

Money matters

BÉRANGÈRE HASSENFORDER TAKES A CLOSE LOOK AT SOME OF THE DIFFERENCES WHICH EXIST IN THE WAY PENSIONS WORK ON BOTH SIDES OF THE CHANNEL

On both sides of the Channel, there have been many changes recently regarding pensions. Public pensions in the UK will be accessible at a later age (65 increasing to 68 in 2043) and France at age 62 (for a limited amount).

As a consequence, private pension plans become more and more important for all of us. For this reason, it is important to concentrate on these.

Future British pensioners have contributed into their private pensions for many years. They have seen many changes such as 'A Day' (a set of UK pension reforms that came into force on 6 April this year) and the recent changes on the annual allowances. Wherever they had decided to contribute – personal pension, SIPP, company occupational pension or other schemes – at some stage from the age

of 55, they must decide how they wish to take their pension for their retirement.

New exit rules have been put in place since April 2011 in the UK. In France, some major amendments recently took place in this area as well.

FLEXIBLE FRIENDS?

Happily, new pensioners will get more flexibility in the way they access their pension when they decide to retire. It should be considered as progress that the responsibility for pensions has, over time, switched from governments to employers and now to the retirees themselves.

Governments seem to acknowledge this, and wish to make these pension products more attractive to savers by offering less restricted rules at the exit of the plan.

Nevertheless, they haven't forgotten the huge deficits

that need to be financed. This increase in flexibility has been balanced by an increase in tax charges for many people.

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

Up to now, the only exits allowed by the French PERP were annuities for the retiree or his/her spouse. Even during the saving phase, should the person die before having had access to the plan, the funds are paid as annuities to their dependants. A few

exits are allowed in case of exceptional situations such as being a first-time buyer, in case of invalidity or long-term unemployment.

By comparison, in the UK, in the case of death before retirement, all funds saved in the UK plan are paid to the nominated beneficiaries tax free.

Since November 2010, it has been possible for the French retiree to access 20% of the amount saved in capital in their PERP at retirement. The remaining 80% of the funds will still be accessible via a lifetime annuity which is taxed at an income tax rate.

It might not seem much to a British retiree used to the tax-free lump sum from age 55 of 25% of the funds saved, but it is a great improvement on the French side.

DIFFERENT STROKES

The British authorities have themselves amended the income drawdown plan. For, now, it 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 6 this year.

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The drawdown plan is, in a way, very similar to the actual plan but limits are tighter, which means that the maximum amount that can be paid annually, linked to the 15-year gilt, are reduced. A review of these limits has to be done every three years compared to every five years in the previous plan.

The retiree will no longer have the obligation to switch to 'secured drawdown', i.e. an annuity, or a lower drawdown at age 75 (or 77 since June 2010).

By removing the secured drawdown after age 75/77, it also takes care of the death benefits that were attached. The actual regulation led to an overall taxation of 82%, the remaining funds left in the pension after the death of a pensioner aged over 75 with no dependant.

The flexible plan will allow the retiree to withdraw all the funds from their plan provided



that they can prove when accessing the plan from age 55, that they will benefit from a level annuity of £20,000.

For those who might have some benefits from the French and British systems, a careful planning of the situation will be required as the age at which the different plans or benefits can be accessed are definitely not all the same.

For the French PERP, the possibility of having access to 20% of the funds in capital is nothing when compared with the British 25% tax-free lump sum, as all payments in capital from a retirement plan will be taxed. This capital will be taxed as income tax although there is a mechanism that reduces the impact of the increase of the marginal tax rate.

CAREFUL PLANNING

It will also include all payments in capital from non-French pension plans. Therefore, the British tax-free

lump sum could be caught into this new taxation should the retiree be French resident when the payment is made. There is, once again, a need for very careful planning.

In the UK, 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 different parameters will have to

be taken into account should one consider the prospect of changing residency. The retirement age may vary for every single one of us, and depending on one's personal circumstances, the planning may vary as well.

RETIRING TYPES

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

There is another important consideration when planning

to save through a pension plan. It is vital that you balance the advantages of the tax relief on the contributions and the gross roll-up over 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 the governments, which would like to ensure that the retirees will have enough to live on to an increasing old age.

Please remember that this article should only be used as an overview of the situation; it should not in any way be taken as advice. Only a bespoke analysis of your particular personal circumstances will ensure that the proper planning you need takes place. ■

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