March 2006 • Issue 18

ITB Pension News

The newsletter for members of The ITB Pension Funds

Welcome

to the latest issue of ITB Pension News, bringing you up to date with what's happening to the Funds as well as news from the wider world of pensions.

Our main feature outlines some of the main changes being introduced to pension schemes by the latest Government reforms, and more importantly we explain what effect these changes are having on the Scheme. By and large the changes will be good news for our members.

There has recently been an interim actuarial assessment of the Open Fund, and we have included an article which explains what this involves and what is happening as a result. You can also read about the latest pensions increases.

Please don't forget to make use of our two websites at **www.itb-online.co.uk** and **www.myitb.com**

Help when you need it...

If you would like further information on Fund benefits or AVCs, you can find the answers to most frequently asked questions by visiting our website at: www.itb-online.co.uk

Write to us at:
The ITB Pension Funds Office
23 King Street
Watford
Hertfordshire WD18 0BJ

Email us at:
pensions@itb-online.co.uk

Phone us on the Pensions helpline:
01923 471699 (answerphone outside normal office hours)

The **new pensions reforms** and how they may **affect you**

Simplifying the tax rules

As you may be aware, the Government has introduced legislation which from 6 April 2006 (known as 'A-Day') will make significant changes to the tax rules on pensions. The changes will be good news for the vast majority of members. There will be greater allowances on the amount you can save towards pensions, along with higher limits on the amount of pension benefits that can be paid.

The new regulations replace the eight existing Inland Revenue tax regimes on pensions with a single requirement that applies to all types of registered pension schemes.

Among the many changes being introduced, there are two that are fundamental - the introduction of a Lifetime Allowance and an Annual Allowance.

Lifetime Allowance (LTA)

This is the amount against which the total of all your pensions and cash lump sums is compared when you start to draw your pension benefits. If your total benefits exceed the LTA, you become liable for tax on the excess over the allowance.

The LTA starts at £1.5 million for the tax year 2006/2007 and is set to rise to £1.8 million in the 2010/2011 tax year.

In reality, only a few people will have pensions close to the Lifetime Allowance, as can be seen by the way in which pensions are valued for this purpose:

Pensions commencing after 5 April 2006	20 x Annual Pension
Lump sums and money purchase funds	Full value of fund
Pensions in payment before 6 April 2006	25 x Annual Pension*

*The higher factor is because it is assumed that, in most cases, a tax-free lump sum will have been taken.

Basically, anyone who is not yet drawing a pension, but has current pension benefits from all his or her pension arrangements that total £75,000 a year or more, will potentially be caught by the LTA when they come to retire, and will be subject to the additional tax charge of 55% of the excess.

Note for Pensioners

You will not be affected by these changes unless:

- you have other pensions not in payment by 5 April 2006; or
- you receive a large pension increase (higher than 5% or RPI)

- and one or both of these would take you over the LTA.

Note for those in receipt of a Widow(er)'s or Children's pension

Please note that the limits outlined above will not apply to any Widow's, Widower's or Children's pension you are receiving from the ITB Pension Funds. However, any pension benefits you have in your own pension arrangements will count towards the LTA.

Annual Allowance (AA)

This allowance applies to the amount of benefit accrual, or more properly, the 'total pension input amount', that can be made in respect of any tax year in a tax efficient manner.

For members of pension schemes like the ITB Pension Funds, which are defined benefit arrangements, the relevant amount for the purposes of the AA is calculated as the increase in the value of your pension, in the most recent tax year, multiplied by 10.

In the case of Money Purchase contributions, they are taken at face value when, for example, they are paid by a Member/Employer into Additional Voluntary Contributions (AVCs) or Personal Pension Plans.

Where you are a member of more than one pension arrangement, the calculations can become more complicated.

Initially, the AA will be £215,000 and will rise to £255,000 by 2010, when it will be reviewed. However, your contributions paid free of tax are limited to 100% of your earnings in any one tax year.

It is important to note that the AA test is not applied in the tax year in which the individual dies or in relation to any pension input in the final tax year of membership of an arrangement, provided that all benefits relating to that arrangement are brought into payment. It will still be necessary to account for pension input amounts relating to other schemes or arrangements not brought into payment in that tax year.

If the AA is exceeded in any particular year, there is a stand-alone tax charge on you of 40% of the amount by which the total pension input amount exceeds the AA.

From April 2007, the Annual Benefit Statements issued by the Funds' Office to active members will show the estimated amount of ITB pension you have accrued in the year, in order that you may see how much of the AA has been used. Similarly, if you pay AVCs to one of the ITB Funds' sponsored AVC arrangements, then the amount of your AVCs paid in the year will also be provided, as these will also form part of the AA.

How the changes affect the ITB Scheme

Additional Voluntary Contributions (AVCs)

From 'A-Day' you will be able to pay more in ITB Scheme AVCs – up to 20% of your pensionable earnings. This is on top of your standard contributions to the main ITB Scheme. The previous limit was 15% of pensionable earnings, including your contributions to the ITB Scheme.

