

Making changes

Pensions reform and how it affects you

October 2005

KING **SHER**
Pensions Department



Introduction

As you may be aware, the Government has introduced legislation that will have a major effect on pensions and how we all fund our retirement. The aim of these reforms is to make pensions more flexible and provide more opportunities to save, whether through company pension schemes or through personal pension plans. There are also a number of other changes too, some of which have already been introduced.

The purpose of this brochure is to give brief details on the new legislation and explain the changes we are making to the Kingfisher Pension Scheme.

Overall it is our intention that there will be no reduction in benefits or increases in costs for members. We shall obviously have to keep this policy under review as we

have a responsibility not to jeopardise the Kingfisher Pension Scheme if further demands are put on it.

The Kingfisher Pensions Department has been working with the Trustees and the Company on key policy decisions on the new legislation. In addition many of the regulations have yet to be issued. We therefore plan to issue a second brochure in early 2006 when we will update you with more detail on what the new rules will mean for you and your pension benefits.

In the meantime, if you have questions about anything contained in this leaflet, please contact the Pensions Department at the address on the back cover.

New pension legislation from April 2006

Simplifying the tax rules

At present there are eight different sets of tax rules covering pension schemes. From April 2006 these will be simplified to just one set of rules covering all pension schemes.

The new Lifetime and Annual Allowances

Although it will only affect a few people, there will be a Lifetime Allowance on pension benefits that can be built up. The Lifetime Allowance will be £1.5 million initially and will increase each year, reaching £1.8 million in 2010. The total value of an individual's pension benefits cannot exceed the Lifetime Allowance without attracting a tax charge on the excess.

In addition there will be an Annual Allowance which will control the build up of final salary pension benefits and the level of contributions to money purchase schemes. The Annual Allowance will be £215,000 initially, so again this will only affect a small number. This will rise to £255,000 by 2010, although no one can pay in more than their annual earnings. All employees will have the opportunity of paying into a personal pension scheme even if they are currently in an employer's pension scheme.

The Pension Protection Fund

A new Pensions Regulator will replace Opra (Occupational Pensions Regulatory Authority) and, following the high-profile collapse of some schemes, a Pension Protection Fund (PPF) has been set up which will protect most pension benefits for members of company pension schemes where the employer has become insolvent and the scheme does not have enough funds. The PPF will be funded by a levy on all final salary schemes but should provide increased peace of mind to many people who are saving for retirement.

Delaying taking the State pension

Another change, which has already taken effect, is that people who choose to put off taking their State pension for five years after reaching State pension age may now receive a lump sum payment. If you are interested in this option you should contact the Department of Work and Pensions to see how much you could receive.



How the changes affect the Kingfisher Scheme

Additional Voluntary Contributions (AVCs)

Currently, company pension schemes must provide a facility for members to pay into AVCs so they can, if they wish, increase their pension savings. From April 2006, this rule will be abolished and schemes can choose to close their AVC facility. However we believe that the current Kingfisher AVC provides a valuable additional benefit to our members so we will continue to offer this.

Early retirement

The age from which early retirement benefits may be taken is to rise from 50 to 55 by April 2010. However, schemes can decide how and when they introduce the new minimum retirement age. In order to allow Kingfisher members the maximum flexibility when planning their retirement, we will not introduce the new minimum retirement age until April 2010.

Tax-free cash

Currently Final Salary members of the Kingfisher Scheme can take a tax-free cash sum on retirement of roughly 2.25 times their annual pension. Money Purchase members may generally take up to 25% of their accrued pension fund as tax-free cash on retirement.

Existing rules state that no part of an AVC fund (started after March 1987), can be taken as cash and can only be used to provide a pension.

From April 2006, schemes will be able to provide a tax-free cash sum, which will be 25% of the value of a member's pension fund and this can now include AVC funds. This change will allow people more flexibility in how they take their pension and is very welcome.

We are changing the scheme rules to allow members who retire from 6 April 2006 to take the new maximum tax-free cash sum. This applies to both Final Salary and Money Purchase members, and includes the use of AVC funds when calculating the amount of tax-free cash available. But remember, taking a tax-free cash sum will reduce the amount of pension payable.

Increases to pensions in payment for Final Salary members

Kingfisher Pension Scheme Final Salary pensions are currently paid with a guaranteed annual increase in line with the Retail Prices Index up to a maximum of 5% per annum. The new legislation allows schemes to reduce this maximum increase to 2.5% per annum. However, we are maintaining the maximum increase at 5% per annum as we feel that a change is not in the best interests of our members at the present time. This policy will however be kept under review and may be subject to future change.

