# Pensions update

## R08 August 2015 edition

## Web update 3: 18 December 2015

Please note the following updates (amendments in **bold** type) to your copy of the August 2015 edition of the **R08: Pensions update** study text:

### Chapter 1, section B1A, page 1/22

In the two paragraphs under Example 1.22, please amend the current references to examples 1.13 and 1.14 so that they now refer to examples 1.21 and 1.22, as shown below:

In example **1.21** we saw that Naresh …

In example **1.22** we see that Selma…

### Chapter 1, section C2D, page 1/43

Please delete from: 'The taxation of the payment will be determined by...' to the end of the section and replace with:

**The trivial commutation lump sum death benefit will be taxed as the recipient's pension income via PAYE. This is the case whether or not the member died before or after reaching age 75. There is also no difference in the tax treatment based on the source of the payment (i.e. the payment is taxed under PAYE whether or not the pension concerned was a scheme pension or a lifetime annuity).**

**Example 1.33**

**On 1 April 2015 Malcolm, aged 68, died while receiving a lifetime annuity, which included a ten-year guarantee. The remaining payments under the guarantee total £30,700.**

**Malcolm had nominated his brother, John, aged 76, to receive the benefits of the guarantee. John receives the first payment under the guarantee in May 2015. Later in the year, when the remaining payments are valued at £29,800, John asks his financial adviser whether he can now take the remaining payments as a lump sum. John's financial adviser explains that he is able to do this because the payment he will receive will be less than or equal to £30,000. However, he also points out that as John did not receive any income under the guarantee before 6 April 2015 and because Malcolm was aged under 75 when he died, the ongoing payments under the guarantee are being paid to John tax free (see section C3A). By electing to receive the remaining payments as a trivial commutation lump sum death benefit John would be subject to tax on this payment under PAYE.**

**John's financial adviser therefore recommends that John should not commute these payments for a lump sum.**

### Chapter 1, question answer 1.1, page 1/56

Please replace the current answer with the following:

**Answer is b. The contribution paid on 4 August 2014 is within the 2014/15 PIP and so is not included in the calculation. The remaining contributions all fall in the 15/16 PIP that ended in the pre-alignment tax year and after grossing them up by 20% the total input is (£8,000 ÷ 0.8 = £10,000) + (£16,000 ÷ 0.8 = £20,000) + (£12,000 ÷ 0.8 = £15,000) = £45,000. The annual allowance that applies to the post-alignment tax year is the lesser of £40,000, and £80,000 less the pre-alignment pension input of £45,000 = £35,000. Therefore, Sam can contribute a maximum net contribution of £35,000 × 0.8 = £28,000 in the post-alignment tax year before incurring an annual allowance tax charge.**

### Chapter 3, introduction, page 3/2

Please replace the fifth paragraph with the following:

The Pension Schemes Act 2015 provides for the necessary legislative changes to introduce a new type of scheme called a defined ambition (or shared risk) scheme**, however, the Government announced in October 2015 that implementation of the schemes would be deferred**. It also introduces the concept of 'collective benefits' to enable risk-pooling among members.

## Chapter 3, section A, page 3/3

Please replace the first paragraph with the following:

It is hoped that shared risk schemes, also known as defined ambition schemes, will encourage greater risk-sharing between parties **when they come into practice. The Government announced in October 2015 that implementation of these schemes would be deferred**.

## Chapter 4, section D, page 4/11

Please replace the second paragraph with the following:

In an effort to reduce the number of stranded pension pots, the Government introduced legislation in the **Pensions Act 2014** to create a **'pot follows member'** automatic transfers system**, however, the Government announced in October 2015 that implementation of these schemes would be deferred**. The key features of the automatic transfers system include the following:

## Chapter 5, section E2, page 5/21

Please replace the fifth bullet point in the second bullet list with the following:

- **The payment made will be taxed as the recipient's pension income under PAYE. This is the case whether or not the member had reached the age of 75 at the date of their death. There is also no difference in the tax treatment of a trivial lump sum death benefit paid in respect of a scheme pension or a lifetime annuity.**

## Chapter 5, Key points, Triviality rules, page 5/32

In the third bullet point, please replace the fifth point with the following:

  – **The payment made will be taxed as the recipient's pension income under PAYE. This is the case whether or not the member had reached the age of 75 at the date of their death. There is also no difference in the tax treatment of a trivial lump sum death benefit paid in respect of a scheme pension or a lifetime annuity.**

## Chapter 7, question answer 7.3, page 7/30

Please replace the following equation to now read:

$$\frac{£125{,}000}{£110{,}000} = 1.1364$$

This replaces '£25,000' with '**£125,000**' but does not affect the answer.

## Chapter 5, self-test answers, page v

Please replace the answer to question 8 with the following:

Answer is **d**. Charlotte is able to commute the remaining guarantee payments for a trivial commutation lump-sum death benefit as there is no minimum age for being able to do this. Charlotte will receive **£15,600 as she is a higher rate tax payer and the trivial commutation lump sum death benefit is taxed as her pension income via PAYE (i.e. it will all be subject to Income Tax at 40%). This is the case even though her father died before the age of 75**.