

Explanatory Note

Clause 14: Dependants' scheme pensions

Summary

1. This measure introduces three exceptions from the tests that must otherwise be carried out in respect of dependants' scheme pensions where the member died age 75 or over. The change has effect for dependants' scheme pensions payable on or after 6 April 2016.

Details of the clause

2. Subsection 2 introduces the threshold test for scheme pensions which provides for an exception from the test on dependants' scheme pensions if the pension values exceed a specified threshold.
3. Subsection 3 inserts new sub-paragraph 1A into paragraph 16A of Schedule 28 to the Finance Act 2004.
4. New subparagraph 16A(1A)(a) disapplies the tests in paragraphs 16B and 16C if every benefit crystallisation event in relation to an individual member under a particular pension scheme relates to having unused funds under a money purchase arrangement at age 75.
5. New subparagraph 16A(1A)(b) disapplies the tests in paragraphs 16B and 16C if enhanced protection applied to an individual's pension rights immediately before the individual member's death.
6. Subsection 4 applies the exception set out in paragraph 16AA to pensions payable before 6 April 2006 that are treated as scheme pensions.
7. Subsection 5 inserts new paragraph 16AA into Schedule 28.
8. New subparagraph 16AA(1) sets out the component parts of the threshold test. They are, for defined benefits arrangements, the scheme pension and all dependants' scheme pensions multiplied by a valuation factor of 20 plus any lump sum death benefits, for cash balance arrangements the promised amount and for other money purchase arrangements, the amount of the sums and the market value of the assets.
9. New sub-paragraph 16AA(3) sets out the threshold which is 25% of the standard lifetime allowance applying immediately before the member's death.
10. New sub-paragraphs 16AA(4), (5) and (6) set out how scheme pension, dependants' scheme pensions and lump sums respectively under defined benefits arrangements are calculated for use in in sub-paragraph (1).
11. New sub-paragraphs 16AA(7) and (8) set out how the value of cash balance arrangements and other money purchase arrangements respectively are calculated for use in sub-paragraph (1).

12. New sub-paragraph 16AA(9) provides that the arrangements in sub-paragraphs (7) and (8) should be valued at the member's death unless the member actually became entitled to the scheme pension during their lifetime. In that case the arrangements should be valued when the member first actually became entitled to the scheme pension.
13. Subsection 6 sets out that the provisions will come into force from 6 April 2016 and have effect for periods ending on or after that date when determining
 - whether the test in paragraph 16B must be carried out in relation to the year following the member's death, and
 - whether the test in paragraph 16C must be carried out for each new 12-month period following that year.

Background note

14. This measure has been introduced to make the administration of dependants' scheme pensions simpler to support the Government's policy to reduce the administrative burden on UK industry.
15. If an individual who is a member of a registered pension scheme and in receipt of a scheme pension or prospectively entitled to a scheme pension dies with dependants then dependants' scheme pensions may be payable.
16. If that scheme pensioner had reached age 75 at the time of their death, the total amount of any dependants' scheme pensions have to be tested against the amount of the member's scheme pension so that excessive amounts from the member's pension savings cannot be set aside to pay benefits for dependants so that the member can avoid paying a lifetime allowance charge.
17. These tests are to be carried out annually for all dependants' scheme pensions regardless of the size of the member's pension savings.
18. This measure introduces exceptions from those tests. If the member had enhanced protection or the scheme had only money purchase pension savings that were all tested against the lifetime allowance on reaching age 75 (under benefit crystallisation event 5B) the tests on the dependants' scheme pensions do not need to be carried out.
19. There is a further exception. The tests on the dependants' scheme pensions do not need to be carried out if 25% of the appropriate standard lifetime allowance is more than the total, under a scheme, of a member's:
 - money purchase pension savings (including cash balance and other money purchase pension savings) and
 - defined benefits scheme pension and dependants' scheme pensions multiplied by the relevant valuation factor (in this case, 20) plus any lump sum death benefits.
20. The pension savings are to be valued immediately before the member's death unless the member was actually entitled to a money purchase scheme pension immediately before their death. In that case the money purchase pension savings will be valued when the member first became actually entitled to that scheme pension or the first scheme pension under the pension

scheme if there is more than one.

21. The level of the appropriate standard lifetime allowance will depend on the date of the test and in certain cases, the member's protected level of lifetime allowance.
22. If you have any questions about this change, or comments on the legislation, please contact Beverley Davies on 03000 585266 (email: pensions.policy@hmrc.gsi.gov.uk).