

# Hanover

Update  
May 2015

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## Changes to Legislation effective 6 April 2015

During the course of 2014 and early 2015 we sent you Updates outlining proposed changes to legislation. These changes have now been enacted with effect 6 April 2015 and we felt we should write to you again to remind you of the changes which have taken place.

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The main changes are:

### 1. For members who have not yet taken their Retirement Benefits.

From a certain minimum age (usually age 55) you can elect to apply your individual fund to pay 25% (this may be more for certain members with protected lump sums greater than this as at 5 April 2006) as a tax free lump sum with the balance forming a drawdown fund from which you can elect to draw income from time to time to time-subject to income tax which may take you into a higher income tax bracket. No maximum rate under this so-called "flexi access drawdown" applies-subject of course to the amount held in your individual fund.

Legislation also permits you to elect to take your individual fund as a so-called Uncrystallised Funds Pension Lump Sum. 25% of the value of your individual fund (subject to a maximum of 25% of the Lifetime Allowance-please note that this is inclusive of all pension arrangements you have) will be tax free and the balance will be taxed as income.

When an amount is paid from your flexi-access drawdown fund or an Uncrystallised Funds Pension Lump Sum is paid your annual allowance for tax relievable contributions to defined contribution funds reduces from £40,000 per annum to £10,000 per annum.

You can elect to "phase" the taking of your retirement benefits.

If you elect, a scheme pension and/or the purchase of a lifetime annuity can be paid instead of flexi-access drawdown or an Uncrystallised Fund Lump Sum.

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### 2. For members who have already taken/"crystallised" their benefits before 06/04/2015 and are in a so-called "Capped Drawdown" arrangement.

You can continue in the capped drawdown arrangement and will be subject to a maximum permitted drawdown each pension year as in the past. Triennial (or annual from the age of 75) reviews of the maximum permitted drawdown will continue. As long as any drawdown pension payment does not exceed the maximum permitted for a pension year you will retain

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## Headlines:

Ability to switch from Capped Drawdown pension arrangement to a flexi-access drawdown pension arrangement

an annual allowance of £40,000 per annum. The “annual allowance” is the maximum amount, across all your pension arrangements that can be contributed (or accrued in the case of defined benefit funds) and receive tax relief.

If you do not want to remain in your existing capped drawdown arrangement you can elect to enter a flexi access drawdown arrangement and be entitled to draw as much income as you wish subject to a maximum of your individual fund, and income tax. As soon as an amount is paid from your flexi access drawdown arrangement the annual allowance for defined contribution pension schemes of which you are a member reduces to £10,000 per annum.

You retain the right to elect a scheme pension or the purchase of a lifetime annuity instead of capped drawdown or flexi-access drawdown pension.

## Changes to Taxation of Death Benefits

### 3. Changes to the Taxation of Death Benefits

The Trustees will be guided by the member’s Expression of Wish/Nomination of Beneficiary Form but retain the discretion to pay the balance of the member’s individual fund at date of death as they decide to beneficiaries. Benefits can be paid in lump sum form, drawdown pension form, scheme pension form or by the purchase of an annuity, or by any combination of these forms of benefits.

## Dependants, Nominees and Successors

The categories of person who can now potentially “inherit” a member’s individual fund through payment of pension benefits have been extended. Before 6 April 2015 only a dependant/s’ pension on death could be paid (normally to a spouse or financially dependent child under 23). Following the changes, in addition to a dependant, a “nominee” or “successor” can now also “inherit” a member’s fund (but this is not currently applicable for members in receipt of a Scheme Pension at date of death).

A nominee can be anyone who has been nominated by you as a member, other than a dependant. If no nomination has been made, and there are no dependants the Trustees/Scheme Administrator can nominate an individual to become entitled.

A successor can be anyone nominated by the previous beneficiary, or if no nomination has been made by the beneficiary, by the Trustees/Scheme Administrator.

## Death before age 75

### 3.1 Benefits On death before age 75:

On death before attaining age 75, the death benefit/s (both lump sum payments to beneficiaries, and/or dependants’, nominees’ and successors’ drawdown pensions) are now tax free (including Inheritance Tax) up to the value of your Lifetime Allowance-but see the note below re members in a Scheme Pension arrangement. If you do not have Enhanced Protection, Primary Protection, Fixed Protection 2012 and Fixed Protection 2014 your Lifetime Allowance is the Standard Lifetime Allowance which is currently £1.25 million.

## Death after age 75

### 3.2 On death after age 75:

On death after age 75 lump sum death benefits will be taxed at 45% for payments made in the 2015/16 tax year. After 5 April 2016 it is proposed that the tax will be at the recipient/s’ income tax rate. If the Trustees direct that drawdown pensions are to be payable to

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beneficiaries (dependants, nominees and successors) these will be taxed at the recipients' income tax rate.

### 3.3 Comment

It can be seen from the above that there may now be far greater advantages in retaining funds within the pension fund as these can be "passed on" in a tax efficient manner to nominated beneficiaries by creating flexi access drawdown funds for them with the amount of your individual fund held in the fund when you die. The funds left in the pension fund will also continue to receive a largely tax free build up. You should seek advice if you are unsure of your options. The legislation may of course change in future.

### 3.4 Members receiving a Scheme Pension

Only a dependant's flexi access drawdown pension can be paid on death both before and after age 75-no flexi drawdown arrangements can be set up for a nominee or successor. Lump sums can be paid, at the Trustees' discretion to beneficiaries.

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## 4. Expression of Wish/Nomination of Beneficiary in the Event of Death

You should give thought to updating your Expression of Wish form, now known as a Nomination of Beneficiary form, which will guide the Trustees on how you wish funds held in the scheme at your date of death to be utilised. Please note that the Trustees cannot establish a nominee flexi access drawdown fund on your death for an individual who is not a dependant if a dependant (usually your spouse or children financially dependent on you aged 23 years or under) is still alive, unless you have nominated that individual.

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## 5. Revised Rules

We believe that the new legislation may override the provisions of the scheme's Rules. However, as in the past, you should give consideration to updating the Rules governing your scheme so that they mirror as close as possible the existing legislation. We can provide an updated set of Rules at a cost of £400 plus VAT.

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## 6. Proposed Changes from 6 April 2016

### 6.1 Reduction in Lifetime Allowance to £1million.

The Lifetime Allowance is likely to be reduced to £1 million from 6 April 2016, and from 6 April 2018 it is proposed that it will increase annually in line with Consumer Price Index (CPI).

### 6.2 Members with Annuities.

It is proposed that if you have purchased a lifetime annuity that you will be able to trade/assign this on the open market subject to the agreement of the annuity provider. The proceeds would be taxed as income.

Possible IHT advantages of leaving funds in the scheme

Members with Scheme Pension

Ask for a form to update your Nomination of Beneficiaries in the event of your death

Update your Scheme's Rules to reflect the legislative changes

Future changes in the pipeline

Reduction of Lifetime Allowance

Possible ability to trade annuities

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Please do not hesitate in contacting your usual consultant if you have any queries, or wish to discuss the changes in more depth.

This Update should not be relied upon or taken as an authoritative statement of the law. For more information, please contact us using the details shown.

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