

Making further changes



# Pensions reform

How it affects you and what  
action you need to take

March 2006

**KING****SHER**  
Pensions Department

# Introduction

In October 2005, we sent you a brochure telling you about the new pension legislation that the Government is introducing and how it will affect members of the Kingfisher Pension Scheme. Many of these changes are being introduced on 6 April 2006 and this second brochure is to inform you what these will mean for you in practice and what action you have to take with regard to your pension to ensure you receive your benefits in full. It is important to recognise that the new legislation puts more responsibility on individual members to provide up-to-date information to the administrator and the Inland Revenue.

Although a large part of this brochure would seem to apply only to those few people who are affected by the new Lifetime Allowance (LTA) or Annual Allowance

(AA), there is also much of it that is relevant to the vast majority of Kingfisher Pension Scheme members such as new rules on early retirement, taking pensions as a cash sum, flexible retirement and revised death benefits. We urge you to make yourself aware of how this will impact on your personal circumstances.

In the next few months, we shall be issuing fully revised member booklets, which will include details of the new regime and confirm the changes to the scheme rules.

Don't forget that the Pensions Department is available to help with any queries you may have on your Kingfisher Pension Scheme benefits. The contact details are on the back cover.



## Taking smaller pensions as a cash sum if you are over 60

From 6 April 2006, the rules regarding taking smaller pensions wholly as cash are changing so that where an individual has pension benefits with a capital value that does not exceed 1% of the Lifetime Allowance, it will be possible to convert pensions to cash.

For 2006/07, the Lifetime Allowance is £1.5 million so the new rules allow benefits with a total capital value of up to £15,000 to be taken as a cash sum.

However, you will only be able to take these benefits between the ages of 60 years and 75 years. 25% of this sum is tax-free but the balance is taxable.

The total of all pensions held by an individual must be taken into account when establishing whether you qualify under these rules and all benefits must be taken within a one-year period.

### Example

If the capital value of all your benefits is £14,600 then 25% of this is paid tax-free but the remaining 75% will be taxed at the highest rate you pay.

If you feel that you would like to take your pension benefits in this way, it is your responsibility to inform the Pensions Department otherwise it will be assumed that you wish your pension to be paid using the normal method.

## We need to know about other benefits

Many people have other pension benefits and it is crucial that you inform the Kingfisher Pensions Department of these before any Kingfisher Pension Scheme benefits are paid to you. After 6 April if you request figures from the Pensions Department, you will be sent a form asking you to confirm what other benefits you have. It is important that you have this information available and in the absence of this information we may be forced to apply tax charges on your benefit.

## Making your own pension arrangements

One of the objectives of the new legislation is to make pensions more flexible, so it will now be possible to make contributions to your own personal pension or make contributions to other pension arrangements while still remaining a member of the Kingfisher Pension Scheme. Kingfisher will, however, only contribute to the Kingfisher Pension Scheme.

We recommend that if you are considering making additional payments to a pension arrangement, you get advice from an Independent Financial Adviser (IFA) - see back cover.

## Tax-free lump sum

From April 2006, schemes will be able to provide a tax-free cash sum up to 25% of the capital value of a member's pension fund and this can now include AVC funds, providing their fund total value is within the £1.5 million limit.

We are changing the scheme rules to allow members who retire from 6 April 2006 to take the new maximum tax-free cash sum if they wish. 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. Retirement quotations will assume that an AVC payer wishes to take their whole AVC fund as cash but members can still use their AVC fund as a pension if they wish. Remember, taking a tax-free cash sum will reduce the amount of pension payable.

## Early retirement

As previously reported, the age from which early retirement benefits may be taken is to rise from 50 to 55 by April 2010. In order to allow Kingfisher members the maximum flexibility when planning their retirement, we intend not to introduce the new minimum retirement age until April 2010. However anyone who wishes to retire under age 55 may need to start making arrangements now and perhaps consider consulting an IFA.

## Pensions and divorce

After April 2006, where benefits are split as a result of divorce, the party who receives benefits will have these count against their Lifetime Allowance but the Lifetime Allowance of the party giving up the benefits will not be affected.

## Death in service benefits

For members of the Final Salary Scheme, the rules on death-in-service benefits will be unchanged after 6 April. So if you die before normal retirement age, in company employment, the scheme will pay the following amounts:

A lump sum of four times your salary or four times your final salary (if greater), together with all your contributions with interest added. Half your pension will be paid to your dependants plus allowances (pensions) for any children you have. The value of your AVCs will also be paid.

For Money Purchase Scheme members, if you die whilst working for the Company, the scheme currently pays twice your salary plus the value of your retirement account. Members can also opt to pay for a higher level of cover. Until 6 April 2006, the maximum lump sum payable is four times your salary but after that date that limit will be removed.

The requirement to secure a pension for your dependants will also no longer be necessary. Providing the benefits remain within the available LTA, any lump sum paid will be free of tax charges. Dependants will be given the choice of taking the benefits as a pension or taking the whole amount as cash.

## Flexible retirement

The new legislation allows individuals to draw a pension whilst continuing to work if their employer adopts this option. It is hoped this will encourage phased retirement, giving people additional flexibility to reduce working hours in later life, if they would like to and if their position and their employer allow.

Kingfisher has decided to adopt a policy of members taking their retirement benefits and remaining in employment, if they would like to. Coincidentally new legislation on age discrimination is due to become effective in October 2006. This may tie in with flexible retirement, so once the legislation has been finalised and the Company has decided its policy, further information will be provided to you.

## 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. Occupational pension schemes will be able to set their own Scheme Cap so that they can plan effectively and meet current expectations.

