| Legal

Pension changes in the UK and France: between flexibility and tax

||| Given the public deficits and the recent changes in Public Pensions which took place on both sides of the Channel, private pensions plans are becoming more and more important to all of us.

For years, British pensioners have contributed into their private pensions. They have seen many changes through "A-Day" and the recent changes on the Annual Allowances. Whether they had decided to contribute to Personal Pension, SIPP, Company Occupational pension or other schemes, they recently have been given more choices to access the income from their pension after reaching 55 years old.

Parallelly, across the channel, new exit rules for Private pensions were put in place over the past few months.

New pensioners will gain more flexibility when accessing their pension. It will certainly be considered as a progress as the responsibility of a pension has over time switched from Governments to employers and now to the retirees.

Governments seem to acknowledge this, and have made these pension products more attractive to savers.

Nonetheless they haven't forgotten the need to finance the current public deficits and thus the increase of flexibility has been balanced by an increase of tax charges for many.

Pension solutions are becoming more flexible:

The French government has intended to modernise the Plan d'Epargne Retraite Populaire (PERP) which hasn't had a great success since its launch by the Loi Fillon of August 2003.

Until recently, the only exits allowed by the French PERP were under the form of annuities for the retiree or his /her spouse. This was also the case in the event of death of the individual during the saving phase. Only a few exit options with a lump sum capital payment were allowed in case of very exceptional situations.

By comparison, in the event of death of the plan saver, all funds saved in a UK plan are paid to the nominated beneficiaries tax free.

Since November 2010, French retirees can access 20% of the amounts saved in their PERP in capital at retirement. The remaining 80% of the funds will still be accessible via a lifetime annuity which is taxed as an income.

Even though it might not seem much to a British retiree who can receive from age 55 a lump sum up to 25% of the funds saved, it is a great improvement on the French side.

The British authorities have themselves amended the Income Drawdown plan which allows the retiree to access 25% of their capital tax free, and to withdraw the remaining funds via annual withdrawals which are limited in value.

The Capped Drawdown Plan and the Flexible Plan were introduced from April 6th 2011. In both plans the Tax free lump sum is maintained.

The Capped Drawdown plan is replacing the actual plan, the income available from the withdrawal will be lower but is expected to be in line with what could be received from a lifetime annuity. The capped drawdown can be continued up to the end of the retiree's life whatever his/her age.

With the previous legislation at age 75 the retiree had to purchase an annuity or opt for another plan (Alternatively secured Pension) where the sums left to his beneficiaries upon death were taxed up to 82%.

The recent introduction of the Flexible drawdown plan provides extra flexibility to the British retirees.

It allows the individuals to withdraw all the funds from their plans provided that they can prove when accessing the plan from age 55, that they have a guaranteed income of at least £20,000 from other sources such as lifetime annuity, final salary pensions, or state pension.

It is expected that around 200,000 individuals will be able to access this Flexible Drawdown Plan.

In balance for a greater flexibility; some tax charges:

For the French PERP, the access to 20% of the funds in capital will not be tax free, as all payments in capital from a retirement plan will be taxed in France at income tax rate.

It means for French expatriate or British citizens retiring in France that a careful planning must be set. As it will also include all payments in capital from non-French pension plans and therefore the British Tax free lump sum could be caught into this new taxation.

In the United Kingdom the increased flexibility will also be balanced by some increase in taxation.

Upon death the Income withdrawal Plan can allow the remaining funds to be passed to the beneficiaries provided a charge is paid. This charge which was at 35% will now be at 55% of the remaining funds.

All these parameters should be taken into account when one considers changing residency. The retirement age may vary, and depending on one's personal circumstances, planning may vary as well.

For those with sufficient funds and retiring abroad, the Qualified Recognised Overseas Plan scheme (QROPS) might be an option to consider, as it could allow a greater flexibility.

It is important when considering saving through a pension plan to balance the advantages of the Tax relief concerning the contribution and the gross roll up during the life of the plan, which are being offered in both countries, and the constraints at the exit of these plans set in place by our governments who would like to ensure that all retirees will have enough to live on to an increasing old age.

This should only be used as an overview and not in any way as advice. Only an analysis of one's personal circumstances will ensure a proper planning. ■

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