Notice for Pension Legislation – 18 February 2011

Pension Legislation Changes

Over the past few months HM Treasury has announced a number of important changes relating to pensions legislation. These changes are due to be implemented by 6 April 2011. These changes have arisen following June's emergency budget and will, amongst other things:

1. End compulsory annuitisation at age 75.
2. Introduce new approaches to income drawdown – Capped Drawdown and Flexible Drawdown.
3. Bring changes to lump sum payments and Government Actuary's Department (GAD) figures and reviews.

Further information concerning the proposed changes can be found on the HM Treasury and HMRC websites.

Below are some questions and answers regarding the proposed changes based on The Hartford's interpretation of the legislation at the time of publishing this note.

What is Drawdown Pension?

Drawdown Pension will replace Unsecured Pension (USP) and Alternatively Secured Pension (ASP). There will be a single limit that will cap the maximum income available under this replacement. This maximum will be 100% of the base rate from the GAD annuity tables based on the age of the individual. From age 75 onwards the actual age of an individual will be used rather than age 75. For this reason the GAD tables will be extended beyond age 75. There will be no minimum GAD amount and this will also apply regardless of the age of the individual. It will be possible for benefits to remain uncrystallised in a Drawdown Pension past the age of 75. The draft legislation provides for two types of Drawdown Pension - "Capped" or "Flexible".

What is a Capped Drawdown product?

A Capped Drawdown product will operate in a similar way to the current USP but is subject to the new limits outlined above. Benefits may be paid out before or after the client reaches age 75.

What is a Flexible Drawdown product?

Flexible Drawdown will allow clients whose pension provider offers this product to draw down unlimited amounts from their pension pots from age 55 onwards. This is taxable as income. This option will only be available to clients who can demonstrate that they will have secured a sufficient pension income to meet the Minimum Income Requirement (MIR). The aim is to prevent a client from exhausting their pension savings.

Please note The Hartford is currently considering whether to offer a Flexible Drawdown product in the future. Flexible Drawdown will not be available from The Hartford from the outset.

What will happen to individuals who are currently invested in either a USP or ASP?

When the new Drawdown Pension limit applies for such clients will depend on their circumstances. For clients currently drawing USP who will attain age 75 after 6 April 2011, the 120% GAD limit applies until the earlier of the following:

- The end of the current 5 year reference period.
- The end of the pension year in which a recognised drawdown to drawdown transfer takes place.

ASP will be abolished from 6 April 2011 onwards. Existing ASP planholders will move into a Capped Drawdown Pension arrangement at that point.

What are the changes to lump sum payments?

- It will be possible to take PCLS whenever benefits are crystallised, even if this is after age 75.
- It will now be possible to take a lump sum due to serious ill health at any age provided the benefits are uncrystallised.
- A Serious Ill Health Lump Sum will be subject to a tax charge of 55% of the gross amount when taken over 75. If taken under age 75 there will be no tax charge.
- A Protected Lump Sum will be subject to a 55% tax charge.
- It will be possible to take a Triviality Lump Sum past the age of 75. New Legislation is breaking the link between Triviality and Lifetime Allowance (LTA), and freezing the limit at £18,000.

What are the changes to Government Actuary's Department (GAD) figures and reviews?

Current USP and ASP planholders will move into the new pension regime over a period of up to 5 years on a plan by plan basis.

- GAD maximum will reduce to 100% (from 120%).
- GAD minimum will no longer apply (no requirement to take minimum income before or after age 75).

- HMRC / GAD tables will be extended beyond age 75.
- GAD maximum income will be reviewed every 3 years prior to age 75. Currently the review is undertaken every 5 years.
- GAD maximum income will be reviewed annually after age 75.

What is happening at age 75?

A Lifetime Allowance Test (LTA) will be carried out at age 75 by the pension provider. This test will determine if tax charges are applicable on the planholder's 75th birthday. At this time a revised Benefit Crystallisation Event (BCE) 5A certificate will be produced by the pension provider.

How will Death Benefits be paid?

Death Benefits from Uncrystallised Funds

There will be no tax charge on lump sum death benefits paid in respect of uncrystallised funds where the planholder dies before age 75.

There will be a 55% tax charge on lump sum death benefits paid in respect of uncrystallised funds where the planholder dies at or after age 75.

Death Benefits from Crystallised Funds

There will be a 55% tax charge on lump sum death benefits, irrespective of age.

Dated: 18 February 2011

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