PRESS RELEASE
PROVIDED FOR MEMBERS OF THE BLBG, LEBANON

2014's Budget presented by George Osborne, Chancellor of the Exchequer, was met by both excitement and surprise.

The apparent overhaul in pensions legislation was as equally unforeseen as it was radical, splitting opinion on whether or not, in years from now, such considerable measures will prove to be costly for the Government purse. At whatever cost, however, the overhaul could (all is subject to consultation) inadvertently benefit expatriates to a greater degree than those remaining in the UK.

The primary interest, I suspect, for members of the BLBG, many of whom are likely to have UK pensions, is the flexibility Mr. Osborne proposes to allow by putting control, and indeed responsibility, firmly back in the hands of the pension fund member.

For years the annuity market has been criticised, and this criticism has only intensified in recent years. This is particularly true at a time where some providers require you to have a significant pension pot, before they will even consider anything other than a mandatory annuity purchase (an annuity is a guaranteed investment which can pay a guaranteed or increasing periodic income, for a fixed term, minimum term, or until the death of the holder; they have recently been criticised for being inflexible and of poor value).

Just as many were expecting an investigation of some sort into the sale of annuities, though, the Chancellor surprised many with new proposed legislation removing mandatory annuity purchases altogether. Note, though, that the need to 'annuitise' was actually removed on 22 June 2010, although some providers chose not to offer a 'drawdown' option except in certain circumstances (or pension values) – it's just that, this time, few other limits look to be imposed.

Subject to reforms, amendments, and consultation prior to becoming effective, the Chancellor has proposed that we should be free to decide how often, at what age (minimum 55), and in what amounts we may drawdown from our pension.

His proposals pave the way for pensioners to decide for themselves what levels of income to take from their pension (without limits), the only consideration being the need appropriately and effectively to manage their tax position and obligations, given that any amount drawn over and above the Pension Commencement Lump Sum (usually 25% of the pension pot) will be considered income and thus be taxed at the member's marginal rate.

Furthermore, the Chancellor has vowed to reduce the tax burden payable upon death (called the Special Lump Sum Death Charge). This currently stands at 55% on the residual fund for pensions in payment. The specific provisions of this commitment are beyond the scope of this article and should be considered with a professional advisor.

The Chancellor further proposed a guarantee, to be enforced by law, that anyone with a defined contribution pension will be offered free and impartial advice when retiring, to ensure they get the most from the choices they have.

As it stands, it is unclear what the Chancellor's intentions are with regard to non-resident UK Pension members, and whether or not individuals will be free to utilize any Double Taxation Agreement that may be in place. Though it's still only April, if the utilization of the DTA with the UK gets the green light, and considering Lebanon's favourable Tax Rates, many holders of UK Pensions who are resident in Lebanon (or elsewhere) could have just been delivered an early Christmas Present from the Chancellor.

No doubt some would have seen the broadsheets' headlines portraying elderly pensioners 'cashing-in' their pension and buying a Ferrari (and later running out of money thus risking relying upon an already burdened state), but it appears that George Osborne trusts us to do the right thing and make the right decisions regarding our own financial future – generally a reasonable expectation, some will argue.

It is important to remember, still, that so attractive is this new trust instilled in the public, that the Chancellor foresees a real risk of many Public Sector Scheme members rushing for the door, potentially resulting in an immediate and costly risk to the Public purse that it can ill-afford (these schemes are 'unfunded' – not to be confused with 'underfunded' – and paid for largely from NI contributions).

To this end, he has outlined measures to restrict or remove the option to transfer out of Public Sector and/or Final-Salary/Salary-Related schemes (Teachers, Firefighters, Police, NHS, Civil Servants,) except in 'extraordinary circumstances'. Such 'extraordinary circumstances', you may have guessed, are subject to clarification.

It is unlikely that Mr. Osborne would have made this particular proposal without considering any potential contraventions of the EU Freedom of Movement of Capital legislation.

A pessimist may say that these measures are aimed at generating a short-term boost for the economy and the government (tax revenues when you take your pension, VAT revenues when you spend it, NI & Income Tax if new jobs are required on the high street if the recovery materializes), the final bill to be dealt with later by a future government, quite possibly of a different political hue.

An optimist may say the legislation allows us all the choices we desire, and obliges, or even educates, us to be responsible and exercise financial skill and foresight. This is something that some would suggest would be most welcome.

Regardless of whose perception may be accurate, the consequences may offer a significant advantage in the very near future for UK residents and non-residents alike. They certainly warrant that pension review some of us have been putting off for so long.

An experienced and competent IFA firm will be able to assist you in considering what the Budget 2014 means to you, for both pensions or any other assets you may have.

Pembridge continue to offer unbiased, professional, and experienced advice in Lebanon, both to new and existing clients. We welcome any enquiries.

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