

# Pensions Bulletin

## Fact Sheet 1

Summer 2009 Issue 5

### Budget 2009

#### **1 Introduction**

1.1 Alistair Darling's 2009 Budget, announced on 22 April, contained a number of measures relating to pensions and savings. These are detailed in sections 2 to 10 below.

#### **2 Basic State Pension**

2.1 The Government reaffirmed its commitment to increase the Basic State Pension by at least 2.5%. So, if inflation (as measured by the Retail Prices Index) this September is below this level, as expected, pensioners will still see their pensions rise in real terms.

#### **3 ISA limits**

3.1 The annual investment limit will be increased for Individual Saving Accounts (ISAs) to £10,200, of which up to £5,100 can be saved in cash.

3.2 These higher limits will be available to people aged 50 and over from 6 October 2009 and available to all from 6 April 2010, directly benefiting over five million people who currently use their full ISA allowance.

#### **4 Pension allowances**

4.1 The Lifetime Allowance will be frozen at the 2010/11 level of £1.8 million up to and including the 2015/16 tax year.

4.2 The Annual Allowance will be similarly frozen at £255,000.

#### **5 Income tax changes**

5.1 From 6 April 2010, there will be:

- an additional higher rate of 50 per cent for taxable income above £150,000; and
- the basic Personal Allowance for income tax purposes will be gradually reduced to nil for individuals with incomes above £100,000.

#### **6 Limiting tax relief**

6.1 Higher rate tax relief on pension contributions will be restricted for people earning more than £150,000 a year from the 2011/12 tax year:

6.2 From the £150,000 level, tax relief will be tapered down (at 1% for every extra £1,000) until it is 20% for people on incomes over £180,000. The Government will consult on the implementation of this measure.



- 6.3 Individuals will be prevented – via so-called “anti-forestalling” measures (see section 7 below) – from paying substantial additional pension contributions prior to 2011. These measures will stop individuals from taking advantage of current rules while tax relief is still available to them at a higher rate. The Pensions Trust has already contacted its own affected members.
- 6.4 Those who have never earned in excess of £150,000 are unaffected, as are those who continue with their regular pattern of contributions.
- 6.5 Detailed guidance on the changes to pensions tax relief can be found on the HM Revenue & Customs website at: <http://www.hmrc.gov.uk/budget2009/tax-relief-pen-cont.htm>

## **7 “Anti-forestalling” measures**

- 7.1 To prevent individuals bringing forward their pension contributions to obtain higher rate tax relief before 6 April 2011, a Special Annual Allowance (SAA) charge has been introduced for the tax years 2009/2010 onwards.
- 7.2 The SAA applies to individuals with “relevant income” of £150,000 or higher in the current tax year or in either of the preceding two tax years. Relevant income is:
- total income for the tax year before pension contributions, personal allowances or any other reliefs or deductions;
  - less any normal deductions for reliefs (such as trading losses), including deductions for pension contributions but up to a maximum of £20,000; and
  - less any gift aid deductions.
- 7.3 In calculating total relevant income, any amount of employment income foregone by salary sacrifice in return for pension contributions or additional pension benefits – if the agreement took place on or after 22 April 2009 – must be added back.
- 7.4 The SAA, which is set at £20,000, sets an upper limit on the amount of additional, non-regular pensions savings for which full tax relief at the higher rate of tax can be given. Tax relief on additional pension savings above the amount of this allowance will be at the basic rate of tax only.
- 7.5 The SAA tax charge which restricts relief on additional contributions to basic rate is a charge on the individual, collected via their Self Assessment tax return. The rate of charge is the difference between the highest rate of income tax and basic rate. The charge applies only to increases to an individual's normal regular ongoing pension savings from 22 April 2009, where the increase was not agreed before 22 April 2009.
- 7.6 Normal regular ongoing pension savings will be known as “protected pension inputs”. What this means, in practice, is that:
- where regular savings already exceed £20,000 per annum, those savings will be “protected” and the charge will apply only to increases to those savings after 22 April; and
  - where regular savings are below £20,000 per annum, the charge will apply to additional payments to the extent they take savings over £20,000 for the relevant tax year (whether paid by the individual or their employer).
- 7.7 These changes will not apply to anyone whose total annual income is less than £150,000 and was less than £150,000 in the previous two tax years. Nor will the changes apply to those with total annual income in excess of £150,000 provided they continue as normal with their existing regular pension contributions and accrual of pension benefits and do not increase these pension savings on or after 22 April 2009.

7.8 Finally, the changes will not apply to those with an annual income of £150,000 or more where they increase their pension savings or pension accrual provided that the overall annual pension savings or benefit accruals are less than £20,000 for the relevant tax year.

## **8 Financial Assistance Scheme**

8.1 Payments made by the Financial Assistance Scheme (FAS) are to be given broadly the same tax treatment as if they had been made by a registered pension scheme.

8.2 This means that individuals will not be disadvantaged by incurring charges to income tax that would otherwise arise because the payment is received from a body that is not a registered pension scheme.

## **9 Financial Services Compensation Scheme**

9.1 Legislation will be introduced so that in circumstances where the Financial Services Compensation Scheme (FSCS) assists an insurance company, there will be broadly the same tax treatment for the resulting payments or transfers as if the FSCS had not intervened.

9.2 The FSCS assistance can include transferring an individual's rights to another insurer or paying compensation to the individual. Tax rules would apply differently because the FSCS is not a registered pension scheme.

9.3 This particular measure will be relevant to pension scheme "buy outs" where an insurance company fails.

## **10 Quantitative easing**

10.1 Alongside the Budget, the Government announced that it will inject a further £50 billion into the UK economy via the process of "quantitative easing". This is in addition to the £75 billion that was provided in March.

10.2 Quantitative easing aims to increase the money available in the economy, stimulate growth and manage the risk of deflation, particularly as the traditional approach of reducing interest rates had been taken almost to its limit.

10.3 Quantitative easing has been described as printing new money, but the description can be misleading. The mechanism works through the Bank of England buying up a whole range of assets in the money markets from investors, including pension funds. In consequence, the Bank provides cash to those investors in return for the assets.

10.4 The Bank's announcement has meant demand for Government bonds (i.e. gilts) has increased. This, in turn, has driven down the yields on these investments.

10.5 Falling gilt yields has led to higher annuity prices, which has meant lower pensions for members retiring from defined contribution pension schemes. Financial commentators have said that the higher annuity prices at Norwich Union, Standard Life and Prudential in the last two weeks of March was a direct result of the Bank of England's decision to "print money".

10.6 Gilt yields are also used by actuaries to discount defined benefit pension fund liabilities, so as these yields fall, scheme deficits rise.



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