



To all active members of the Merchant Navy Officers Pension Fund

This leaflet is intended to provide information of a general nature for members of the MNOPF and should not be relied upon as a definitive statement of the law.

Introduction

This leaflet is being sent to all currently contributing members of the MNOPF and also to those who have contributed recently. If your last contribution was less than 12 months ago, and you obtain employment with an MNOPF participating employer, then you could resume contributions.

The government is changing the legislation surrounding the benefits and tax treatment affecting all pension arrangements in the UK. The effective date for most of these changes will be 6 April 2006, known as "A' Day", and this term is used in the remainder of this leaflet.

The tax rules applying to UK pension arrangements have become increasingly complicated and they differ depending on the type of arrangement concerned. In fact there are 8 different sets of tax rules in force and the system has become difficult for members to understand and for schemes to administer.

From 'A' Day the 8 different sets of tax rules will be swept away and replaced with one new set of rules which will apply to all UK pension arrangements, with a view to making pensions easier for members to understand and easier to administer.

In general, most people will have a wider choice of what pension provision to make and will be able to take larger tax free lump sums from their pension schemes when they retire. However, in some areas, there will be less flexibility than under the existing legislation, but these are not expected to be significant for the vast majority of MNOPF members.

An important change is that the existing HMRC (previously known as Inland Revenue) limits on benefits will be removed and replaced with a Lifetime Allowance ("LTA"), limiting the value of an individual's pension rights from all tax approved pension arrangements of which he or she has ever been a member. The LTA will initially be set at £1.5m but will increase annually until the 2010/11 Tax Year when it will be £1.8m. Where the value of benefits exceeds the LTA the total benefits can still be paid but there will be a tax charge on the excess. Broadly speaking, up to about one quarter of the pension value may be taken as a tax free lump sum instead.

It is unlikely that most MNOPF members will be affected by the LTA.

A further change is that from 'A' Day the maximum contributions qualifying for tax relief that you may pay (known as the Annual Allowance) will be increased from 15% to 100% of earnings (up to a maximum of £215,000 for the 2006/07 tax year).

What do the changes mean for active members of the MNOPF?

The Trustee of the MNOPF has decided on the changes to be made and in due course these will be incorporated in an updated Trust Deed and Rules and a revised Members' Booklet. The main changes affecting active members are as follows:

- The current limits imposed by HMRC on the maximum amount of pension will no longer apply for members who are active members at 'A' Day.
- Up to 25% of the value of a member's benefits may be exchanged for a tax free lump sum on retirement. The effect for most members is that from 'A' Day they will be able to exchange more of their pension at retirement for a tax-free lump sum than under the current limits.
- The rate of member's contributions payable to the MNOPF will continue at 7.3% of Pensionable Salary. If you wish to pay more than 7.3% of your Pensionable Salary you will be able to pay into any number of other private pension arrangements, subject to the Annual Allowance.
- From 'A' Day, any Additional Voluntary Contributions ("AVCs") paid may be taken (in part or completely) as tax-free cash on retirement, irrespective of when they were paid. Under the current rules, only AVCs that began to be paid before 7 April 1987 can be taken either wholly or in part as tax-free cash on retirement. AVCs taken as cash must be accounted for within the 25% limit mentioned above.
- You will only be able to make contributions to the AVC scheme after 'A' Day if you are paying AVCs at 'A' Day (or have paid AVCs to the MNOPF prior to that date).
- From 6 April 2010, under the new legislation it will not be possible to retire and draw a pension until reaching age 55 (unless you qualify for an ill-health pension under the MNOPF's Rules). At present, the minimum age for drawing a pension (except on ill-health) is 50 and this will remain in place until 5 April 2010.
- From 'A' Day it will be possible to take benefits from the MNOPF before reaching the normal pension age of 61 without necessarily retiring from work altogether. For example, you might want to stop full time work at age 58 but continue with your employer on a part-time basis (if your employer agreed). You might want your MNOPF pension to start because you were earning less. In these circumstances you could take the whole MNOPF pension (you would not be able to take just part of it) reduced in the usual way as if you were retiring early and could exchange part of it for tax-free cash if you wished. Having taken your pension, contributions to the MNOPF would stop, but you could build up a further pension for future service by joining another scheme e.g. the Merchant Navy Officers Pension Plan.

