THE NEW PENSION RULES – KEY POINTS

Flexi-Access Drawdown: (FAD which will become available from 6th April 2015)

- All new drawdown plans taken out from 6 April 2015 will be FAD
- There won't be any limits on income levels
- There won't be any minimum secure pension income requirement, currently £12,000 per annum
- The member can take 25% tax-free cash from their pension fund
- The balance of the fund can remain invested OR
- Paid out as a lump sum, subject to the member's marginal rate of income tax OR
- A combination of the two
- Once any income is taken, the £10,000 money purchase annual allowance (MPAA) applies (*for details of MPAA, please see below*)
- All pre-April 2015 flexible drawdown arrangements automatically become FAD

Capped Drawdown: (which is currently available)

- No new capped drawdown arrangements can be set up post April 2015
- Any existing plans can remain in place; they will continue to operate in the same way, with the current three-yearly reviews and income restricted to 150% of GAD
- It will be possible to convert capped drawdown to FAD on the member's request
- If you exceed the maximum income of 150% GAD then the capped drawdown plan will automatically convert to FAD
- The member retains the standard £40,000 annual contribution allowance where their income remains within the GAD limits. This is provided that they don't trigger the MPAA via any other pension arrangements.

Money Purchase Annual Allowance: (MPAA)

- The money purchase annual contribution allowance is to be set at £10,000 a year from 6 April 2015 reduced from the current £40,000 per annum. (This is to prevent abuses and the recycling of contributions).

When does the MPAA apply:

- When income is taken from flexi-access drawdown (FAD)
- When income above 150% GAD is taken post-5 April 2015 from a Capped Drawdown.
- From 6 April 2015 for those already in flexible drawdown. Their situation improves, as they currently have no annual allowance.

- When an uncrystallised funds pension lump sum (UFPLS) is received. This is a new concept where the whole uncrystallised pension is taken, 25% is tax free and the balance of 75% as a lump sum taxable at your marginal rate of income tax

When the MPAA does not apply:

- Where an individual commences FAD, but doesn't receive any income, that is, they just take their tax free cash
- Where an individual is in capped drawdown and doesn't receive income above the 150% GAD
- When small pension pots are accessed (anything under a total of £30,000).

Please note that the MPAA only applies to money purchase contributions. Someone who's affected can still fund a defined benefits scheme up to the normal £40,000 annual allowance, plus any 'carry forward' allowance.

This article is based on the guidance and draft legislation issued as at 3 December 2014. It will not reflect any changes to the Taxation of Pensions Bill from that date.

If you would like to keep updated with the new rules and their implications, please contact us on **01935 382637 or at: d.mason@church-house.co.uk**.