PENSIONS – THE CURRENT LANDSCAPE AND HOT TOPICS

October 2024

This information is for UK Financial Advisers only and should not

be distributed to or relied upon by another person

SCOTTISH WIDOWS

LEARNING OUTCOMES

(APPROXIMATE PRESENTATION DURATION – 60 Minutes)

This session covers a range of current pensions hot topics, from the 2023 budget pension changes, views on potential pension tax relief reform and any possible drivers for change, and finally the latest Pensions Freedoms and Retirement Income statistics and the FCA Thematic Review of the retirement income market.

By the end of this session, you'll be able to explain:

1. **Pension changes announced in the March 2023 budget**
2. **Current saving behaviours and drivers for pension tax relief and state pension reform**
3. **The latest retirement income statistics and The FCA Thematic Review of the Retirement Income market**

CHANGE, CHANGE, CHANGE

LTA ABOLITION - POLICY PAPER PUBLISHED

Policy objective

This measure supports the government's efforts to encourage inactive individuals to return to work, in particular those aged 50 and above, by delivering on the commitment to abolish the LTA. It therefore removes incentives to reduce hours or leave the labour market due to pension tax limits.

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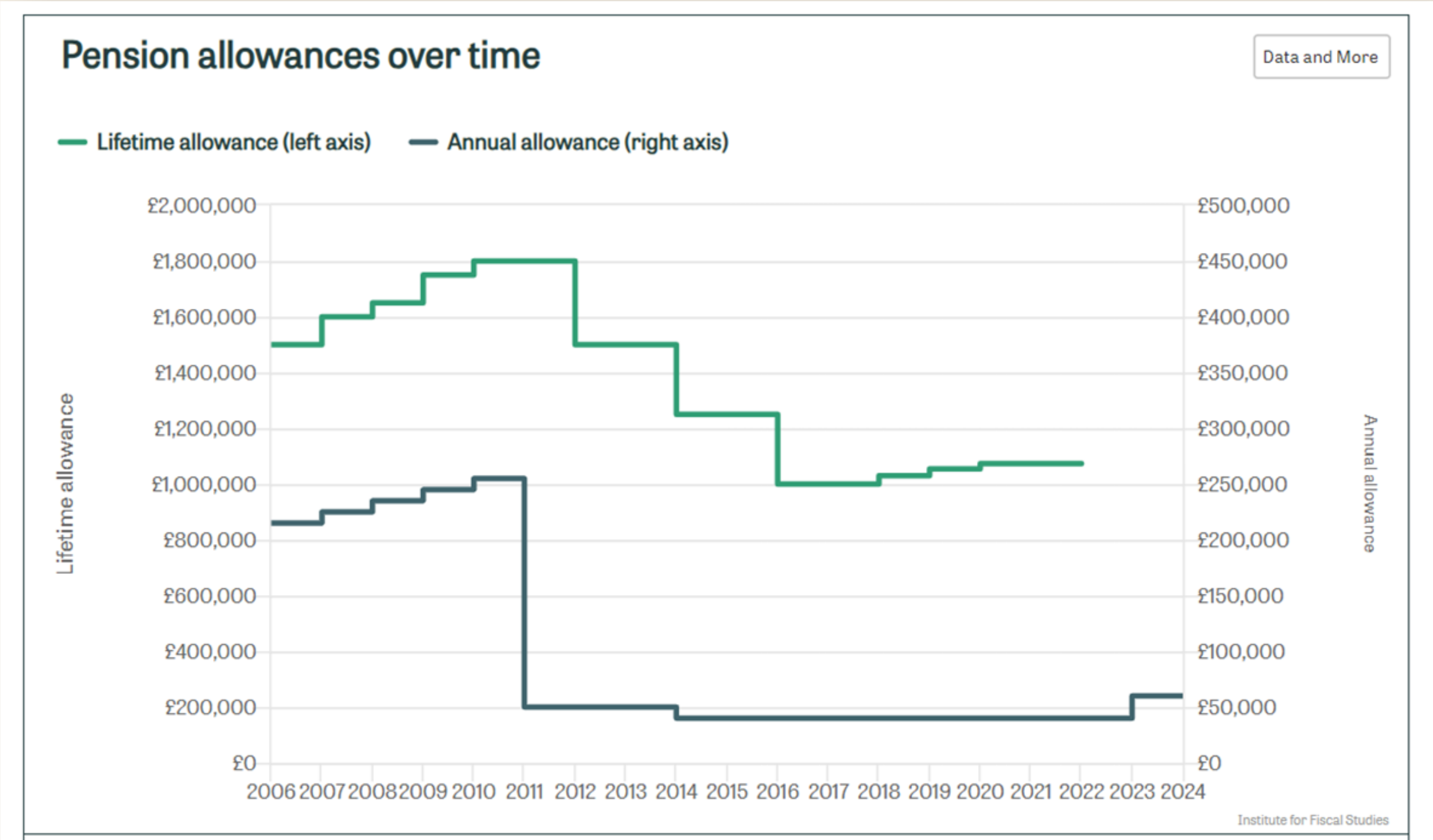
Source: https://www.gov.uk/government/publications/abolition-of-the-lifetime-allowance-from-6-april-2024/abolition-of-the-lifetime-allowance-lta#detailed-proposal

