

Pensions Bulletin

Fact Sheet 3

Spring 2010 Issue 7

Pre-Budget Report 2009

1 Introduction

- 1.1 Alistair Darling's Pre-Budget Report (PBR) 2009, announced on 9 December 2009, contained a number of measures relating to pensions.
- 1.2 In particular, the PBR reaffirms the Government's commitment to introduce the requirement for companies to automatically enrol staff into a pension scheme from 2012. However, this has been put back to 2017 in some cases.
- 1.3 These reforms will ensure that millions more people have the opportunity to save for their retirement, either through their employer's pension scheme or via the National Employment Savings Trust (NEST – previously called Personal Accounts).
- 1.4 Further details on auto-enrolment and NEST can be found in Fact Sheet 4, which accompanies the Spring 2010 edition of the Pensions Bulletin. A summary of the other main points contained in the PBR are provided in the remainder of this Fact Sheet.

2 Summary of main points relating to pensions

- 2.1 The previously announced **restriction on pensions tax relief**, from April 2011, will apply to those with gross incomes of £150,000 and over. In the PBR, the Chancellor confirmed that 'gross income' incorporates all pension contributions, including those funded by an employer. This will, however, be subject to an 'income floor', so that individuals with pre-tax incomes (excluding employer pension contributions) of less than £130,000 will be unaffected. Details can be found in Pre-Budget Note No.18 at <http://www.hmrc.gov.uk/pbr2009/pbrn18.pdf>.
- 2.2 In order to protect tax revenues, the **anti-forestalling regime** introduced at Budget 2009 will be extended to apply to individuals on incomes of £130,000 and over from 9 December 2009.
- 2.3 The **National Insurance Contributions (NICs) increase** will be 1% from April 2011, which means employees will pay 12% and employers 13.8% up to £43,888. This is likely to make salary sacrifice pension arrangements more attractive.
- 2.4 The Government's **Open Market Option (OMO)** review group continues to make progress in improving the provision of information for those choosing an annuity to ensure that they get the best annuity deal when they come to draw their retirement income. Since the 2008 Pre-Budget Report:
 - the annuity comparison table on the www.moneymadeclear.fsa.gov.uk website has received 228,000 visits;
 - the Association of British Insurers (ABI) has published new guidance requiring providers to inform customers of the potential benefits of using the OMO and has worked with industry to reduce average OMO transfer times from 31 to 11 calendar days; and



- The Pensions Regulator has looked at a sample of trust-based defined contribution schemes and found that 98 per cent of schemes sampled did offer the OMO, though levels of compliance and good practice varied widely.

2.5 In April 2010, the level of the **basic State Pension** will increase by 2.5 per cent, meaning a full basic State Pension will be worth £97.65 a week. The full couples' rate for those whose entitlement is based on their spouse or civil partner's pension will increase to £156.15 a week.

3 Implications of the changes

3.1 The full impact of the changes is still being considered, but some of the headline issues are as described in the rest of this section.

3.2 It will not be possible to avoid the **changes in pension tax relief**, effective April 2011, by simply freezing pay at £149,999 and then paying all wage increases in the form of extra employer pension contributions. High earners who are or may be affected by this change should take specific advice. Those who have already received some advice on the change should, following the issue of the Government's consultation paper (see section 3.2.1 below), probably revisit it.

3.2.1 Pensions tax relief (extract from Budget Report)

Budget 2009 announced that, in order to ensure that the pensions tax relief system remains fair, affordable, and sustainable, tax relief on pension contributions would be restricted from April 2011 for individuals with incomes of £150,000 or over.

The Government is clear that the restriction should apply as fairly as possible between individuals in different types of pension schemes and employment, and with different remuneration arrangements, while remaining targeted on those on the highest incomes. For this reason, the Government announces that the restriction will apply to those with gross incomes of £150,000 and over, where gross income incorporates all pension contributions, including the value of any pension benefit funded by, or eventually funded by, an individual's employer. This will be subject to an income floor such that those with pre-tax incomes, excluding the value of any employer contributions, of less than £130,000 are unaffected.

In order to protect tax revenues, the anti-forestalling regime introduced at Budget 2009 will be extended to apply to individuals on incomes of £130,000 and over from 9 December 2009.

The Government is today launching a formal consultation on the implementation of this change and welcomes responses. The consultation will run for 12 weeks until 3 March 2010. HM Treasury and HM Revenue and Customs will be holding a series of stakeholder workshops during the consultation period. See http://www.hm-treasury.gov.uk/prebud_pbr09_consult_pensions.htm.

3.3 The extension of the **'anti-forestalling' measures** from 9 December 2009 also needs to be considered. Details can be found in Pre-Budget Note No.18 at <http://www.hmrc.gov.uk/pbr2009/pbrn18.pdf>

4 Other (non-pension) announcements

4.1 The **inheritance tax threshold** will NOT, as previously announced, be raised from £325,000 to £350,000; it is 'not a priority' just now, according to Mr Darling. However, it will still be possible for couples to 'pool' their allowances to £650,000.

4.2 The Chancellor confirmed that the **UK economy** would shrink by 4.75% in 2009, but predicted it will grow by between 1% and 1.5% during 2010.



- 4.3 The Chancellor confirmed that **Value Added Tax (VAT)** would increase on 1 January 2010 to 17.5%, but says he has no other announcements on VAT.
- 4.4 According to the Chancellor, the timetable for **cutting the budget deficit** by half over four years is 'sensible'. However, he admits that this year's borrowing will be higher than expected - £178bn rather than £175bn. It will also be £3bn higher in 2010/11 than previously forecast.
- 4.5 There will be no windfall tax on bank profits, but **bankers' bonuses** over £25,000 will be subject to a one-off 50% tax. The individual will not pay, their employer will - all bonuses over £25,000 will be pooled and then taxed en masse (associated anti-avoidance measures will also be implemented).

While every effort has been made to ensure the accuracy of the information contained in this Fact Sheet, it should not be treated or relied upon as a statement of law. Readers should contact their regular Account Manager at The Pensions Trust in relation to their own circumstances and/or refer to the original source material as appropriate.

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