Please see our website at www.itb-online.co.uk if you are interested in paying AVCs or increasing the amount you pay. Remember you will receive full tax relief on contributions – which could be up to 40% for those members paying higher rate tax.

Additionally, you will also be able to join - and make contributions to - other registered pension schemes outside of the ITB Scheme's arrangements, such as a personal pension or a non-ITB AVC scheme, whilst remaining a member of the ITB Scheme. So, across all your pension schemes you will be able to make tax-free contributions of up to 100% of your earnings in any one tax year (but see 'Annual Allowance' on page 2).

Tax-free cash lump sum

From 'A-Day' the new maximum tax-free cash lump sum will be 25% of your pension fund value, and this can now include any AVC funds you have. All members will be allowed to take a tax-free lump sum at least as large as they would have been previously entitled to, and most will find they can have a larger amount.

Under the current rules, most members can take a tax-free lump sum of 2.25 times their annual pension. Under the new rules, the maximum tax-free lump sum will equate to around four times your annual pension. This is likely to prove popular with members. However, please always bear in mind that the larger the tax-free lump sum taken, the lower your ongoing monthly pension will be as a result.

Early retirement

The minimum age from which people can start drawing a pension (other than in the case of ill-health) is to rise from 50 to 55 in 2010. However, the Rules governing the ITB Pension Funds already require a member to be aged 55 or over to retire voluntarily.

Members who, on 5 April 2006, have a right in certain circumstances to retire from age 50 will still retain that right beyond 2010.

Short service benefits

From April 2006, if you leave the Scheme with between three months and two years service, you must be offered a transfer value as an alternative to a refund. Those who leave with less than three months service will automatically be sent a refund, and those with two or more years of service will continue to be given a deferred pension.

Totalling up your pension benefits

When you come to retire from the ITB Pension Funds, the total value of your pension benefits built up in addition to the value of any other pension benefits you may have (as shown under 'LTA' on page 2) is compared to the LTA. You may be required to provide details to the Funds' Office of any other pension benefits you may have built up.

If you think you may be close to the LTA

If your total pension benefits exceed or are likely to be close to the LTA, it is possible to minimise any potential tax charge by registering them with HM Revenue and Customs. This is known as Transitional Protection and you should seek advice from a qualified Independent Financial Adviser (IFA) if you wish to consider taking advantage of it. (You can find a local IFA by calling IFA Promotion on 0117 971 1177 or visiting www.unbiased.co.uk)

More information

We are currently updating our websites and general member communications to reflect the changes covered in this edition of 'Pension News'. This includes both our information website www.itb-online.co.uk (where you can access the updated Member Booklet) and our interactive modelling website www.myitb.com (where the modelling will reflect the new rules such as the greater tax-free lump sum).

Please note: This article is meant to keep you abreast of the pension developments and is not intended to be an authoritative, complete statement of the changes. On no account should it be regarded as advice.

Annual **pension increases** for **2006/2007**

Pensions in payment are increased in April each year as if they were official pensions to which the Pensions (Increase) Act 1971 applies. The amount payable is based on the annual increase in the Retail Prices Index (RPI) up to the previous September, which is announced by the Government in October each year.

The pension increase being paid by the Open and Closed Funds this year is 2.7%, which is the published annual rise in RPI as at September 2005. The increase, which comes into effect from 10 April 2006, will be included in your April pension payment. If you retired from active pensionable service in the ITB Pension Funds after 25 April 2005, you will receive a proportional increase this year and a full increase at the time of the next review in April 2007.

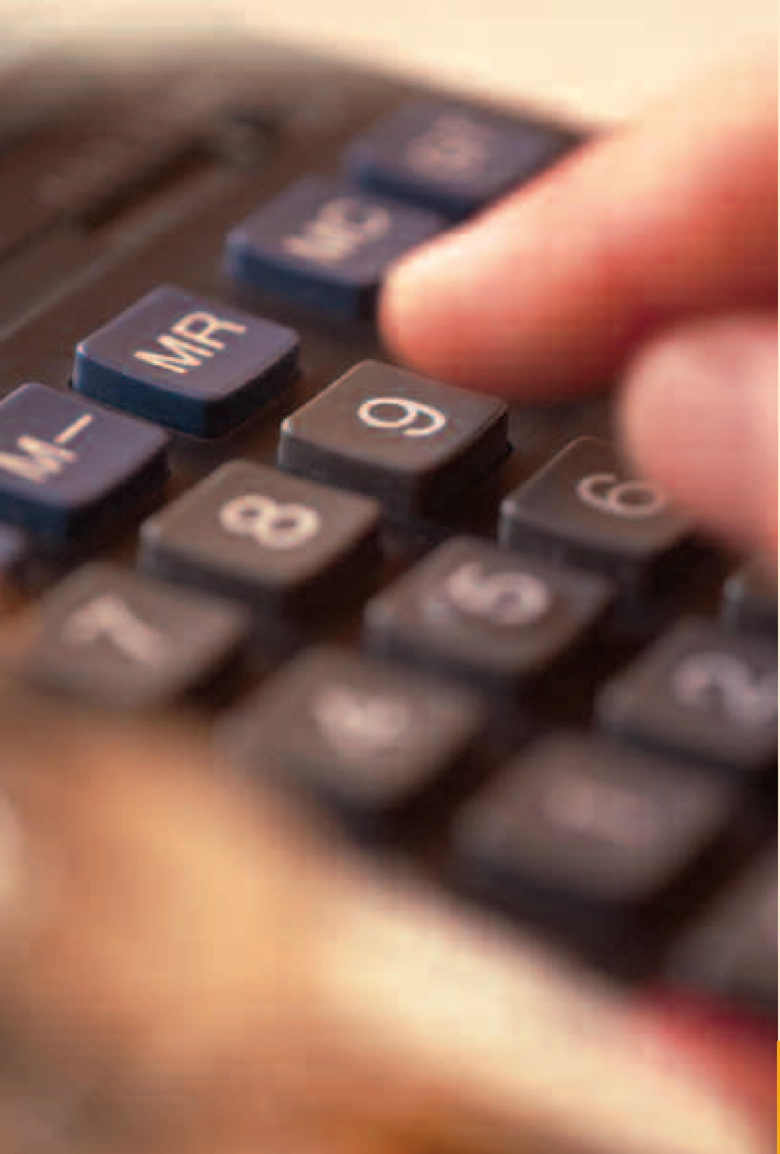
At the review immediately following your State Pension Age your pensions increase may be paid in part by the Scheme and in part by the State, but only if you have a Guaranteed Minimum Pension (GMP) for service before April 1997 as part of your Scheme pension. The Funds' Office will advise you if this year's increase will be paid in this way.

