Fact sheet – Transitional arrangements

Important changes affecting your Equitable pension

From 6 April 2006 (commonly referred to as 'A-Day'), new simplified pension laws will be introduced in the UK.

The new laws, referred to as 'pensions simplification', will change pension laws overnight and the same tax rules will apply to all pensions. The new laws will apply to everyone, no matter what type of pension scheme they belong to or when it began.

The Government has introduced some 'transitional arrangements' to help protect the existing rights of members who have pension arrangements already in place

These important arrangements protect people with very large savings.

For members of occupational pension schemes (or if the benefits under a private policy come from an occupational pension scheme), there may be some extra protection available.

This fact sheet explains these arrangements in more detail. This is a particularly complicated area and we suggest you speak to an independent financial adviser.

1. People with very large pension savings

Two types of protection are available. If someone wants protection, they must register with the Inland Revenue (now known as HM Revenue and Customs) before 6 April 2009. If they are not sure whether they would benefit from one or both of these types of protection, they should speak to an independent financial adviser.

a. Enhanced protection

No matter what the size of their total pension benefits, an individual can avoid the lifetime allowance charge on funds above the lifetime allowance if they make no further contributions (other than some types of payment, for example, National Insurance rebates if they are contracted out of the State Second Pension) to any pension plan on or after 6 April 2006. Paying any other type of contribution on or after 6 April 2006 would cause the enhanced protection to be withdrawn. And, if the individual is a member of a final salary pension scheme (sometimes called a defined benefit arrangement), the member will stop building up benefits under that scheme.

If the benefits are provided as part of an occupational pension scheme, only the value of those benefits that are within HM Revenue and Customs benefit limits (worked out on 5 April 2006) increased at the same rate as the standard lifetime allowance, will be protected from any future lifetime allowance charge. This test does not apply to members who have personal-pension type policies.

b. Primary protection

This is available only if the value of the individual's total pension benefits (from all sources) is more than £1,500,000 on 5 April 2006.

Contributions can continue to be paid and benefits may continue to build up under a final salary pension scheme. However, the pension benefit from those contributions and accruals may have a lifetime allowance charge taken.

If the benefits are provided as part of an occupational pension scheme, only the value of those benefits that are within HM Revenue and Customs benefit limits, worked out on 5 April 2006, increased at the same rate as the standard lifetime allowance, will be protected from any future lifetime allowance charge. This test does not apply to members who have personal pension type policies.

An individual may apply for both primary and enhanced protection.

Extra protection for members of occupational pension schemes

2. Tax-free cash

At the moment, occupational pension schemes allow their members to receive a tax-free cash amount when they retire. This is usually based on their years of service and salary. If this formula provides a tax-free cash amount of more than a quarter of the value of the member's pension benefits on 5 April 2006, they can protect the tax-free status of this amount, if the information needed (information about salary, service with your employer and other pension benefits you may have at 5 April 2006) is available from the trustees of your pension scheme. It is not necessary to register this protection with HM Revenue and Customs.

Special rules apply if the member has also registered for enhanced or primary protection (or both).

3. Taking pension benefits before age 55 after 5 April 2010

From 6 April 2010, the minimum age for pension benefits to be paid will normally be 55. Members, who on 5 April 2006 have a right to retire before age 55, given to them under the scheme rules before 10 December 2003, will keep the right to take their benefits at the age given.

Although it is not entirely clear what is considered to be a right to retire before age 55, HM Revenue and Customs have said that they do not consider that schemes that allow members to retire early with the employer's permission, give members the actual right to retire.

Some individuals may have an approved early-retirement age (for example, professional footballers).
In most of these cases, special arrangements continue after 6 April 2010.

Update to 'Fact sheet – Transitional arrangements'

This update should be read in conjunction with our fact sheet entitled 'Fact sheet – Transitional arrangements'. Since we produced this fact sheet in November 2005, there have been some aspects of these arrangements that have been clarified by the government. This update provides a summary of the key points that have changed.

a) Death benefits where an individual has been granted either enhanced or primary protection

i) Where enhanced protection applies

If an individual is paying for death in service benefits and the individual continues to contribute after 6 April 2006 then enhanced protection will normally be lost.

Enhanced protection can, however, remain intact for members of occupational pension schemes where the premiums for life assurance are paid by the employer and not attributable to the member. The potential value of death in service or other life assurance benefits are not counted in the value of benefits accrued before 6 April 2006 subject to enhanced protection.

Life assurance death benefits, when they are paid from a scheme, can cause enhanced protection to be lost.

ii) Where primary protection applies

As with enhanced protection, the potential value of death in service benefits are not counted in the value of benefits accrued before 6 April 2006 and subject to primary protection. Consequently, where a death or life assurance benefit is paid, it may cause the total amount payable to exceed the individual's Lifetime Allowance. Any excess over the individual's Lifetime Allowance will be subject to a Lifetime Allowance Charge.

b) Requirement to inform Her Majesty's Revenue and Customs if enhanced protection is lost

If action is taken that causes enhanced protection to be lost, for example, a pension contribution is paid on or after 6 April 2006 (other than some types of payment such as National Insurance rebates if a member is contracted-out of the State Second Pension), then Her Majesty's Revenue and Customs (HMRC) must be informed within 90 days of the event occurring. It is the individual's responsibility to report this.

c) Applying for protection

HMRC have confirmed that the forms for applying for enhanced and/or primary protection will be available from early March 2006, although completed forms cannot be submitted to HMRC before 6 April 2006.

As there are various factors to consider before registering for enhanced protection and/or primary protection, we suggest that anyone who is considering these options should speak to an independent financial adviser before making any decision. There may be a charge for any advice given.