

# **RT Financial Planners LLP Newsletter Issue 2**

This Newsletter from independent financial advisers RT Financial Planners aims to be informal but informative, challenging yet entertaining.

It will cover general items as well as detail new developments or old & trusted ideas.

We trust you enjoy the read. Your own ideas and feedback will be very welcome.

We are happy to include your letters in future editions.

## **READ THIS PENSIONS SPECIAL – IT WILL AFFECT YOU!!!**

### **DO YOU HAVE A**

**PPP / RAC / EPP / AVC / FSAVC / FURBS / UURBS / OPS / SSAS / SIPP?**

**RT Financial Planners LLP** aims to provide a high quality service to those who value independent and valuable financial advice.

This **Newsletter** is dominated by the major new pensions' regulations that have been and are being introduced. The **alphabet soup** above gives some indication of the myriad forms pensions can take. The subject of pensions is likely to attract one of these differing reactions

*“My God, don't want anything to do with them – I have put in money and the returns are awful and I cannot get to my cash!”*

*“My company went bust and took my pension with it!”*

*“With my luck I will buy a pension on retirement and die the next day leaving diddlysquat for my family!”*

*My pension is great – it grows gives me tax relief like you can't get elsewhere and I know I will have a good income when I retire!”*

**If your reaction falls in the first three then read on as the new rules may well alter your views and if you are reacting positively to the fourth then read on as things may well get a lot better.**

**Whatever your reaction the Pensions Act 2004, which received Royal Assent in November 2004, is going to affect every single person who has or will have a pension.**

This subject is a massive one and consequently this **Newsletter** is not going to cover every single detail. It will highlight certain matters only. The advice of the IFAs at RT Financial Planners to you is to contact your adviser without delay as certain matters may need attention immediately.

**First fact first.** The Pensions Act 2004 and Finance Act 2004 have introduced major changes. Some were introduced in April 2005 but the bulk will be effective as from 6<sup>th</sup> April 2006. The changes are designed to simplify pensions. An easy statement but a difficult task. Simplifying the rules will involve a lot of changes and hence it is like making an omelette – you have to break an egg or three first.

**Let's look at some examples of how these changes can benefit you!**

#### **High Earners**

Pension contributions after 6<sup>th</sup> April 2006 will no longer be restricted by a percentage of salary but by the size of the pension fund upon retirement. In actual fact you will be able to contribute 100% of your salary (up to a maximum of £215,000) each year. So if you earn £50,000 per annum you can contribute £50,000 gross [that is £30,000 net after tax relief] even though the source of that contribution is your building society.

A **lifetime allowance** has been set at £1.5 million (subject to annual indexation) and that includes

all pensions, including final salary schemes. It is easy to establish the size of a money purchase personal pension but how big is your individual pension fund within in your final salary scheme?

A pension fund in excess of the lifetime allowance upon retirement will attract a tax charge of up to 55% on that excess.

There are people who will expect to retire on a large income, perhaps after forty years' service with the firm or having grown their own successful company. If you feel you may be one of those people facing a potential tax bill, you will need to protect your fund in order to avoid taxation later.

### **Low Earners**

Many people have small pension funds. They may be non-earning spouses or have low salaries or just not funded a pension.

### **Have we got news for you.**

Even non earners can contribute £3600 per annum (£2808 net). If at age sixty you wish to retire and your total funds do not exceed 1% of the **lifetime allowance** (i.e. £15,000 in 2006) then the whole of that can be paid back as cash. Think about it. Your spouse can have a pension and contribute say £11,000, receive the tax relief at 22% and as long as the fund including the growth, at 60, is 1% of the **Lifetime allowance** or less, the whole lot is payable as cash with 25% tax free and the balance subject to basic rate tax.

### **RAC - Retirement Annuity Contract**

RAC holders (the 'old fashioned' styled personal pensions also known as 'Section 226' policies) still benefit from being able to use unused allowances from past tax years. This facility disappears on 6<sup>th</sup> April 2006 and so it will be sensible to maximise your allowance now in order to make use of these allowances.

Your RAC may provide a tax free cash sum larger than the standard 25% of the pension fund. You may want to consider drawing on it before 6<sup>th</sup> April 2006, as you will lose the additional entitlement after that date. Care needs to be taken if there are Guaranteed Annuity Rates applicable.