The Kingfisher Pension Scheme will maintain a Scheme Specific Earnings Cap for Final Salary benefits. For the year 2006/2007, the cap will be £108,600 and this will be increased each year in line with the Retail Prices Index.

## Member contributions

From 6 April, personal contributions to a pension scheme, which used to be restricted to 15% of earnings, will qualify for tax relief up to £3,600 per annum or 100% of earnings, whichever is greater, subject to the Annual Allowance. As mentioned in the previous brochure, Kingfisher has retained the current AVC facility to enable you to take advantage of these new rules. You therefore will have the opportunity to contribute a higher level of AVCs if you wish.

# The Lifetime and Annual Allowances

## The Lifetime Allowance (LTA)

As detailed in our previous brochure, 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 capital value of your pension benefits cannot exceed the LTA without attracting a tax charge on the excess.

## Valuing your benefits

An approximate ready reckoner for valuing your pension rights is as follows:

- Final salary benefits will be given a capital value by multiplying the annual pension by 20
- Money purchase benefits, personal pensions and AVC funds will be measured by the current total fund value
- Pensions already in payment on 5 April 2006 are given a value by multiplying the annual pension by 25

In the event that you receive benefits in excess of the LTA, there will be a tax charge. This will be 25% of the excess if you elect to receive additional pension benefits (which in turn will be taxed), or 55% if you take the excess as a lump sum.

## Transitional protection

There will be two ways of protecting against the tax charge for benefits earned up to 5 April 2006.

### 1) Primary protection

This is only available for people whose benefits are valued at over £1.5 million on 6 April 2006. The value of benefits will be expressed as a percentage of the

£1.5 million and that percentage will continue to be exempt from the tax charge. So if you have a fund of £2.25 million you will always be able to have 150% of the limit, whatever level it is, and only incur a charge on the excess.

### 2) Enhanced protection

Enhanced protection is available to all individuals to include those with funds below £1.5million in April 2006, but who consider that these may grow to exceed the LTA by the time of their retirement.

The benefits protected will only be allowed to accrue within very restricted guidelines and you are strongly advised to seek independent financial advice before opting for this form of protection.

*After 6 April 2006, you will have three years to obtain values of your pension rights and register these for transitional protection with Her Majesty's Revenue & Customs (HMRC).*

## The Annual Allowance (AA)

From 6 April, a new Annual Allowance will govern what contributions can be paid or benefits built up each year without incurring a tax charge. The AA will be £215,000 initially, so again may only affect a very small number of members.

*The period over which contributions and benefits are tested against the Annual Allowance is known as the Input Period. This period may never exceed 12 months but does not have to coincide with a tax year. The Scheme Administrator may nominate a different Input Period, for example, the current normal Scheme year. Therefore Kingfisher's first Input Period will run from 6 April 2006 to 31 March 2007 and thereafter will be 1 April to 31 March, to coincide with the full Scheme Year.*

For members of final salary pension schemes, the amount tested against the AA will be based on the increase in your pension benefits during the Input Period multiplied by a factor of 10:1, as opposed to the total amount of employer and personal contributions paid on your behalf.

### **Example - Final Salary**

If your accrued pension over the year increases from £6,000 p.a. to £7,000, then this is valued at £10,000 (i.e. £1,000 x 10) for testing against the AA.

This figure of £10,000 is known as the Input Amount.

For money purchase benefits and AVCs, the Input Amount is simply the level of contributions paid in.

### **Example - Money Purchase**

If you pay contributions of £1,000 and Kingfisher's matching contributions are also £1,000 then the Input Amount is the total of the two, that is, £2,000.

Personal contributions will qualify for tax relief up to £3,600 or 100% of earnings, whichever is greater. The AA restriction does not apply in the year that retirement benefits are taken or in the year that a member dies.

Where the Annual Allowance is exceeded, you will be liable to tax at 40% on the excess through your self-assessment tax return.

It is your responsibility to ensure that your pension contributions comply with the rules and to advise HMRC of your Input Amount if you exceed the limit.

The Input Amount will be advised to you annually by the Pensions Department.

## Taking part of your Lifetime Allowance

The legislation specifies the various occasions when an individual will be able to use up part of their LTA, and provides a means for calculating how much of that allowance is used up at that time. These occasions are referred to as Benefit Crystallisation Events (BCEs).

A BCE happens when the pension rights that have been built up by an individual in a registered pension scheme are realised, most commonly through the start of a pension benefit or where a lump sum benefit is paid. Each BCE triggers an LTA test.

The information in this brochure is based on our understanding of the current regulations under the Pensions Act 2004 and the Finance Act 2004. The regulations may be subject to change from time to time.

If you would like further information on any of the details in this brochure, please contact the Kingfisher Pensions Department (see back cover). However, the Pensions Department is not authorised to give you financial or investment advice so to get impartial financial advice, members should contact an Independent Financial Adviser (details also on back cover).



# Useful contacts

## Her Majesty's Revenue & Customs (HMRC)

This new Government agency now incorporates the Inland Revenue. They can provide information on much of the new legislation.

Contact your tax office or call **0115 974 1600** for more information. Or visit the website:

**[www.hmrc.gov.uk/pensionschemes](http://www.hmrc.gov.uk/pensionschemes)**

## 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](http://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 a free service 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](http://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](http://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](http://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](http://www.thepensionservice.gov.uk)** or by phoning **0845 60 60 265**.

**KINGFISHER**

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

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

Website: **[www.kingfisherpensions.com](http://www.kingfisherpensions.com)**