A BRIEF HISTORY OF THE LTA AND THE AA



Source https://ifs.org.uk/taxlab/taxlab-taxes-explained/taxation-private-pensions-explained#:~:text=For%20most%20people%2C%20the%20annual,their%20pension%20in%20certain%20ways.:

THE END OF BENEFIT CRYSTALLISATION EVENTS

Benefit Crystallisation Events and charges

Tax year 2022 to 2023 is the last tax year that the standard LTA is set at £1,073,100. The removal of the LTA means that the standard LTA will not apply as a lifetime limit for all pension savings with effect from 6 April 2024. All BCEs will be removed, and legislation will introduce RBCEs.

RBCEs are the payment of relevant lump sums and lump sum death benefits.

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Source: https://www.gov.uk/government/publications/abolition-of-the-lifetime-allowance-from-6-april-2024/abolition-of-the-lifetime-allowance-lta#detailed-proposal

TRANSITIONAL ARRANGEMENTS

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Finance Bill 2023-24 provides for the necessary transitional arrangements for individuals where a BCE has occurred prior to 6 April 2024.

In summary, they will have used some or all of their lifetime allowance, and this will need to be accounted for in determining how much of their new allowances is available.

SCOTTISH WIDOWS

Source: https://www.gov.uk/government/publications/lifetime-allowance-guidance-newsletter-december-2023/lifetime-allowance-guidance-newsletter-december-2023#protection-look-up-service

TRANSITIONAL TAX-FREE AMOUNT CERTIFICATE

FT ADVISER

Pensions Feb 16 2024

Advisers warned of tax trap after LTA abolition

> It is asking people to gamble on which route will be best, and many, especially those without advisers, will end up paying more tax than they should

Savers have been warned they could end up paying more tax if they make the wrong decision when calculating their tax free lump sum following the abolition of the lifetime allowance.

