

## Bad news for people with large pension pots

In his pre-Budget Report, the Chancellor announced that the lifetime and annual allowances for pension funds will be frozen for five years, as of 5 April 2011.

Many people had assumed that both allowances would continue to increase in line with inflation or at a rate similar to that of the first five years of these allowances. The freeze on increases may mean that more people will reach the lifetime allowance, and some sooner than anticipated. Clearly any pension planning made on the assumption of further increases should be reviewed.

### One month left to register for transitional protection

In addition, some individuals who thought that they may not require transitional protection, as the lifetime allowance would increase, may now wish to register for enhanced protection while they still have time to do so – the deadline for registering is 5 April 2009. Of course this only applies to people who have not contributed to their pension since A-Day and are still eligible.

### Keeping within the annual allowance

While people with money purchase schemes can simply keep contributions within the £255,000 limit, long-standing, high earning members of final salary schemes may find themselves going over the limit and faced with unexpected tax charges.

In effect, from 6 April 2010 to 5 April 2016 the maximum final salary pension will be £90,000 a year. The maximum year on year accrual without incurring a tax charge will be £25,500.

Tax year	Annual Allowance £	Lifetime Allowance £
2008/2009	235,000	1,650,000
2009/2010	245,000	1,750,000
2010/2011	255,000	1,800,000
2011/2012-	255,000	1,800,000
2015/1016		

### What can be done now?

- Recalculate contribution levels and funding, in light of the free on lifetime allowances.
- Ensure that clients who are still eligible and could benefit from enhanced transitional protection apply for it before 5 April 2009.
- Some clients could find it beneficial to start taking retirement benefits and/or reducing contributions just before or after 6 April 2010, depending on whether they are aged 50-55 or are over 55.
- People thinking of increasing the income they are taking from their unsecured pensions may wish to do so before 5 April 2010, when income of above £100,000 will result in a reduction of the personal tax allowance, or before 5 April 2011 when total income above £150,000 will be taxed at 45%.
- On the other hand the possibility of receiving up to 45% tax relief on pension contributions may encourage other people to reduce or delay making contributions until 6 April 2011.

### Use two input periods to maximise tax-efficient contributions

However, people wanting to make large contributions in one tax year can use two input periods, bringing the maximum tax-efficient contribution in one tax year to £510,000.

Individuals currently talking unsecured pensions may need to consider increasing the income they take to reduce the risk of exceeding their lifetime allowance when they reach the age of 75 or buy an annuity – whichever comes first.

Of course there is no guarantee that tax relief on pension contributions will be maintained at the same level, or that the Government will implement its proposals exactly as they are currently. Furthermore, a general election could result in different allowances and regulations.

To find out more about how these pension changes may effect your clients, please contact Mark Dallas, Managing Director, on 07899 981607 [Mark.Dallas@lighthousegroup.plc.uk](mailto:Mark.Dallas@lighthousegroup.plc.uk).