

## Premier Pensions Management

### Legislation Update : 06/06

#### 1 Contracting our Rebates

The key rates for 2007 (April) are:

i. **Defined Benefit**

Total rebates increase from 5.1% to 5.3% (8% is a reasonable substitution) split is employee 1.6% and Employer 3.7%.

ii. **Defined Contribution**

Age related rebates are currently capped at 10.5% and from April 2007 the CAP will reduce to 7.4%. The rebates below the CAP are increased between 0.5% and 1.9%.

**Comment:**

- a) Defined Benefit schemes cannot easily contract back in. The 5.1% or the 5.3% no longer provides anywhere near the Reference Scheme benefits due to mortality, interest etc.
- b) There are now very few contracted out Defined Contribution schemes. Also insurance companies are contracting their PP members back in! In the short term this increases NI for the Government but increases the long term pension obligation. The Government has already adjusted S2P to the lower paid, as its liabilities increase will there be a S2P or will it be means tested or replaced by 'Turners Compulsory Scheme'? Should high earners take the rebates because they will not get S2P anyway?

#### 2 Ill Health Early Retirement

The conditions for ill health are more stringent post 6 April 2006. In particular scheme administrators MUST obtain medical evidence.

If scheme Rules are more generous and are not altered unauthorised payments will arise.

The serious ill health commutation of the benefit is allowed but the whole benefit must be commuted. This can be impossible due to GMP Rules. If this is the case the commuted sum is an unauthorised payment. The DWP has indicated that they will change this.

The Rules of all Defined Benefit schemes need to be reviewed. If eligibility needs to be changed Section 67 may apply.

The existing definitions are being removed/replaced with effect from 6 April 2006.

- Incapacity means “physical or mental deterioration which is sufficiently serious to prevent the individual from following his or her normal employment or which seriously impairs his or her earning capacity. It does not mean simply a decline in energy or ability” is being removed.
- Requirement of “exceptional ill health” to permit commutation of entire scheme pension (excluding any contracted out benefits) is removed.

### ***New Tests***

To qualify for benefits there is a new definition “ill health condition”.

- The scheme administrator has received evidence from a registered medical practitioner that the member is (and will continue to be) incapable of carrying on the members occupation because of physical or mental impairment and
- The member has also ceased to carry on his current occupation

Benefits may be commuted for a lump sum for serious ill health which is defined as:

“the scheme administrator has received from a registered medical practitioner that the life expectancy is less than one year”.

The scheme can impose more stringent conditions.

If benefits meet this criteria benefits (other than protected rights!) may be taken at any age before 75.

The benefit is as per normal to be tested against the lifetime allowance at 20:1.

In the draft Regulations there are three circumstances where the scheme administrator is required to report the payment of a serious ill health lump sum to HMRC.

- If recipient was in years of payment or previous six years:
  - a Director of sponsor
  - connected to a Director
  - represented by the sponsoring Employer
  - connected to the Employer.
- Enhanced protection
- Ill health pension is surrendered because ill health condition is no longer met.