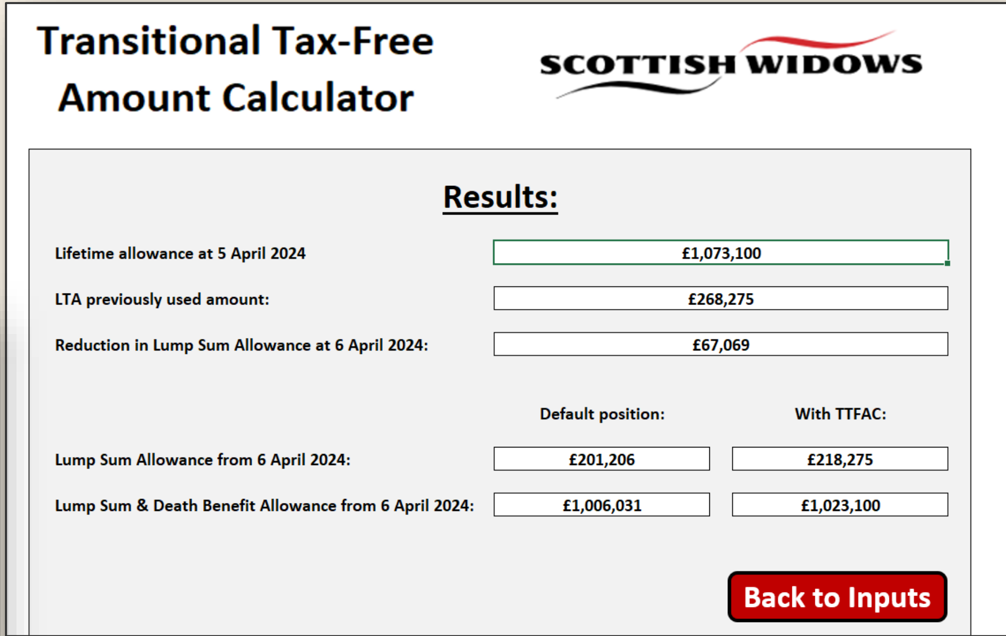
The certificates are relevant for clients who have accessed but not yet taken their maximum pension commencement lump sum.

SCOTTISH WIDOWS

Source: https://www.ftadviser.com/pensions/2024/02/16/advisers-warned-of-tax-trap-after-lta-abolition/

Classification: Public

SCOTTISH WIDOWS SUPPORT



Transitional Tax-Free Amount Calculator

Results:

	Default position:	With TTFAC:
Lifetime allowance at 5 April 2024	£1,073,100	
LTA previously used amount:	£268,275	
Reduction in Lump Sum Allowance at 6 April 2024:	£67,069	
Lump Sum Allowance from 6 April 2024:	£201,206	£218,275
Lump Sum & Death Benefit Allowance from 6 April 2024:	£1,006,031	£1,023,100

Back to Inputs

Source: https://adviser.scottishwidows.co.uk/tools/pensions-and-investments.html

EXISTING PROTECTIONS AND DEATH BENEFITS

LTA PROTECTIONS AND LUMP SUM PROTECTIONS

Proposals to give eligible individuals until 6 April 2025 to apply for FP 2016 and IP 2016.

Ensure that individuals with valid lump sum protections retain their right to a higher level of tax-free lump sum.

Ensure that individuals with valid LTA protections retain their right to a higher level of tax-free lump sum, and to higher tax-free parts of other lump sums and lump sum death benefits.

For individuals with valid EP, limit the tax-free part of any SIHLS or lump sum death benefit to the total value that could have been paid under that arrangement on 5th April 2024. Marginal rate taxation will be applied on any excess.

SCOTTISH WIDOWS

Source: https://www.gov.uk/government/publications/abolition-of-the-lifetime-allowance-from-6-april-2024/abolition-of-the-lifetime-allowance-lta#detailed-proposal

Classification: Public

IN SUMMARY – GOOD NEWS!


FT ADVISER

Home Pensions Investments Mortgages Protection Regulation Tax Your Industry

Autumn Statement 33 minutes ago

HMRC scraps plans to tax pensions after death

(Pexels/Mike Bird)

By Amy Austin

The government has ditched plans to tax inherited pensions when someone dies under the age of 75.

The Autumn Statement confirmed income withdrawals taken by beneficiaries where the member died before age 75 will not be taxed.

HMRC had previously announced in the summer that those who died with uncrystallised funds before 75 and used those to provide beneficiaries with pensions through drawdown or annuity would be taxable.

SCOTTISH WIDOWS

Source: https://www.ftadviser.com/pensions/2023/11/23/hmrc-scraps-plans-to-tax-pensions-after-death/

PENSIONS TAX RELIEF

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COST OF PENSION TAX RELIEF

Chart 3: Estimated gross and net pension Income Tax and NIC relief, 2019 to 2020 to 2022 to 2023, £ billions.

