This brings the contribution into the “relevant income” calculation and so may push someone over the £130,000 limit.

When considering this opportunity, care also needs to be taken by anyone who has a pension input period (PIP) which has already ended in 2010/11. PIPs are used to measure the level of annual allowance used up for a tax year but can end part way through a tax year. If the PIP for 2010/11 has already ended any contributions paid in the remainder of the tax year will be tested against 2011/12’s much reduced annual allowance. One benefit of the re-introduction of Carry Forward is that it will help to reduce the impact of this issue.

Turning to the re-introduction of Carry Forward a key consideration is maximising tax relief and the most basic step is making sure that individuals are members of a registered pension scheme. Unused Carry Forward allowances aren’t available if individuals weren’t a member of a pension scheme in the Carry Forward tax year.

Assuming that most people will be a member of at least one pension scheme then Carry Forward will only be open to them if they exceed the new annual allowance of £50,000. So looking at a SIPP you can’t sweep up your unused allowances from earlier tax years without contributing at least £50,000 to the SIPP.

If contributions exceed £50,000 in a tax year individuals are given a deemed annual allowance of £50,000 for the previous three tax years and may use up unused annual allowance, starting with the earliest tax year, using Carry Forward.

As I get older I increasingly find that dark cold winters with lots of snow can affect your mood. My ten year old son does his best to arrest this movement in mood. After a recent heavy snow fall he reminded me that “when ever snow falls heavily we all have jobs to do”. This was followed sharply with the instruction “dad you get the shovel and leave the snow angels to me”. With the days getting longer and a raft of opportunities on the horizon it reminded me that there is good reason to smile.

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**Please note this document is intended for trade and national press individuals.**

#### Notes for Editors

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