

Making further changes



Pensions reform

How it affects you and what
action you need to take

For deferred members

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 deferred 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.

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.

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.

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 the Her Majesty's Revenue & Customs (HMRC).

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.

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**

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 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

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.thepensionsservice.gov.uk** or by phoning **0845 60 60 265**.

If you would like further information on any of the details in this brochure, please contact The Kingfisher Pensions Department. 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.

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**

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

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

Website: **www.kingfisherpensions.co.uk**