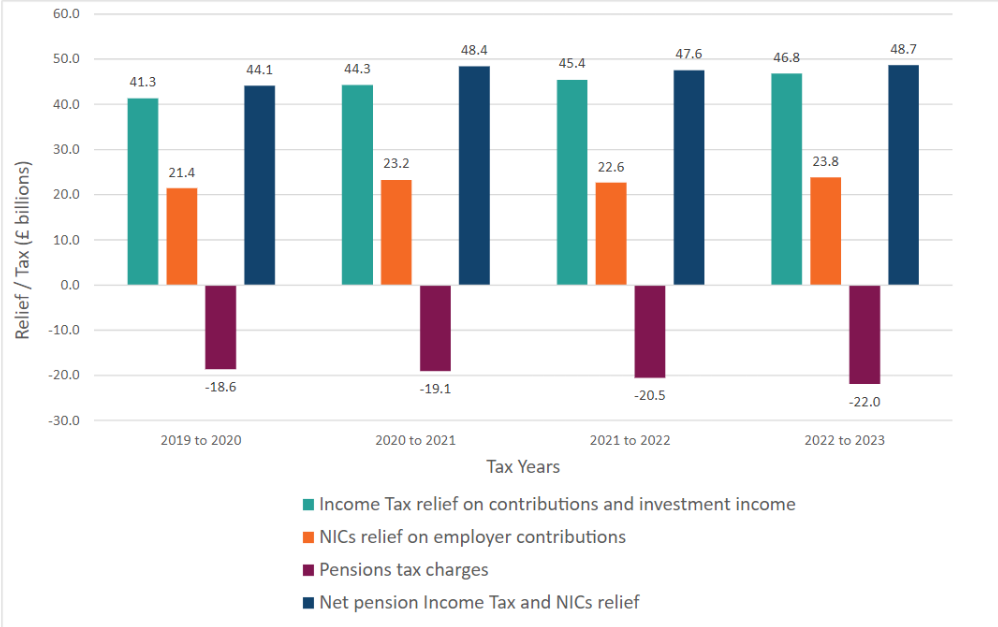


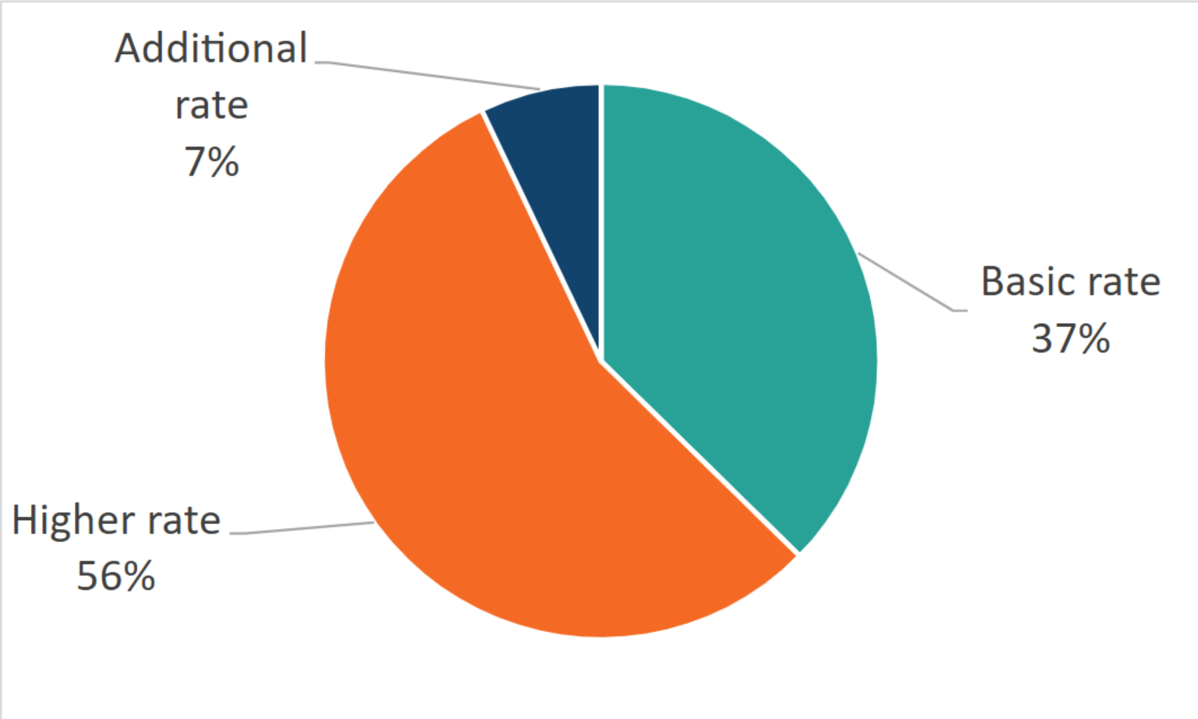
Chart 3 uses data from Table 6 and shows gross Income Tax relief, NIC relief, pension tax charges and net Income Tax and NIC relief for 2019 to 2020 and 2022 to 2023. Net Income Tax and NIC relief is £48.7 billion in 2022 to 2023.