If your RAC is projecting a tax free cash sum less than 25% you may be better off deferring retirement until after 6<sup>th</sup> April 2006 as at that point the tax free cash element will increase to 25%!

**IF YOU REQUIRE ADVICE ON YOUR PENSION  
CALL YOUR RT ADVISER ON**

**01285 886111**

**A 10 PENCE CALL NOW COULD SAVE YOU  
LOSING £10,000 OR MORE LATER.**

### **EPP - Executive Pension Plan**

Under EPPs you are allowed to protect higher amounts of Tax Free Cash, so once again, advice will be necessary on this area. Also, you may wish to boost your pension contributions this year as it will boost the tax free cash entitlement as long as the tax free cash entitlement is protected too.

It may be though you run a company and have been too busy to make pension contributions. Well, if you are cash rich you may think about starting an EPP now to take advantage of the unused allowances and ensure you have a large pension fund come next Spring and then in turn preserve any large tax free cash entitlement that may be in excess of 25%.

### **FURBS**

#### **Funded Unapproved Retirement Benefit Schemes**

#### **UURBS**

#### **Unfunded Unapproved Retirement Benefit Schemes**

Many high-earning executives and directors have FURBS as part of their retirement package in order to overcome the earnings cap for pension contributions. FURBS members should consider making additional payments before 6<sup>th</sup> April 2006 to build up an IHT exempt 'Death in Service' benefit and make use of the fact that FURBS funds will not count towards an individual's lifetime allowance before simplification.

Both FURBS and UURBS members close to or over the lifetime allowance of £15m (2005/06) should consider registering for protection of their fund.

### **PRPs - Protected Rights Pensions**

Are you about to retire with a protected rights pension? Think twice before doing so. After 6<sup>th</sup> April 2006 you will be able to take 25% of your PRP fund tax free and buy an annuity to suit your own requirements and not have it dictated to by existing Inland Revenue rules.

### **AVCs and Free Standing AVCs**

Most people with AVCs (additional voluntary contributions), whether they fund schemes via their employer (AVCs) or do so privately

(FSAVCs), can only purchase an annuity with the fund. As from 6<sup>th</sup> April 2006 they too will be able to receive 25% tax free cash – if they so wish.

### **OPS – Occupational Pension Schemes**

As you are no doubt aware there is no single type of OPS. They come in all sorts of guises. There are final salary schemes (FS) where benefits are based on length or service and final salary, defined contributions (DC) schemes that are often termed either COMPS (Contracted Out Money Purchase Schemes) or CIMPS (Contracted In Money Purchase Schemes) or GPPS (Group Personal Pension Schemes).

There are many changes happening to FS and DC schemes and these include the removal of compulsory indexation of benefits in payment but to oversee all OPSs is a new body, aptly titled **The Pensions Regulator**. The Pensions Regulator came into being on the 5<sup>th</sup> April 2005 and replaces the now defunct OPRA (the Occupational Pensions Regulatory Authority). Do not be deluded into thinking the Pensions Regulator is the same animal. It has a lot more teeth and intends to ensure they are used – when necessary.

**The Pensions Regulator** is responsible the trustees, employers and anyone involved in the administration of the scheme abide by the Scheme's rules. The Pensions Regulator will issue codes of practice, designed to help scheme trustees, employers, administrators and advisers to understand the legislative requirements. Whilst these are not statements of law they do have a legal effect as they will be relevant in matters under consideration by the Pensions Regulator, a court or a tribunal.

There are currently 11 codes of practice. One relates to the knowledge and understanding held by Trustees of the schemes (see Sections 247 – 249 of the Pensions Act 2004) . The onus is very much on Pension Trustees to have a complete understanding of their responsibilities and duties, which are both complex and time consuming. They also can be held personally liable for breaches.

The financial responsibilities and difficulties of final salary schemes are resulting in this type of traditional scheme become an endangered species. **These new rules will no doubt exacerbate this trend and it is likely that GPPs (where the trustees are the life assurance**

**company) will continue to become more and more common as a way for companies to provide their employees with effective but simple pension benefits without such onerous administration or extensive responsibilities.**

The **Pension Protection Fund** (PPF) has been introduced to provide financial protection to members when their OPS defaults. It is largely being funded by OPS schemes via a levy. Full details of the PPF scheme can be viewed on the HMG website [www.dwp.gov.uk](http://www.dwp.gov.uk)

### **SSASs Small Self Administered Schemes**

SSAS rules currently are quite generous on many counts. The contributions can take into account past service and provide large tax- free cash elements and larger incomes upon retirement.