Pensions in payment arising from compulsory retirement or redundancy are not eligible for increase until the member reaches the age of 55. Ill-health and disability pensions granted under the Funds are not affected by this restriction.

The pension increases apply equally to preserved (deferred) pensions, which receive increases for the period from the date of leaving to the date payment begins as well as thereafter.

Interim actuarial assessm

The Open Fund is one of the decreasing number of final salary schemes in the UK, where the pension paid to a member is based on their service at and salary near to retirement, or at the date of leaving employment. This type of pension arrangement is also referred to as a defined benefit scheme, because the scheme rules specify the benefits to be paid to the members at retirement. In the case of the Open Fund, the contributions being made by Participating Employers and Members help to meet the costs of promised benefits to be paid in the future.



What is an actuarial valuation?

An actuarial valuation identifies how changes to the Scheme might affect it financially and a actuarial valuation is carried out on the Open Fund every three years. The last valuation of the Scheme was performed as at 31 March 2004 and so the next formal valuation is due to take place as at 31 March 2007. When carrying out the valuation the Actuary makes certain assumptions. These include, for example, how long people are expected to live, price rises, how much people are expected to earn and the income from pension scheme investments.

The results of the 2004 valuation which disclosed a reduction in the Scheme surplus were previously reported in articles in 'Pension News' (Editions 16 and 17) and also in the 'Report and Accounts 2004/05'. These documents can be easily accessed via the Funds' website www.itb-online.co.uk.

What is an interim assessment?

In recent years the Trustees have considered it prudent to ask the Scheme Actuary to conduct interim informal assessments of the Scheme, in between the actuarial valuations.

These interim financial health checks do not have the same requirement to take any immediate action (where necessary) that an actuarial valuation does. However they do provide a very useful preview of what the results of the next actuarial valuation may look like. The Trustees share this information with Employers as it provides greater time to plan for any forecast increase in contributions.

What has the latest assessment found?

The latest interim assessment showed that, using the same actuarial assumptions as used for the 2004 actuarial valuation, the Scheme had generated a small additional surplus.

However, the Actuary also advised that evidence was continuing to emerge of increased life expectancy.

ent of the Open Fund

This increase in longevity translates into pensions being payable for longer than previously assumed and this has an effect on the cost of providing pensions. As a result, the Actuary is recommending that a faster rate of assumed improvement in life expectancy should be included in the current interim assessment and the 2007 actuarial valuation. The use of these revised assumptions is expected to result in a reduction in the Scheme surplus at the next 2007 actuarial valuation.

In short, the recent interim assessment has shown that using revised assumptions for the fact that most of us are living longer will affect the financial standing of the Scheme at the 2007 actuarial valuation and may lead to an increase in future contributions to the Scheme.

What action is being taken?

Noting the information which emerged from the interim assessment and being committed to maintaining the Scheme on a financially sound footing, the Participating Employers have voluntarily decided to review the payment of higher rates of contribution in advance of the increased contribution requirements likely to come out of the 2007 actuarial valuation.

This increased cost of pension provision affects not just the ITB Pension Funds, but is reflected in final salary pension schemes throughout the UK. In this climate, the Employers, together with the Trustees, are carefully considering the options for ensuring that the Scheme remains healthy in the future.

Latest actuarial valuation of Closed Fund

The results of the formal triennial valuation of the Closed Fund which is due to be carried out as at 31 March 2006 are expected to be announced in the autumn.

Designed and produced by Wordshop, Sherborne, Dorset.