SCOTTISH WIDOWS

Source:https://www.gov.uk/government/statistics/personal-and-stakeholder-pensions-statistics/private-pension-statistics-commentary-september-2022

TAX RELIEF BY INCOME DISTRIBUTION

Chart 5: The estimated proportion of Income Tax relief on total pension contributions in 2022 to 2023 by the rate of relief

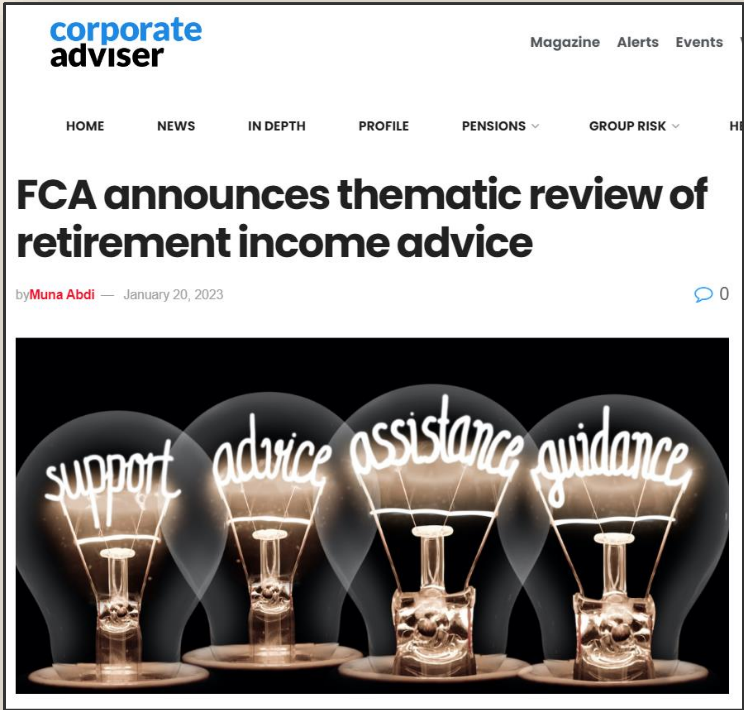


Source:https://www.gov.uk/government/statistics/personal-and-stakeholder-pensions-statistics/private-pension-statistics-commentary-september-2022

RETIREMENT INCOME ADVICE - A NEW AREA OF FCA FOCUS

Classification: Public

NEW AREA OF FCA FOCUS


corporate adviser

Magazine Alerts Events

HOME NEWS IN DEPTH PROFILE PENSIONS GROUP RISK

FCA announces thematic review of retirement income advice

byMuna Abdi — January 20, 2023 0

Work on the topic of "Assessing Suitability Review 2," which had been previously scheduled, was put on hold so that resources may be focused on the FCA's response to Covid. The operation of the retirement income advice market will be examined in this new topic study.

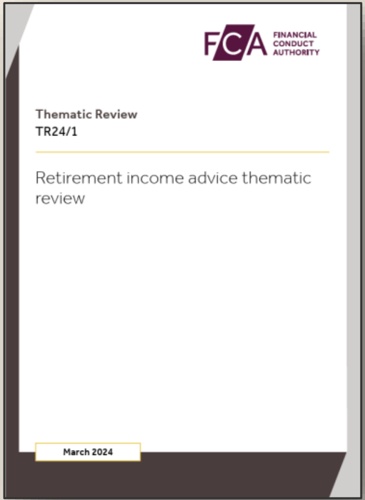
The FCA says it will also pay close attention to how businesses are adapting to shifting customer demands brought on by increased living expenses.

