



# To all deferred members of the Merchant Navy Officers Pension Fund

(Members who have left service but are not yet in receipt of their pension)

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

## Introduction

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 will be 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 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 MNOFP 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 this pension value may be taken as a tax free lump sum instead.

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

## What do the changes mean for deferred members of the MNOFP?

The Trustee of the MNOFP has decided on the changes to be made and in due course these will be incorporated in an updated Trust Deed and Rules. The main changes affecting deferred members are as follows:

- 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.
- From ‘A’ Day any Additional Voluntary Contributions (‘AVCs’) paid may be taken (either 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 could 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.
- From 6 April 2010 under 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 MNOFP’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.
- Children’s pensions (paid on the death of a member to children who qualify under MNOFP’s Rules) currently stop at age 18 but can continue up to age 25 if in full time education. However, under the 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.
- Exchanging small pensions for cash on retirement will be restricted. From ‘A’ Day such exchanges will only be permitted where the value of an individual’s pension benefits from all pension arrangements of which he has ever been a member does not exceed 1% of the LTA (i.e. total benefits of £750 pa for the tax year commencing 6 April 2006).
- 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](mailto: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](mailto:mls@mnpa.co.uk) who will be pleased to help. Please remember to quote your MNOPF membership number.

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