

PENSIONS – THE FUTURE

As you may be aware, changes have been proposed to Pension Legislation which are due to come into force next April.

One of the major changes is that pensioners will no longer have to purchase an annuity with the funds available from their Scheme. Instead of the current 25% tax free lump sum being available, this would increase to 100% of the pension fund.

Although all independent financial advisers will be expecting a significant increase in work, spare a thought for those unfortunate individuals who encounter financial difficulties.

In the event that an individual is declared bankrupt, currently the 25% tax free lump sum can be treated as “income” for the purposes of calculating a bankrupt’s income and expenditure.

As a result, there have been a number of Income Payment Orders or Income Payment Agreements set up purely to receive the lump sum at some point within the three years of the individual being declared bankrupt.

The frightening scenario would be that the same bankrupt, after April 2015, could potentially lose 100% of his/her fund.

This surely creates a social injustice and it is inconceivable that the Government will not pass legislation to “ring-fence” part of the pension fund so that any individual who is declared bankrupt within three years of the date at which the pension can be drawn down, has some protection from the claims of creditors.

Although we are aware of a small number of cases where excessive funds have been transferred into a pension scheme, seemingly out of reach of creditors, the vast majority of bankrupts approaching retirement age

will have made pension contributions which are unchallengeable. The fact remains however that most individuals will not have provided sufficient funds to maintain their current standard of living in retirement.

Please note that should your clients require any confidential advice regarding this or any other insolvency matter they are welcome to contact one of our Partners. An initial consultation is provided free of charge and without obligation. Also, if you or any of your colleagues require any clarification regarding insolvency law or procedure, please do not hesitate to contact us.