

The Changing face of pensions

A major Government shake-up aimed at simplifying the complex world of pensions is effective from 6 April 2006, or 'A-Day' as it has become known. The simplified regime offers some tax advantages to anyone in a registered pension scheme. All of Windsor Life's pension schemes become registered schemes under the new regime.

Because the complicated rules for the different types of pension have been swept away, it is now so much simpler for you to manage your pensions. The new rules work in total across all of your registered pension schemes, past and present, regardless of pension type or the size of fund.

You may be entitled to a higher tax-free cash lump sum from your policy; or have greater flexibility at what age you may take your pension benefits. Or you may find there is little impact on your pension plans. This leaflet provides information about the main changes. Please read on to find out how these changes might affect you and your benefits.

Building Up Your Pension Fund

Eligibility, Contributions & Generous Tax Relief

In general, if you are a UK resident under the age of 75 you will be able to continue contributing to your Windsor Life pension plan.

There are no limits on the amount you can pay into a registered pension scheme, although there are limits on the tax relief given. Under the new tax rules, you may pay into as many pensions as you like (as long as the provider has registered them with HM Revenue & Customs) and receive tax relief on yearly contributions up to:

- £3,600 gross (for Personal Pension and Free Standing AVC schemes only); or
- 100% of your UK earnings; whichever is more.

These changes mean you can save much more than before *and* still get up to 40% higher rate tax relief on your contributions.

You may even contribute more than 100% of your earnings should you wish, although you wouldn't get tax relief on the excess.

For large savers, there is an Annual Allowance of £215,000 (tax year 2006/07) which applies to all contributions made by you or on your behalf (including from an employer). If total contributions made by and for you during the tax year are more than the Annual Allowance, you will have to pay 40% tax on the amount above the Annual Allowance. We have taken this to be the 'pension input period' under the new regime.

The generous allowances introduced by simplification means the choice whether to carry back part or all of your contribution from one tax year to the previous year is no longer necessary after 5 April 2006. However, if you have a

Retirement Annuity Contract (s226 policy) you have until 31 January 2007 to use carry back.

Standard Lifetime Allowance

In general, from 6 April 2006 there is no limit on the total amount of pension benefits payable from a registered pension scheme. Although, where the value of your pension benefits exceeds your lifetime allowance, benefits will be subject to a tax charge of up to 55%. Most people will simply find their allowance is the Standard Lifetime Allowance (SLA). For the 2006/07 tax year, HM Revenue & Customs have set the SLA at £1.5 million, rising to £1.8 million by the 2010/11 tax year.

Taking Your Pension Benefits

Retirement Age Changes

You do not need to retire before you can take your benefits. In general, until 5 April 2010, you can take your pension benefits from any registered pension scheme between age 50 and 75. After 6 April 2010 the government have announced that this minimum normal pension age will rise to 55. This covers all pensions, including extending this flexibility to contracted out personal pension policies.

There are transitional rules that allow certain individuals to keep the right to take their retirement benefits before the minimum normal pension age.

Pension Benefits

When you come to retire, you will have the option to draw your pension benefits in several ways. For example you may draw tax-free cash, take a lifetime annuity with us or make use of your right to an open market option. We will give you full details of the options available to you when you come to retire.

If you take your retirement benefits earlier than your selected normal retirement date you may affect any guarantees, and there may be penalties. We will advise you of any potential penalties when you

come to retire. If you transfer your fund to another pensions office transfer penalties may **apply**.

Tax-Free Cash

Broadly speaking, everybody will be able to take 25% of their total retirement funds as tax-free cash. Whilst this means there is no change if you have a personal pension policy, the maximum tax-free cash calculation is simplified for retirement annuity policyholders. Also, holders of Free Standing AVC (FSAVC) and Contracted Out Personal Pension policies will also be allowed to take up to 25% tax-free cash. The tax-free cash option is only available before age 75.

If you are entitled to pension benefits as a current or past member of an occupational pension scheme you may be entitled to more than 25% tax-free cash before 5 April 2006. You will be able to protect this entitlement. You simply need to keep the evidence and provide this when you take your benefits.

Trivial Commutation of Small Pension Funds

You may have the option to take your benefits as a lump sum if the combined total value of all your registered pension schemes does not exceed 1% of the Standard Lifetime Allowance (£15,000 in 2006/07 tax year). This is known as trivial commutation. Under this option, 25% of your fund is paid tax-free with the remaining fund taxed as income.

The option to take all your pension rights as a trivial lump sum is available from age 60 but you must take it before age 75. If you have more than one registered pension scheme, any that you wish to trivially commute must all be paid out before the end of a defined 12-month period.

Pension Death Benefits

If you die before you take your retirement benefits, the value of your fund up to your available standard lifetime allowance may be paid tax-free to your dependants. Any lump-sum payment above £1.5 million would, however, be taxed at 55%.

Transitional Protection

If you take pension benefits above your lifetime allowance, the excess will be subject to a tax charge. If you already have, or expect to have, pension savings or entitlement over the lifetime allowance, you may be able to use 'Transitional Protection' to reduce or avoid the tax charge.

You have two options to protect your pension from this charge, either Primary or Enhanced Protection. If you intend to register for transitional protection, you must do so with Her Majesty's Revenue & Customs (HMRC) before 5 April 2009.

Pensions and You

Summary of the Main Changes

You may need to consider what action to take if any of the following statements are true:

- Your total private pension provision was valued at more than £1.5 million at 5 April 2006.
- Your tax-free cash entitlement on 5 April 2006 exceeds either 25% of the fund value or £375,000.
- You expect that your total private pension provision will exceed your lifetime allowance when you retire.
- You expect all of your and any contributions made on your behalf to exceed £215,000 in any one tax year.
- You plan to retire before the age of 55 any time after 6 April 2010 or your occupation currently allows for early retirement.

More Information

For a more comprehensive explanation of how the changes impact on your policy, you can visit the Pension Simplification section of our website at www.windsor-life.com.

For a detailed explanation of the new tax rules please visit the HMRC website at www.hmrc.gov.uk.

This document is based on our current understanding of the law and HM Revenue & Customs guidance and practice we believe will apply from 6 April 2006. It is only a summary of the main changes in general terms. Tax and legislation are liable to change and are based on practices assumed for the 2006/07 tax year.

WLA is regulated and authorised by the FSA. We do not give advice; therefore nothing in this document forms financial advice or a recommendation from us. If you do wish to consult on how these changes may affect your personal circumstances, you should consult an independent professional adviser. Please note that this would be at your own expense.

Dated: November 2005.

Windsor Life Assurance Company Limited is authorised and regulated by the Financial Services Authority. Registered Office: Windsor House, Telford Centre, TF3 4NB. Member of the ABI. Telephone: 0870 887 3333 Fax: 0870 709 1111 <http://www.windsor-life.com>