

Are you prepared for

The day that pensions in the UK will completely change forever...

On 6 April 2006 - "A-day" - the Government will introduce the biggest shake-up to pensions regulation in the last decade. There are currently eight different pension tax regimes, with varying rules regarding the level of payments that can be made and the value of the benefits that can be provided. It is no wonder, therefore, that pensions can appear confusing.

In order to address this matter, the Government is making pensions simpler to understand and more attractive for savers. To achieve this, a single pensions tax regime will be introduced from 6 April 2006 and, unlike previous pension legislation, it will be retrospective.

The UK Government has been planning this overhaul of the pensions system for the last two years through a joint initiative between the Department of Work and Pensions (DWP) and the Treasury.

The draft primary legislation to enact the changes was published in the Finance Bill in April 2004 and since then, draft Regulations have been published for comment throughout 2004 and are due for final publication at some point in the very near future. Here is a summary of the main proposals.

Summary of changes

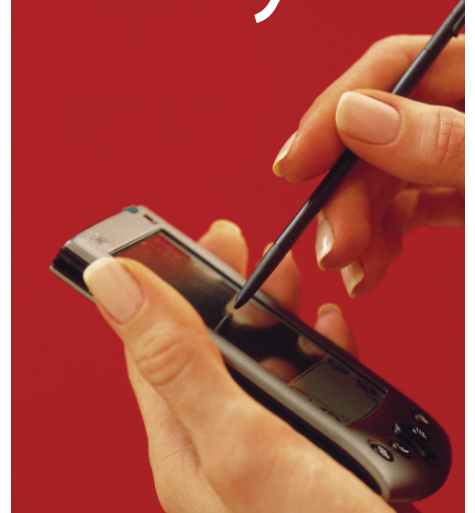
- ◆ One set of tax rules for all pension plans (includes both individual and employer-sponsored pension plans)
- ◆ Introduction of a Lifetime Allowance to limit the amount that you can build up in your pension plan for retirement
- ◆ Introduction of an Annual Allowance to limit the amount that can be paid into your pension plan
- ◆ An increase in the minimum retirement age
- ◆ New ways of taking your pension benefits, increasing the number of options available and flexibility

As it stands, almost everyone will be affected to some extent by the new pension rules. So, with under 12 months until the new legislation is introduced, it is important that you review your pension provision now to determine whether you can take advantage of the current funding limits. There may also be a need to protect your existing fund and/or tax-free cash sum if they are above a certain amount.

Key considerations

- ◆ Should you be maximising your funding under your current pension arrangement pre April 2006?
- ◆ Should you be assessing whether or not your pension fund or tax-free cash requires protection?
- ◆ What is the most appropriate investment strategy for you before and after the changes?

A-day?



- ◆ Does the pension arrangement you are currently in give you investment flexibility?
- ◆ Should you consolidate benefits held under an ex-employer's scheme and other pension arrangements?
- ◆ When is your proposed retirement date? Pre or post A-Day?

These are only a few of the areas that you should be considering, but the whole subject of pensions is complex and requires expert advice. It is, therefore, strongly recommended that you seek financial advice before making any changes to your current provision.

Please note that the information provided in this article is based on Millfield's understanding of existing and proposed legislation and Inland Revenue practice, all of which may be subject to change in the future.

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