Employer contributions to personal pensions

The new legislation allows employers the option to pay into an employee's personal or stakeholder pension in addition to occupational scheme contributions.

We have considered this carefully and believe that the Kingfisher Scheme already offers a range of pension providing opportunities. Therefore there will be no change to the current policy and Kingfisher company contributions will only be paid into the Kingfisher Pension Scheme.

Scheme specific earnings cap

Currently, members who joined a pension scheme after May 1989 are subject to an upper limit of earnings that can be used for pension purposes. From April 2006 this limit, known as the Earnings Cap, will be abolished and replaced with new rules on annual and lifetime allowances (see page 3). Occupational pension funds will be able to set their own Scheme Cap.

The Kingfisher Pension Scheme will therefore keep the existing Scheme Cap. Members will be unaffected and the Scheme Cap will continue to be increased each year in line with the Retail Prices Index.

Short service benefits

Currently employees who leave an employer's pension scheme are entitled to a deferred pension if they have completed two years' service. From April 2006 members who leave after three months' service but with less than two years' service will be entitled to have their contributions (including the employer's contribution) transferred to another pension arrangement or to choose to have a refund of their contributions (net of any tax payable).

We shall be amending the Scheme rules so that early leavers with three months' service will be entitled to a transfer or refund. Leavers with less than three months' service will continue to receive a refund.

Totalling up your pension benefits

When a member retires, the value of their fund, in addition to the value of any other pension benefits the member may have, is compared to the Lifetime Allowance. Members will be required to provide details to the Pensions Department of any other pension benefits they have built up.

Final Salary pension benefits are given a value by multiplying the annual pension by 20. Benefits in the Kingfisher Money Purchase Scheme will be the total fund value.

Any excess over the Lifetime Allowance will be taxed at 25% if taken as pension, or 55% if taken as a lump sum.

Most members will have pension entitlements that are below the Lifetime Allowance, but contributing members, ex-employees and pensioners who have pension benefits not yet in payment are advised to check the total value of their pensions built up to 6 April 2006 and also the estimated pensions at retirement.

If you think you might be close to the Lifetime Allowance

If the total pension benefits exceed or are likely to be close to the Lifetime Allowance, it is possible to minimise any potential tax charge by registering them with the Inland Revenue. This is known as Transitional Protection and you should seek advice from a qualified Independent Financial Adviser if you wish to consider taking advantage of it (see page 8).

Look out for our update which will include more information about the pensions legislation and how it will affect members of the Kingfisher Pension Scheme. This will be distributed early in 2006.

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Useful contacts

Finding an IFA

The Kingfisher Pensions Department is not authorised to give you financial or investment advice about your pension so to get impartial financial advice, members should contact an Independent Financial Adviser (IFA):

You can contact IFA Promotion on **0117 971 1177** or visit the website at **www.unbiased.co.uk** They will be able to provide you with details of IFAs in your postal area.

The Pensions Advisory Service (TPAS)

TPAS is available to help with any advice and guidance on pension matters.

The Pensions Advisory Service

11 Belgrave Road
London SW1V 1RB
Tel: **0845 601 2923**

www.pensionsadvisoryservice.org.uk

Pensions Ombudsman

Where TPAS cannot help, the Pensions Ombudsman can investigate or determine any complaints or dispute of fact or law.

The Pensions Ombudsman

11 Belgrave Road
London SW1V 1RB
Tel: 020 7834 9144

www.pensionsombudsman.org.uk

Pensions Regulator

The Pensions Regulator is able to intervene in the running of pension schemes.

The Pensions Regulator

Napier House
Trafalgar Place
Brighton BN1 4DW
Tel: **0870 606 3636**

www.thepensionsregulator.gov.uk

Pension Schemes Registry

If you have lost track of any benefits that may be due to you through a pension scheme or another employer, you can contact the Pension Schemes Registry, which operates its database in Newcastle and is administered by the Pensions Regulator.

The Pensions Tracing Service

Tyneview Park
Whitley Road
Newcastle upon Tyne
NE98 1BA
Tel: **0845 600 2537**

The Department for Work and Pensions

Details on who to contact for information on your State pension can be found on the web at **www.thepensionservice.gov.uk** or by phoning **0845 60 60 265**.



Kingfisher Pensions Department, 3 Sheldon Square, Paddington, London, W2 6PX

Helpline available Monday-Friday 9am-5pm: **020 7372 8008**

Website: **www.kgbd.co.uk**