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3HR Legal Weekly

UK Pensions: Four Important Changes

This newsletter provides an update on three big pension announcements from the 2016 budget: the introduction of the Pensions Advice Allowance, the Lifetime ISA and the development of a pensions dashboard. Also included is an explanation on changes to the State Pension.

The Pensions Advice Allowance (PAA)

In April 2015 new rules were introduced to provide members of defined contribution (DC) pension schemes with more choice and flexibility on how they take their pension at retirement. While these new rules should be very beneficial to pension savers, it does make the decision on how much to save for retirement and how to take a pension more complicated.

As a result, HM Treasury is proposing to introduce the PAA. This will allow pension scheme members to use up to £500 from their pension fund to pay for financial advice, tax free. This is important as many people are deterred from obtaining financial advice due to affordability. The PAA will allow them to withdraw savings of up to £500 from their pension fund to purchase financial advice to assist them with making key decisions about their pension. The Government are proposing allowing the PAA to be withdrawn earlier than the current earliest retirement age (55) so that advice can be sought on how much to save and where to invest their fund. The PAA will be introduced in April 2017.

The Lifetime ISA (LISA)

The Government is aiming to introduce a new ISA fund, the LISA, in April 2017. An ISA is a tax efficient savings account. The LISA will allow individuals to save up to £4,000 each year and receive a government bonus of 25% - up to £1,000 a year. A LISA can be opened by anyone between 18 and 40 and any savings made up until the age of 50 will receive the 25% bonus.

The money can be used towards the deposit for a first home worth up to £450,000 or withdrawn tax free after an individual's 60th birthday, with the intention that it will be used to help provide a pension in retirement. It can be withdrawn before their 60th birthday but if it is not used for the deposit for a first home then the government bonus will be lost and they will have to pay a 5% charge.

Development of the Pensions Dashboard

Eleven key pension providers have agreed to work together to develop a pension dashboard, with the first prototype expected to be completed by Spring 2017. The aim for the dashboard is to provide a single site that individuals can use to access information about all of their pension savings, including their state pension.

It is hoped that the new dashboard will lead to more engagement from individuals with their pensions and this will result in increased saving and a more sensible approach to pension planning. HM Treasury also believe it could release up to £400 million worth of pension savings that are currently unclaimed. Please note that while the prototype will be completed in 2017, the final dashboard is unlikely to be available before 2019.

Changes to the State Pension

From 6th April 2016 a new single tier State Pension has been introduced. This replaces the previous Basic State Pension and State Second Pension (S2P). The full new State Pension is currently £155.65 per week, though the actual amount an individual receives will depend on their National Insurance record.

To be eligible for the State Pension, an individual will usually need at least 10 qualifying years on their National Insurance record. These years do not need to be consecutive. Qualifying years are usually earned by working and paying NICs, although National Insurance Credits can be earned by those not in work in certain circumstances.

For individuals that began working after 6th April 2016, they will only get the full State Pension if they have 35 qualifying years on their National Insurance record. If they have less than this, and at least 10 qualifying years, they will receive a pro-rated reduced amount.

Males will be eligible to receive the new State Pension if they meet the above criteria and were born on or after 6 April 1951. Females will be eligible if they meet the above criteria and were born on or after 6 April 1953.

Colin Minty
Manager—Employee Benefits
E: colin.minty@3hrbc.com



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no: 08198795

VAT Registration No: 163-5744-93 Tel: 0207 194 8140 Web: www.3hrbc.com

