



To all Pensioners of the Merchant Navy Officers Pension Fund

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.

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 total value of all benefits exceeds the LTA there would be a tax charge on the excess but it is possible to register for protection of the benefits accrued before 'A' Day.

Please note that almost all MNOFP pensioners will not be affected by the LTA in practice.

The removal of HMRC limits will NOT be applied retrospectively; in other words, if the amount of your pension or your tax-free lump sum has been restricted because of the application of HMRC limits it will NOT be possible to have your benefits re-calculated under the new rules.

What do the changes mean for members receiving pensions from the MNOFP?

The changes mainly affect members who have not yet retired.

The Trustee of the MNOFP has decided on the changes it will make and in due course these will be incorporated in an updated Trust Deed and Rules.

For most MNOFP pensioners and dependants receiving MNOFP pensions, they will have no effect. However, the following changes could potentially apply in some cases:

- 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 dependents as determined at the Trustee's discretion. From 'A' Day, there is a possibility that this benefit will become taxable although HMRC has not yet finally decided.
- 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.

Other information

It is considered likely that most MNOFP members will be unaffected by the LTA. However, if the value of your benefits does exceed the LTA, it is possible to obtain some protection from the impact of the new legislation. If you think that your pension benefits from all sources might approach or exceed £60,000 pa at 'A' Day you may wish to seek advice from an independent financial adviser.

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 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 MNOFP membership number.

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November 2005