

PREMIER PENSIONS MANAGEMENT

LEGISLATION UPDATE : 25/06

Benefit Crystallisation Events

Overview

New snappy expressions have been invented following the “Pensions Simplification” Regime’s introduction from 6 April 2006! When benefits under a registered scheme come into payment for any reason from 6 April 2006 (including lump sums payable on death) they must be tested against the Life Time Allowance (LTA). Any event which results in payment of a benefit is known as a ‘benefit crystallisation event’.

Benefit crystallisation events will generally only happen before an individual reaches age 75. The only exception is if an individual’s pension once in payment is increased (after age 75) by more than an allowable level (known as the ‘permitted margin’).

An individual could have several benefit crystallisation events throughout their working life. The benefit crystallisation framework is designed to make sure that the LTA is applied to the **total** of an individual’s benefits across all registered schemes.

What are they and when will they be triggered?

The table shown on the next page summarises the 8 different types of benefit crystallisation events and how they will trigger checks against the LTA.

How will this work in practice?

Each time a benefit crystallisation event happens, the amount will need to be tested against the individual’s LTA. This test is generally carried out by the scheme administrator or scheme trustees and the HMRC reporting framework has been designed to cater for this.

The LTA is not in itself a limit; benefits above the allowance can be paid but the excess will then be subject to a LTA charge.

For an individual who has been a member of only one registered scheme and for whom all benefits are paid at the same time on or after A-day (either on death or retirement), the comparison against the LTA will be fairly straightforward. But, where an individual takes benefits in stages on or after A-day, whether from one or more registered schemes, the comparison against the LTA will be more complicated. Each benefit crystallisation event will use up some of the individual’s lifetime allowance, leaving less against which the remaining benefits can be tested.

Benefit Crystallisation event	Crystallisation amount
1. When an individual becomes entitled to a scheme pension.	20 times the pension payable to the individual in the first year. HMRC and the scheme administrator may agree a higher valuation factor than 20.
2. An individual becomes entitled to buy a lifetime annuity under a money purchase arrangement.	The total amount of the individual's rights under the arrangement used to buy the lifetime annuity. Any assets used will be valued at market value.
3. Payment of a relevant cash lump sum (other than on death) before age 75. This could either be a lump sum payable: <ul style="list-style-type: none"> • when the individual becomes entitled to pension benefits • in place of pension benefits for an individual in serious ill-health • for an individual with no remaining LTA 	The amount of the lump sum.
4. Payment of a lump sum death benefit (includes insured death benefits or a return of funds under any money purchase arrangement), where: <ul style="list-style-type: none"> • the individual died before age 75 ,and, • the lump sum is payable within two years of the individual's death. 	The amount of the lump sum death benefit
5. A scheme pension already in payment is increased above the permitted margin. In most cases this is the original level of pension increased by 5% or the Retail Prices Index (whichever is higher).	20 times the excess pension arising from this increase.
6. Movement of money or assets held under a money purchase arrangement into unsecured pension (drawdown and, where offered, short-term annuities).	The total value of the amount moved into unsecured pension. Any assets moved will be valued at market value.
7. An individual reaches age 75 and has a future entitlement to receive a pension and/or a lump sum under a defined benefits arrangement.	20 times the pension, plus the lump sum the individual would be entitled to if these benefits were taken at age 75.
8. Payment of a transfer value to a recognised overseas pension scheme. (The scheme qualifying conditions needed are defined in the relevant statutory instrument.)	The amount transferred. Any assets transferred will be valued at market value.

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This update includes general information and cannot be relied upon for individual schemes issues. You should contact your adviser or P Couchman at Premier Pensions Management Ltd, Capital Business Centre, Units 14 & 15, 22 Carlton Road, South Croydon, Surrey, CR2 0BS. DL: 020 8916 2129. Email: paul.couchman@premierpensions.co.uk, if you require definitive advice