



Small Self-Administered Scheme

Memorandum explaining the amendments to the Principal Deed and General Rules to be made by the Deed of Amendment. Any reference in this document to 'Standard Life' means Standard Life Assurance Limited.

Background

The Deed of Amendment amends the Principal Deed and General Rules of the Scheme to apply the new simplified pension regime from 6 April 2006. The new regime is set out in the Finance Act 2004 and the Pensions Act 2004.

The new simplified pension regime sweeps away the old contribution and benefit limits and introduces a new taxation framework for pensions. The general purpose of the Scheme, however, remains the provision of pension and lump sum benefits on retirement along with death benefits in return for tax-efficient contributions.

Amendments to the Principal Deed

Given the extent of the amendments to the General Rules, the Deed of Amendment replaces the existing General Rules with a new set of General Rules that apply to Members who had not used their Interest in the Scheme to provide their benefits before 6 April 2006. We have introduced the terms and requirements of the new simplified pension regime into the General Rules and we will, in the rest of this Memorandum, highlight some of the key differences between the new and the old rules.

The Deed of Amendment also introduces borrowing and lending limits which conform with the new limits set out in the Finance Act 2004 whilst containing transitional provisions which retain existing powers of borrowing and lending so long as those arrangements are not subject to alteration or amendment.

Broadly speaking Trustees may borrow up to 50% of the net asset value of the assets of the Scheme and lend up to 50% of that value to an Employer who is a Participating Employer in the scheme for so long as the scheme satisfies the definition of a small scheme within DWP definitions for that purpose. Other investment powers are broadly consistent with current powers of investment except that a scheme may only invest 5% of the net asset value of the scheme in one Principal Employer or up to 20% in more than one Participating Employer so long as the amount invested in any one Participating Employer does not exceed more than 5% of the net asset value of the scheme. Again there are transitional arrangements for existing schemes where the sums invested do not vary.

Amendments to the General Rules

A. Definitions and interpretation

This Rule introduces definitions used in the Finance Act 2004 as well as removing definitions used under the old tax regime.

We have also added a new definition of 'Civil Partnership' as, under the Civil Partnership Act 2004, civil partners are to receive the same treatment as married couples.

B. Membership

Under the new regime, a Normal Retirement Date can be between the Normal Minimum Pension Age and the day before the Member's 75th birthday. 'Normal Minimum Pension Age' means age 50 before 6 April 2010, when it becomes age 55.

The rules exclude applications for membership by an employee who is working in another European Union state unless they have been seconded from the United Kingdom for a limited period. We have made this change as, if these individuals are included, the Scheme would need to comply with the social and labour law of the state in which they are working. If an employee joins the Scheme and is then seconded to work in another EU state, he can continue his membership but, if he is transferred to that state on a permanent basis, his contributions must stop.

C. Contributions

We have removed the restrictions in the rules on the amount of contributions that Employers and Members can pay to the Scheme. Further information on the availability of tax relief and on new tax charges for large contributions can be found on the HM Revenue & Customs website –

<http://www.hmrc.gov.uk/pensionschemes/rpsm.htm>

D. Paternity or adoption leave

The provisions for paying contributions and providing benefits during paternity or adoption leave are now the same as for maternity leave.

E. Death benefits before taking retirement benefits and before age 75

Lump sum

Under the new simplified pension regime, there is no limit on the amount of the lump sum that can be paid on the death of the Member before retirement and before age 75.

There is however a limit on the amount of the tax-free lump sum and, as a result, we have introduced an option for a beneficiary who is a Dependant to take their benefit in the form of a pension (which can be with an insurer of their choice) instead of paying 55% tax on the lump sum.

In Premier SSAS schemes only, there may be a further option for a dependant, subject to the agreement of the trustees, to take the benefit in the form of an unsecured pension fund or alternatively secured pension fund which provides for an income benefit to be taken by the member from a fund representing their benefit and held for this purpose without the necessity for the prior purchase of an annuity.

F. Early leavers

The Pensions Act 2004 introduced changes for Members who leave with less than two years' pensionable service. These changes do not apply to the General Rules of the Scheme as the rules give a paid up pension to all early leavers. The changes only apply to the Scheme where, under Special Rules, a Member leaves with 3 months' or more pensionable service and does not have a right to preserved benefits.