- If, after 'A' Day, you continue in service after reaching normal pension age you may continue to contribute to the MNOPF and build up further MNOPF pension.
- Children's pensions (paid on the death of a member to children who qualify under MNOPF's Rules) currently stop at age 18 but can continue up to age 25 if in full time education. However, under new legislation, for children's pensions arising from the death of a member after 'A' Day, the upper age limit of age 25 will be reduced to age 23, unless dependency was due to disability at the date of the member's death.
- Once your pension (which is taxable) commences it is guaranteed for 5 years and is then payable for the remainder of your life. For example, at present if you die exactly 3 years after retirement, the pension for the remaining 2 years of the guarantee period is paid as a tax-free lump sum to your dependants as determined at the Trustee's discretion. From 'A' Day, there is a possibility that this benefit will become taxable although HMRC has yet to finally decide.

Other information

It is considered likely that most MNOPF members will be unaffected by the impact of the LTA. However, if you think that your pension benefits from all sources might approach or exceed £75,000 pa at 'A' Day, it is possible to obtain some protection from the impact of the new legislation. The considerations are complex and beyond the scope of this summary. In these circumstances you might wish to seek advice from an independent financial adviser.

Members thinking of retiring before April 2006 should note the change in the amount of tax-free cash permitted in exchange for pension at retirement. If this applies to you, please contact MNPA who can provide you with figures for retirement based both on the requirements of the existing regime and on the new regime.

Neither the Trustee nor MNPA is authorised to give financial advice, but independent financial advice can be obtained from The Pensions Partnership, 6 Lakeside Business Park, Swan Lane, Sandhurst, Berkshire GU47 9DN (Telephone number: 01252 861380 or e-mail: russell.warman@pensionspartnership.co.uk) or from any other independent financial adviser.

If you have any general questions on the contents of this summary or how the legislation changes might affect you, please contact the MNPA Member Liaison Service on 01372 200200 or by e-mail to mls@mnpa.co.uk who will be pleased to help. Please remember to quote your MNOPF membership number.

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Maximum pension

Under one of the existing tax regimes, the maximum allowable pension at normal pension age is $\frac{2}{3}$ rd^s of final salary (broadly, salary in the 12 months before retirement) after 20 years service. Lower limits apply for lesser service. Also, different limits can apply in certain cases for members who joined the MNOPF before 1 June 1989. It has been possible for MNOPF members with long service to build up benefits in excess of the maximum allowed by the HMRC with the result that their benefits have had to be cut back on retirement.

From 'A' Day, these limits will be removed so that the pension you build up in the MNOPF will not be limited to a maximum (as is currently the case). Very high pensions, whose value when multiplied by 20 exceeds £1.5m in 2006/07 (i.e. a pension of over £75,000 pa), would be subject to a tax charge on the excess over £1.5m (for example if the excess was taken as a lump sum, it would be taxed at 55%).

Retirement from service after normal pension age

A member who remains in service beyond normal pension age will be able to continue contributing to the MNOPF. The pension accrued to normal pension age will be actuarially increased to the actual date of retirement (as happens at present).

In addition there will be a further pension for service after normal pension age. This will be calculated as 1/80th of the Average Revalued Pensionable Salary (calculated on Pensionable Salaries from normal pension age to the date of retirement) for each year of such service.

Where a member dies in service after normal pension age, death benefits would be the five year guarantee (see earlier) calculated as if retirement was the day before death, together with any entitlement to dependants' pensions.

Contributions to the MNOPF and other pension arrangements

Your ordinary contributions to the MNOPF after 'A' Day will continue at the existing rate of 7.3% of Pensionable Salary.

However, you could (in theory) pay the remainder of your gross earnings (subject to a maximum of £215,000 in 2006/07) into one or more other arrangements. These could include stakeholder or personal pensions or the AVC Scheme (provided you were an AVC contributor before 'A' Day).

It is suggested that members wanting to pay additional contributions should seek financial advice (see opposite).