

PENSIONS UPDATE

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Dear Member

Welcome to the February 2006 Pensions Update. The first thing you may have noticed at the top of this newsletter is a new name, **telent**. As you are probably already aware, as a result of the sale of the majority of Marconi's telecommunications equipment and international services business to Ericsson, Marconi Corporation plc was renamed **telent** plc. Consequently, this office is now **telent** Pensions Office, but everything else remains the same, you still have the same staff administering your pension, and SPT Ltd, with the same Chairman and Directors, remains as the Trustee of the G.E.C. 1972 Plan.

There has of course been a significant impact on a number of active members whose employment has transferred to Ericsson and who have now become deferred members of the Plan. The Trustee is currently working with Ericsson to offer those members an opportunity to transfer their benefits to a new (but similar) plan, The Ericsson Marconi Pension Plan.

In the wider world, A-day (6 April 2006), when the new tax regime affecting pensions comes into force, is fast approaching. For the vast majority of members, and particularly pensioners, there will be no, or a very limited impact. However, in the rest of this newsletter we set out the details of the new legislation so that you have a full awareness of what is happening.



Peter Harris
Pensions Manager

Pensions Tax Simplification and You

As mentioned in our previous issue of Pensions Update the Government is replacing the current complex tax rules for pensions with a new set of rules. These new rules known as Tax Simplification will come into effect on 6 April 2006 (A Day) and although some of the changes may seem complicated they will make pension calculations more simple overall.

The Pensions Tax simplification changes cover three main areas:

- The maximum contributions you can make to your pension each year
- The maximum pension benefits you can receive without tax penalties
- The retirement options available to you

As the new rules require members to take more responsibility for their pension, it is important that you read the relevant section of this Update and make sure you are aware of any changes that may affect you.

I am a Pensioner of the Plan - how will the legislation affect me?

- **Will my pension in payment be affected?**

NO - Your pension will continue to be paid on the first day of each month and the new legislation does not apply to any pensions already in payment.

If you are over the age of 75 the new legislation will not apply to your benefits at all.

If you are under the age of 75 you will only be affected by the new legislation if you have further pension arrangements which you will be putting into payment. Under the new rules any further pensions paid will need to be tested against the Lifetime Allowance (LTA).

We will be advising you of the amount of LTA used by your Plan pension each year on your P60.

I am an Active member of the Plan - how will the legislation affect me?

- **What is my new annual contribution allowance?**

There will be a limit on the amount by which the value of your pension can increase in a Plan year. This will be known as the Annual Allowance. From 6 April 2006 this will be £215,000 rising progressively to £255,000 in 2010/2011. In schemes such as the Plan, the Annual Allowance is calculated by applying a multiplier of 10 to the amount by which your pension has increased over the year and adding to this any AVC contributions paid in that period. If you contribute to any other schemes these will also need to be taken into account

Any contributions paid that take you above this Annual Allowance will attract a tax charge of 40%, which you will be responsible for paying.

We will advise you of the amount of your Annual Allowance used in The GEC Plan on your future Benefit Statements.

- **Will the changes affect the contributions I make?**

No. Your current pension contributions to the Plan of 3% of your earnings will not be affected. However, under the new regime all previous contribution limits will be removed and you may contribute up to 100% of your earnings to any pension arrangement and receive full tax relief on those contributions subject to the Annual Allowance.

- **Will there still be a limit on the amount of pension I can receive?**

All previous benefit limits in the legislation will be removed and there will be one new overall fund allowance, known as the Lifetime Allowance (LTA) which will apply to all pension schemes. Everyone will now have a pension fund allowance of £1.5m in 2006/07, rising progressively to £1.8m in 2010/2011.

The combined value of your pension funds will be compared against the LTA at retirement. On retirement you will be asked to confirm that the benefits paid out from all UK registered pension schemes are within the LTA. **It is therefore important that you begin to collect information relating to the LTA from any other pension arrangements that you have as we will ask you to provide these details before any Plan benefits can be paid.**

If your fund value is over the LTA, you will be taxed on the excess amount. This is called a recovery charge. A recovery charge will be applied on any excess above the LTA at 55%.

- ***How do I calculate the fund value of my pension to assess against the LTA?***

To calculate your fund value you will need to multiply your pension by a factor of 20, and add on the fund value of any AVCs.

For example if your pension is £5,000 pa the fund value is calculated as $20 \times £5,000 = £100,000$ + AVCs of £50,000 = £150,000. The current LTA is £1.5m, therefore these benefits use 10% of the LTA and will not be subject to a recovery charge.

You will need to do this for every pension arrangement that you have including those in deferment. If you have any pensions in payment they will be assessed against the LTA by applying a factor of 25 on the amount of pension in payment on 6 April 2006.

