AJBell Investcentre



# Temporary relaxation of block transfer rules

## Introduction

Some of your customers may have retained a pre A-Day entitlement to either an early retirement age (pre 55) or a lump sum of greater than 25% of the value of their pension fund. Until recently these entitlements could be lost if the customer transferred benefits to another pension scheme without meeting the 'block transfer rules'.

These rules stipulate:

- Two or more members must transfer from one scheme to the same receiving scheme at the same time.
- All rights under the original scheme must be transferred in a single transaction – i.e. no partial transfers.
- Your customer must not have been a member of the receiving scheme for more than 12 months.

If these three conditions were met then your customer would not lose their protected pension age or lump sum rights when transferring.

## What has changed?

There has been a temporary relaxation of the block transfer rules outlined above.

Single members can now transfer without the need for a 'buddy'. This means that an individual can transfer alone without losing their protection – especially good news for customers with section 32 policies.

The requirement that your customer cannot have been a member of the receiving scheme for more than 12 months has been removed.

The requirement for all rights to be transferred in a single transaction remains in place.

## What are the new requirements?

To make a transfer under the relaxed rules the transfer must be completed on or before 5 April 2015 **and** all benefits must be crystallised under the receiving scheme by 5 October 2015.

Completing the transfer and taking benefits by 5 April 2015 would meet the requirements; there is no need to wait until after 6 April 2015 to take benefits.

It is important to note that all benefits in the receiving scheme must be crystallised by 5 October 2015, not just those that are being transferred. It is possible to take the pension commencement lump sum (PCLS) only, as any funds remaining in the scheme will be crystallised.

Unless the intention is to take out the whole fund under pensions flexibility, the tax rate on crystallised lump sum death benefits will be a factor when deciding whether to go ahead with the transfer and crystallise the fund. This rate of tax is currently 55% but is set to be reduced from 6 April 2015. The new rate is expected to be announced in the Autumn Statement on 3 December 2014.

## Why have the rules been relaxed for a temporary period?

The Government has stated that it wants as many defined contribution pension savers as possible to have access to the new pension freedoms announced in the 2014 Budget. It is therefore removing a barrier for individuals with scheme-specific protection that would otherwise prevent them from transferring to a scheme that offers the new flexibility. What is perhaps slightly surprising is that the rules are only relaxed for a temporary period, and there is no indication that this will be extended or made permanent.

## Who can benefit from the temporary rules?

Individuals who have scheme-specific lump sum protection and will be at least age 55 by 5 October 2015 can make the transfer and crystallise benefits within the permitted time frame. Anyone who will not be 55 by this date will be unable to meet the requirements.

Individuals who have a scheme-specific protected retirement age must reach that specified retirement age by 5 October 2015 in order to be able to make the transfer and crystallise the benefits in line with the requirements.

## Points to consider

To meet the requirements all benefits must be crystallised. When the member dies crystallised funds are taxed when they are paid out to beneficiaries. Any funds held in pensions that are uncrystallised on the member's death before age 75 are free from tax.

The whole pension fund must be crystallised, so it may not make sense to transfer the protected funds into an existing, significant pension scheme. This is because, in order to retain the protection, the funds previously held in the receiving

scheme will also need to be crystallised. An alternative option would be transferring to a newly established pension scheme as this would allow other schemes to remain uncrystallised.

It may be worth your customer completing the transfer **and** crystallising benefits by 5 April 2015 so they enter capped drawdown. This will allow them to take some income (within set limits) in addition to a PCLS, whilst keeping the full £40,000 annual allowance. If benefits are crystallised in the period 6 April 2015 – 5 October 2015 then taking any income (above the PCLS) will reduce the amount they can contribute to money purchase schemes to £10,000.

## Case study

John is 61 and has a section 32 policy valued at £100,000 with a scheme-specific protected lump sum of 45%. He also has a SIPP valued at £200,000.

He has a number of options available to him, including:

### 1. Transfer his section 32 into his SIPP and crystallise all benefits under capped drawdown by 5 April 2015.

This will give John a PCLS of £95,000, made up of £45,000 from the section 32 transfer, and £50,000 from his SIPP.

The remaining £205,000 of crystallised funds will be used to provide an income. Under capped drawdown the maximum he can take is £16,605 per annum*. John can choose to take any amount from nil up to this limit whilst retaining his full annual allowance of £40,000 plus carry forward. This can continue indefinitely (the maximum limit will be reviewed every three years up to age 75 and annually thereafter). At any point on or after 6 April 2015 John can move to flexi-access drawdown and take a higher level of income, or his entire fund. At that point he would trigger the money purchase annual allowance of £10,000.

### 2. Transfer his section 32 into his SIPP by 5 April 2015 and crystallise all benefits on a date between 6 April 2015 and 5 October 2015.

This will give John a PCLS of £95,000, made up of £45,000 from the section 32 transfer, and £50,000 from his SIPP.

The remaining £205,000 of crystallised funds will be used to provide an income. If John chooses to take the PCLS element only, and no further income then he will retain his full annual allowance of £40,000 plus carry forward.

The amount of income he can take from the crystallised funds is unlimited, but as soon as he takes £1 of income the money purchase annual allowance of £10,000 will be triggered.

### 3. Transfer his section 32 into a new pension and crystallise all benefits in that new pension by 5 April 2015, then transfer the balance to his SIPP.

In the new pension John will be able to take £45,000 PCLS and the balance of £55,000 will be used to provide an income under capped drawdown. John can choose to take any level of income between nil and the capped maximum which would be £4,455 per annum*.

The crystallised funds could then be transferred into his existing SIPP. Assuming John has taken no income (and ignoring growth and fees) he will then have £55,000 in crystallised funds and £200,000 uncrystallised in his SIPP. John will retain his £40,000 annual allowance as long as he takes income below the capped drawdown maximum of £4,455*.

John has the option to crystallise further funds at any time. If he takes PCLS only he will retain the £40,000 annual allowance plus carry forward. If he wants to take higher levels of income from his fund after 6 April 2015 he is free to do so, but this will trigger the money purchase annual allowance of £10,000.

### 4. Transfer his section 32 into a new pension by 5 April 2015, crystallise all benefits on a date between 6 April 2015 and 5 October 2015 and then transfer the balance to his SIPP.

In the new pension John will be able to take a £45,000 PCLS. The remaining £55,000 of crystallised funds will be used to provide an income under flexi-access drawdown. If John chooses to take the PCLS element only, and no further income then he will retain his full annual allowance of £40,000 plus carry forward.

The crystallised funds could then be transferred into his existing SIPP. Assuming John has taken no income (and ignoring growth and fees) he will then have £55,000 in crystallised funds and £200,000 uncrystallised in his SIPP.

John can crystallise further funds at any time and if he takes PCLS only will retain the £40,000 annual allowance plus carry forward.

The amount of income he can take from the crystallised funds is unlimited, but as soon as he takes £1 of income the money purchase annual allowance of £10,000 will be triggered.

*based on a gilt yield of 3% and John still being 61 on the date of the crystallisation