The Taxation of Pensions Act 2014 implements the 2014 Budget proposal to enable members to access their money purchase pension savings as they wish.

1 The new regime applies to all registered money purchase pension schemes, whether occupational or personal, and, from 6 April 2015, will allow members aged 55 and over to use their pension funds in all or any of the following ways or any combination of them:

(a) pension commencement lump sum;
(b) lifetime annuities;
(c) short-term annuities;
(d) scheme pensions;
(e) (but only if started before 6 April 2015) capped drawdown;
(f) flexible access drawdown, which can include the whole of the member's fund as one or more taxed authorised lump sums; and
(g) uncrystallised funds lump sum payments.

2 Items (f) and (g) are new, and there are alterations to (a) to (e), in particular (c). There are corresponding pension and annuity rights for dependents.

flexible access drawdown

3 A person whose pension commencement date is on or after 6 April 2015 may take his or her pension commencement lump sum (PCLS) tax free as at present. He or she may designate all or part of his or her pension fund as a flexi-access drawdown fund (FADF) and draw all or part (or none) of it as taxable income. If no more than the PCLS is drawn, the member's annual allowance (AA) remains £40,000, but if any income is drawn the AA is reduced to £10,000.

4 A person who is already in capped drawdown or flexible drawdown may convert his or her fund to an FADF.

uncrystallised funds lump sum payments (UFLSPs)

5 A person who wished to a tax free lump sum, not exceeding 25% of his or her fund, without creating a FADF, may do so as a UFLSP, but cannot take a PCLS in connection with it. Taking a UFLSP does not affect the member's AA.

death of member

6 A member who dies under age 75 may leave his or her pension fund tax free to anyone in the form of an FADF. A member who dies aged 75 or older may leave his or her pension to anyone, who may draw it as taxable income or take it as a lump sum taxable at 45%, which is expected to be changed to the beneficiary's marginal tax rate for 2016/17. The former 55% tax charge will be abolished.

serious ill health lump sum

7 The tax charge on this sum is reduced to 45%.

pension scheme rules

8 Trust deeds and rules may be changed to reflect the law, but rule changes are not essential, as the trustees or managers of pension schemes have overriding powers to pay drawdown pensions, purchase short term annuities and pay associated lump sums, even if prohibited by the scheme rules.

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trivial commutation and small pension pot

Following the 2014 Budget with effect from 27 March 2014, the FA and ToPA 2014 increase the limits and alter the conditions (mainly by altering the Finance Act 2004 sch 29 paras 7 and the new 7A and the new reg 11A in SI 2009/117). Two separate kinds of commutation to extinguish all pension rights are available to a pension scheme member at normal pension age or if the ill-health condition is met.

(a) One or more lump sums if the value of his or her pension savings across all schemes does not exceed £30,000 (up from £18,000) and they are all paid in a period of twelve months.

(b) In addition a member may commute up to three “small pots” not exceeding £10,000 (up from £2,000) each, regardless of the value in other schemes, but must do so in connection with and not more than one month after the payments of each scheme’s PCLS.

money purchase definition

The Pensions Act 2011 s29 altered the definition of money purchase benefits (the Pension Schemes Act 1993, sections 181 and 181B) with effect from 1 January 1997, but transitional provisions (SI 2014/1711) protect transactions undertaken before 24 July 2014, when the section was brought into effect. The essential result of the new definition is that a money purchase scheme cannot have a deficit because the benefits must match the assets. The benefits mainly affected by the new definition are the guarantee of any amount or rate of the fund while it is being accumulated and the provision of a pension out of the scheme, instead of securing it by the purchase of an annuity from an insurance company. The main consequences of providing benefits which are not now money purchase are:

(a) the need to appoint an actuary;

(b) detrimental changes become protected modifications under s67 of the Pensions Act 1995;

(c) a levy will have to be paid to the Pension Protection Fund:

(d) the scheme will have to comply with the statutory scheme specific funding obligations in the Pensions Act 2004; and

(e) a deficit in respect of these benefits can be liable to a debt under s75 of the Pensions Act 1995.

end of contracting out

Contracting-out will cease on 6 April 2016, when S2P will be merged with the State Basic Scheme into the new single-tier State pension. The immediate cost implications for both employers and employees is that their NICs will increase for employers by an additional 3.4% of relevant earnings and by employees an additional 1.4%: relevant earnings are earning between the primary threshold (£149 a week) and the upper accrual point (£770 a week). The Pensions Act 2014, s24 and sch 14, give the employer power, exercisable for five years from 6 April 2016 to alter scheme’s contributions or benefits to offset the increased NICs.

Another consequence is that a contracted out scheme will no longer be a qualifying scheme for automatic enrolment (AE). Members of a contracted out scheme on 6 April 2016 will cease to be in a qualifying scheme, and employers will have to alter the formerly contracted-out scheme to meet the test scheme standard, offer membership of another qualifying scheme or enrol them into an AE scheme.

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