



***Today the Chancellor announced an improvement in the trivial commutation of pensions for cash rules...***

## **ACA WELCOMES TRIVIAL COMMUTATION CHANGE**

**12 March 2008: The Association of Consulting Actuaries (ACA) has welcomed the Chancellor's announcement that will allow more pensioners to commute small pensions into cash on a scheme by scheme basis, abandoning the complex test introduced in 2006 that involves looking at the value of all their schemes as a whole.**

ACA Pensions Taxation Committee Chairman, **Karen Goldschmidt** commented:

"We are very pleased that, in answer to lobbying from the pensions industry, HMRC has come up with a package which includes bringing back the mechanism that worked well up to 2006 - a simple per scheme test.

"The revived rules will allow members to take cash from company schemes without the complex test involving other pension schemes, if the value of each pension is no more than £2000 (pensions of around £100 pa). Whilst this sounds a small sum, we believe that even this level will considerably help the administration of schemes with many small pensions and the pensioners concerned. Although we would have liked this level to be higher we do understand the various parameters within which HMRC has to work in relation to Government tax management and pensions policy.

"We would, however, ask that HMRC review how the new rules operate and in particular whether it would be possible to increase the limit at some time in the future – we are sure that evidence will support that the new facilities are not abused. Occupational pension schemes are complex and expensive to run and are very unlikely to be set up to abuse this very modest facility. The interaction of the current facility for trivial commutation and the new one will not lead to unreasonable levels of cash out".

The ACA notes that there are many small pensions waiting to be paid in company pension schemes which have arisen for various reasons – often because members leave after short periods of service. Paying these involves wasteful administration costs – at the lowest levels these costs can be many times the value of the benefit itself. The old tax rules provided a simple efficient mechanism for occupational pension schemes to provide a one-off cash sum at retirement instead – something of much more use to a pensioner than a tiny pension.

The new simplified tax regime introduced in 2006 extended the level at which commutation for cash could be exercised from effectively £5,000 to £15,000, but it also introduced new conditions that had unintended effects which have been damaging for company pension schemes and pensioners alike. One of these conditions is that members must at present look at all the pension schemes they have when seeing if the pension is small enough to cash out. These conditions have been extremely difficult for scheme members to understand and plan around and inevitably involved extra processing costs for schemes. Overall, the result has been that the 2006 rules have prevented many small pensions from being cashed out. Today's reforms will ease this situation.

"ACA is pleased that HMRC has engaged with the industry in this and other areas to help bed down of the tax regime set up in 2006 - and we very much ask that this engagement continues: pensions are a very practical issue, and as we operate through the lifecycle of schemes within the "simplified" tax laws there will inevitably need to be some changes to ensure that the law works in the real world as intended," added Karen Goldschmidt.

**For further comment:**

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**[About the Association of Consulting Actuaries \(ACA\)](#)**

The **Association of Consulting Actuaries (ACA)** is the representative body for consulting actuaries, whilst the Faculty and Institute of Actuaries are the professional bodies. The ACA has 1700 members working in around 80 firms. ACA Members are all qualified actuaries and are subject to the code of professional conduct of the Faculty and the Institute of Actuaries. Advice given to clients is independent and impartial. The ACA forms the largest national grouping of consulting actuaries in Europe.