SCOTTISH WIDOWS

Source: https://corporate-adviser.com/fca-announces-thematic-review-of-retirement-income-advice

RETIREMENT INCOME ADVICE THEMATIC REVIEW – TR 24/1

THE RETIREMENT INCOME ADVICE MARKET


FCA FINANCIAL CONDUCT AUTHORITY

Thematic Review
TR24/1

Retirement income advice thematic review

March 2024

Since pension freedoms in 2015, the market has changed. More consumers are moving into solutions where they remain invested but draw regular or ad hoc income using income drawdown and/or uncrystallised funds pension lump sums (UFPLS).

Where investment-based solutions are used to meet retirement income needs, investment and longevity risk is borne directly by consumers rather than annuity providers.

SCOTTISH WIDOWS

Source: https://www.fca.org.uk/publication/thematic-reviews/tr24-1.pdf

THE RETIREMENT INCOME ADVICE MARKET

The FCA Retirement Income Market Data (which covers FCA-authorised firms) shows that only 10% of pension pots accessed for the first time in 2021/22 were used to purchase an annuity. Before pension freedoms, over 90% of pots were moved into annuities.

Firms have potential conflicts of interest in this area which need careful management. This is because solutions where the consumer's pension remains invested give firms the opportunity to provide and charge for ongoing retirement income advice, whereas annuities do not.

SCOTTISH WIDOWS

Source: https://www.fca.org.uk/publication/thematic-reviews/tr24-1.pdf

KEY FINDINGS

Classification: Public

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In several areas, it was apparent that not all firms were taking account of the ***differing needs of their customers in decumulation, as opposed to accumulation***. We saw some examples of poor practice where some firms had not shown they had considered the needs of their customers or set out their advice model in a way likely to lead to good and consistent outcomes. We also found instances where some firms had not provided the right information to support their customers to make informed decisions.

SCOTTISH WIDOWS

Source: https://www.fca.org.uk/publication/thematic-reviews/tr24-1.pdf

KEY FINDINGS

Unsuitable retirement income advice has the potential to result in significant harm. It can result in:

- consumers suffering a reduction in their level of income and/or their funds running out too soon
- potentially paying higher charges than necessary
- investing in complex solutions that they do not understand or not aligned with their risk profile

SCOTTISH WIDOWS

Source: https://www.fca.org.uk/publication/thematic-reviews/tr24-1.pdf

SUMMARY AND NEXT STEPS

ACTIONS FOR FIRMS

The review identified multiple areas for improvement. This report sets out our findings and expectations under existing rules and guidance, which the Duty now supplements.
We have included some anonymised examples of good and poor practices we found to give practical help to firms. Where we have highlighted good practice, this means that firms were meeting our existing requirements in a way likely to lead to consistently good outcomes. Where we have observed poor practice, firms were unlikely to have met our existing requirements and so risked poor outcomes. ***All firms that provide retirement income advice should consider and use this information to review and update how they work.***

SCOTTISH WIDOWS

Source: https://www.fca.org.uk/publication/thematic-reviews/tr24-1.pdf

ACTIONS FOR FIRMS

We have also published the Retirement Income Advice Assessment Tool (RIAAT), developed for the purpose of the review to assess the suitability of advice files. The RIAAT has been published to help firms understand our methodology for assessing advice files. This is supported by an article on cashflow modelling which sets out points for firms to consider when preparing and using a cashflow model.

https://www.fca.org.uk/firms/retirement-income-advice-assessment-tool-riaat

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Source: https://www.fca.org.uk/publication/thematic-reviews/tr24-1.pdf

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IMPORTANT NOTES

Every care has been taken to ensure that this information is correct and in accordance with our understanding of the law and HM Revenue & Customs practice, which may change. However, independent confirmation should be obtained before acting or refraining from acting in reliance upon the information given.

FCA ref: 38499 August 2024