We will advise you of the amount of LTA that your Plan benefits use on your annual benefit statement.

- ***What happens if I think that the total of all my pension funds already exceed the Lifetime Allowance?***

Members with very large pension funds that exceed the £1.5m LTA in April 2006, or expect that their fund value may exceed the allowance in the future, can apply for protection from the HM Revenue and Customs (HMRC).

You will need to apply to HMRC before 6 April 2009 in order to protect your fund.

- ***When can I take my pension?***

The minimum retirement age in the Plan will rise from 50 to 55 on 6 April 2010. This means that if you were born after 6 April 1960 you will not be able to take your pension until you are 55.

Therefore if you are currently in the age bracket 45 to 49 you should note that the option to retire earlier than age 55 will be restricted after April 2010. Exceptions to this rule include early retirement due to ill health.

However, under the new rules you do not have to stop working to take your pension from your current scheme and subject to the Company's approval you can receive payment of your Plan benefits whilst still in employment.

- ***Can I still take a tax-free lump sum?***

Yes. From 6 April 2006, if you take early retirement, you will now be able to receive approximately 25% of your pension fund including AVCs as a tax free lump sum from the Plan.

If you have AVCs the new rules allow you to take cash from your AVC fund up to the new limit and the remainder will be used to purchase an annuity.

- ***I am a high earner. Will my salary still be affected by the earnings cap?***

Members who joined the Plan on or after 1 June 1989 are currently subject to an earnings cap. This cap limits the earnings which can be used for pension calculation purposes. At the moment the cap is £105,600 and increases each year in line with RPI. Under the new legislation the statutory cap will be abolished and is replaced by the LTA. However like many other schemes, the rules of the Plan have been amended to retain the earnings cap, which will operate in the same way as the current statutory cap. Therefore this will not result in any change to benefits.

- ***Are my death in service benefits affected?***

If you die whilst in the employment of the Company your death benefits will be calculated as described in the Plan booklet. If you have not taken any benefits, up to £1.5 million can be paid tax-free to your dependants as a lump sum. Anything above £1.5 million would, however, be taxed at 55%.

- ***Do I need to do anything?***

You should not need to do anything unless you believe the points above may affect you, in which case you should contact your independent financial adviser for advice. The pension calculations under Basis 1, 2 and 3, as described in the Plan booklet have not changed and the majority of other benefits are not affected.

I am a Deferred member of the Plan - how will the legislation affect me?

- **How are my deferred benefits affected?**

Your deferred pension benefits which are preserved for you are not affected.

However from 6 April 2006 if you take early retirement you will now be able to take approximately 25% of your pension fund including AVCs as a tax free lump sum from the Plan.

If you have AVCs the new rules allow you to take cash from your AVC fund up to the new limit and the remainder will be used to purchase an annuity.

In addition from 6 April 2010 you will only be able to commence payment of your early retirement pension from the age of 55.

- **How does the Lifetime Allowance (LTA) affect me?**

When you retire we will need to check that paying your benefits from the Plan will not exceed your LTA. **It is therefore important that you begin to collect information relating to the LTA from any other pension arrangements that you have as we will ask you to provide these details before any Plan benefits can be paid.** We will advise you of the amount of LTA that your Plan benefits use on your annual benefit statement.

If you think that your total pension benefits, including those from other pension arrangements, will exceed the LTA you can apply for Protection from the HM Revenue and Customs (HMRC). You will need to apply to HMRC before 6 April 2009 in order to protect your fund.

- **I have a small deferred pension can this still be commuted?**

Pensions of less than 1% of the LTA can be commuted for a once only cash lump sum and 25% of this will be tax free. However, you can only take this payment between the ages of 60 and 75 and you must take all full cash commutations in any single 12 month period. The cash commutation is only payable if the total of all your pension benefits including those from all other pension arrangements is less than 1% of the LTA.

If you are entitled to an Equivalent Pension Benefit (EPB) only, then the new rules that affect commuted benefits will not apply.

- **If I worked for a Company that was previously sold by GEC/Marconi/telet and early retirement was not allowed due to the terms of the sale, can I now commence payment of my pension benefits?**

Yes. After 6 April 2006 if you are over the age of 50 you can now take payment of your benefits whilst remaining in employment. If you require a quotation please contact us providing your full name and National Insurance number.

The above information is based on proposed changes to the Plan and are subject to approval by the Company and the Trustee. In addition there may be further regulations to be published by HMRC and it is possible that these could impact on our understanding of how the legislation will work.

If you wish to find out more information regarding the new legislation, this can be found at www.hmrc.gov.uk/pensionschemes.