G. Retirement

On retirement, a Member may use his Interest in the Scheme to take a Member's pension, a lump sum and provide pensions for his Dependants. As an alternative to this, in premier SSAS schemes only, a Member may, if the Trustees consent, at any time after attaining Normal Minimum Pension Age designate part or all of their Interest in the Scheme to be held as an unsecured pension fund or, after age 75, as an alternatively secured pension fund which can be used to provide them with an income without the necessity for the prior purchase of an annuity. The Member may continue to take benefits in this way until they choose to request the Trustees to secure a pension for them by the purchase of an annuity. Each time that a Member chooses to designate part of their Interest in the Scheme to be used to provide a pension or to be set aside to provide an unsecured pension, they may take up to 25% of the fund concerned as a lump sum. It is possible for a Member to take their benefits before, or after, retirement as long as their Employer consents.

Taking benefits

A Member can take their benefits between the ages of 50 and 75 but, in 2010, it is a requirement under the new tax regime that we increase the minimum age to age 55.

If a Member continues in service after his Normal Retirement Date, the Member can take all his benefits at that date or defer taking benefits and leave his Member's Interest invested until he retires. Once the Member reaches age 75, he has no option to take a tax-free lump sum so, in general, we expect Members to ask for their benefits before that age. If the Member does not ask for his benefits by age 75, the Trustees will apply part of their Interest in the Scheme to pay any Lifetime Allowance Charge and hold the remaining fund until the Member asks for his pension or designates part or all of his fund to be taken as an alternatively secured pension.

Pension

There is no longer a limit on the amount of the Member's pension but, if a Member's Interest in the Scheme exceeds his available Lifetime Allowance, a new tax called the Lifetime Allowance Charge may be due.

If the Member wishes to take income rather than a pension, the Member may have an option to transfer to a vehicle which permits this such as Premier SSAS or the Standard Life Self-invested Pension Scheme or another similar scheme.

Lump sums

Once the Member reaches age 75, he has no option to take a tax-free lump sum.

Under the new regime, the tax-free lump sum is limited to the 'Pension Commencement Lump Sum' set out in the Finance Act 2004. (The Pension Commencement Lump Sum takes account of any transitional protection including Members with rights to a tax-free lump sum greater than 25% of their Fund on 5 April 2006.) A tax-free lump sum is now available from voluntary contributions.

Triviality

The new limits apply for paying a lump sum to Members or Dependants instead of trivial pensions.

H. Death benefits after taking retirement benefits

Pensions

A Member can ask the Trustees to provide a pension for a Dependant or a Dependent Child after his death.

A Member can also ask for his pension to continue to be paid until the end of a guaranteed payment period of up to 10 years. There is no longer an option to pay the value of a guarantee as a lump sum.

Where a Member dies with an unsecured pension fund, the remaining fund can be used to pay an unsecured pension fund lump sum death benefit (less tax at 35%) to a Dependant, or to provide a Dependant's pension or a Dependant's unsecured pension fund. An alternatively secured pension fund can be used to provide a Dependant with a Dependant's unsecured pension fund or a Dependant's alternatively secured pension fund depending on whether the Dependant is under or over 75 at the time of the member's death. Where an alternatively secured pension fund cannot be disposed of in any other way it may be paid respectively as a charity lump sum death benefit or as a transfer lump sum death benefit to a charity nominated by the Member or to one or more members of the scheme nominated by the Member. Where a Dependant dies with an unsecured pension fund or alternatively secured pension fund the remaining fund will be dealt with in the same way as on the death of a Member with such a fund.

Lump sums

There is a new option for the Member to choose annuity protection where a lump sum is paid out if the Member dies after buying their pension and before age 75. (Under the rules, protection will not apply if the Member has also requested a guarantee period.)

Annuity Protection is not available from Standard Life at 6 April 2006 but the Member can use their open market option to buy a pension with protection from another insurer.

I. Transfers

The Scheme can accept transfers from most forms of pension savings.

Any transfers out of the Scheme must consist of all of the Member's Interest in the Scheme and be to a scheme that is recognised as a pension scheme for tax purposes in the UK or abroad.

J. Pension sharing on divorce

The new rule now covers the dissolution of a civil partnership and is much shorter as the requirements under the new pension regime are much simpler.

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