**Members of SSASs should be aware of the following.**

Contributions can currently take into account past service and therefore there can be grounds for making large contributions. After 6<sup>th</sup> April 2006 the contributions will be restricted (as with other schemes) to 100% of annual salary (given the £215,000 maximum cap).

If your own SSAS pot is larger than the £1.5m lifetime allowance cap you can opt to protect the tax free cash element now. At a later date on retirement (or if the fund is transferred to another provider) this tax free element will be protected.

For SSAS members who do not have such large funds the tax free cash sum in excess of 25% of the fund will be lost if the fund is later transferred to another provider.

**SSAS funds are often used to purchase property.** After 6<sup>th</sup> April 2006 the criteria for borrowing money will be greatly reduced.

The amount available for borrowing will be restricted to just 50% of the fund size.

**The next few months will therefore be the last time the current, generous allowances will be available to buy property, so if you run a SSAS consider making your property purchase now or you may regret not doing so later.**

Talking of regrets companies with a SSAS may consider whether to retain the SSAS at all after 6<sup>th</sup> April 2006. They are expensive and time consuming to run and with the loss of the current

flexibility and benefits of SSASs it may be more appropriate to consider looking at SIPPs instead.

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### **SIPPS Self Invested Pension Schemes**

SIPPS have been increasingly popular but with the changes taking place it is likely SIPPS will come of age and become the major pension plan for many, many people.

### **There are excellent reasons for this as the attractions of SIPPS are only too self evident.**

You can invest in a wide range of assets. These include unit trusts, investment trusts and other collective funds; stocks and shares, a wide range of financial investments, property, antiques and other chattels. This allows splendid opportunities to take advantage of investment opportunities to enhance your pension fund's growth.

You can arrange to receive income without buying an annuity.

After 6<sup>th</sup> April a SIPP allows you to defer buying an annuity at 75 but receive an income for life.

**(No quiz this time. P.R. of Bishops Cleeve won the last one with the answers of Food Standards Authority, Los Angeles, Dark Side of the Moon, Mark McManus and St. Ives)**

You will be able to elect to have your fund as an **alternative secured pension** after your 75<sup>th</sup> birthday **allowing you to pass capital to your children.**

### **PASS YOUR WEALTH VIA YOUR SIPP TO THE NEXT GENERATION TO USE FOR THEIR OWN PENSION PLANS.**

You will be able after 6<sup>th</sup> April 2006 to purchase residential and 'buy to let' property. Property purchase currently is restricted to commercial property. **These restrictions will be lifted after 6<sup>th</sup> April 2006 as will, most importantly, the connected persons rule.** However please note the ability to borrow finance will be reduced from 3x the pension fund size to 50% of the pension fund size – the same level as SSASs will be.

We are often asked about this property purchase option. There is a lot to discuss but a few (and only a few) major pointers. The property will be owned by the pension fund and so any occupant pays rent to the pension fund. The pension fund arranges and pays for any mortgage. The vendor receives the sale price from the pension fund. On purchasing the property the vendor may be subject to CGT and the pension fund pays stamp duty. All other expenses (agency fees etc.) will pertain. The rent attracts tax relief as with pension funds and there is no capital gains tax liability on selling the property.

**IT MUST BE STRESSED THIS NEWSLETTER HAS ONLY FLEETINGLY COVERED SOME OF THE CHANGES HAPPENING TO YOUR PENSION. IT IS POSSIBLE FURTHER AMENDMENTS WILL BE MADE BY HMG AND THE INLAND REVENUE. THE NEWSLETTER IS NOT, AND SHOULD NOT BE CONSIDERED AS, ADVICE. PLEASE ENSURE YOU SPEAK TO YOUR IFA AND EMPLOYER (if relevant) BEFORE TAKING ANY ACTION WHATSOEVER.**

**Let us have your feedback:** Write to The Newsletter, RTFP, 2-4 Park Street, Cirencester, Glos. GL7 2BN or email [g.pollock@rtfp.co.uk](mailto:g.pollock@rtfp.co.uk) with your thoughts about pensions and financial services in general. RTFP reserves the right to reproduce some or all of it in forthcoming Newsletters.

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