factsheet

for deferred members of the Coats Pension Plan

Government Pension Reform

Please take a few minutes to read this Factsheet. It contains important information about Government regulations and changes that affect the Coats Pension Plan ("the Plan").

On 6 April 2006 the Government's new tax regime for pensions is due to come into force. It is a major reform, allowing pension schemes more flexibility in providing benefits, and individuals more choice – for example the ability to join any number of pension schemes at the same time.

The Plan is approved by HM Revenue & Customs (the new name for the Inland Revenue). This brings important tax advantages for members but, at the same time, sets certain limits on the benefits that can be paid from the Plan and the contributions members can pay to the Plan.

The current Inland Revenue limits are withdrawn, and replaced by new allowances:

- A "Lifetime Allowance" for the maximum amount of the value of all your pension savings which have benefited from tax relief, initially £1,500,000.
- An "Annual Allowance" for the maximum value of benefits that you can earn (or contributions that can be made on a money purchase basis) in any year under all your pension arrangements, initially £215,000.

Companies and pension scheme trustees have some flexibility as to how they approach these changes. Although the changes are designed to make saving for pensions simpler and more flexible, for many people the changes will not make much difference.

Through this Factsheet we show the issues we have dealt with so far and the changes that will be made to the Plan.

The changes apply from 6 April 2006 unless another date is stated.

1 Early retirement

The lowest age at which the Revenue currently allow you to retire and draw a pension from the Plan is age 50 (except in cases of ill health retirement) subject to the rules of the Plan. In April 2010 the Government is increasing this to 55 for all pension schemes.

2 Late retirement

In some circumstances you may be able to defer taking your benefits. However, you should note that the latest date at which your benefits can come into payment is your 75th birthday.

3 Death after retirement

If you die up to five years after your retirement, a lump sum is paid to take account of the fact your pension has not been paid for five years.

From 6 April 2006, if you retire after age 70 and die after age 75, it will no longer be possible to pay this benefit as a lump sum. Instead your pension will continue to be paid until the end of the five year period as if you continued to receive it. It will be taxed as income in the normal way.

The Trustee uses its discretion to decide who receives these payments, so under current law and practice they are usually free of inheritance tax.

4 Additional Voluntary Contributions (AVCs)

There are several changes in the law affecting AVCs from 6 April 2006:

i) You will not have to take your AVC benefits at the same time as you draw your main Plan benefits. You will also be able to choose to transfer the AVCs to another arrangement at any time, which will give you the opportunity to select the AVC provider and the time when you want to convert the capital to pension.

ii) You will be able to take up to 25% of the value of the AVC as tax-free cash.

iii) The Government is removing the limit on the amount of contributions that can be paid into pension arrangements (currently 15% of taxable pay). As a result, although you cannot pay any more AVCs into the Plan once you have left service, you will be able to get tax relief on contributions you make to any pension scheme, up to the level of 100% of your taxable pay (or £3,600 if greater).

It is possible to pay more than this, but if your total contributions are more than 100% of your taxable pay, the excess will not benefit from tax relief.

Notes:
a. There will be a tax charge if your total contributions in any year, together with the value of any other benefits earned in that year, result in benefits earned in excess of the Annual Allowance (see above).
b. Protection for existing AVC holders: Members who started paying AVCs before 8 April 1987 had the right to take all their AVC funds as tax-free cash. That right will be protected and this will allow the full amount of AVC funds to be taken as first call on the tax-free cash, not just 25% of the AVC fund.
c. When AVC benefits become payable from the Plan, there will be an opportunity to choose whether the AVC fund is used to buy pension with or without a spouse's pension, or with or without RPI increases.
d. A separate announcement was issued on AVCs in December 2005, giving details of changes to the factors used and the way in which pensions will be secured from AVCs held within the Plan.

5 Cash sum payments

The Government has changed the rules on the amount of cash that members can take when benefits become payable. For most people, this means that the amount that can be taken tax-free has gone up. We have decided to take advantage of this by allowing members to ask for a cash sum up to the new maximum, which will be 25% of the value of your benefits.

To protect our members, we will use the existing formula if a larger cash sum would result. The figure that applies as at 5 April 2006 will therefore be calculated and can be increased in line with increases in the Lifetime Allowance (see above). In summary, you will get the option to take the maximum tax-free cash sum allowable overall, if that is what you wish to do.

For most people this will represent an increase in the cash available. If you choose to take a higher cash figure, this will leave a smaller pension.

Note that this is not a recommendation to take cash instead of pension and we recommend that members take independent financial advice before taking this option.

6 Civil Partnerships

With effect from 5 December 2005, death benefits payable from the Plan to spouses must, by law, be paid to registered civil partners.

If you are in a registered civil partnership at the date of your death, the Plan provides all of the benefits your spouse would have received (had you been married) to your civil partner. You should contact the Pensions Office in writing with documents giving details of any civil partnerships.

If a registered civil partnership comes to an end, the ex-partner is treated in the same way for pension sharing as an ex-spouse would be for pension sharing on divorce.

Further details of the Plan death benefits are shown in the Plan booklet.

7 Revenue limits

As a result of the removal of the old Revenue limits, there could be some members who could receive higher benefits from the Plan if the old limits were simply removed across the board. However, the cost of this and the complications in the administration of the Plan could be high. To control these costs and help to protect its long-term funding and security, we have decided to retain the current Revenue restrictions for all members who have already left the Company, apart from taking advantage of the new limits on tax-free cash as described elsewhere. This will enable the Trustee to continue to run the Plan as it was designed.

8 Trivial Pensions exchangeable for cash

Under the old Revenue rules, anyone over age 50 with a pension of less than £260 a year (who had not yet retired) could elect to give up the small pension and take a cash lump sum instead. The rules are due to change from 6 April 2006, and although the limit will be higher, it has to take into account all pensions you receive from other pension schemes too, with the new documentation requirements making it harder to take cash sums. Members will have to certify the total value of benefits from all pension schemes is under £15,000 (current value; the figure should be increased by the Government each tax year in the same way as the Lifetime Allowance is increased). The option will also apply only to individuals aged between 60 and 75 in future.

Further details

If you would like any further details, please contact the Coats Pensions Office in writing.

Please read this factsheet alongside your Plan booklet, and keep it in a safe place for future reference. Until such time as the formal Rules can be amended, they will be deemed to incorporate the changes described in this factsheet. The Trust Deed and Rules will be amended in due course to reflect all these changes.

Disclaimer: Please note that the information in this Factsheet is provided in good faith, based on our best available knowledge and understanding of the new legislation at the present time. It should not be construed as a definitive statement of the new laws and regulations (which are not yet fully finalised) and if there is a conflict between this Factsheet and the law, the latter will override this document.
Members are also asked to note that, as ever, the Trustee, the Company and the Pensions Office are not allowed to provide advice, but only information. This Factsheet contains information but before you take any major decisions on pensions matters you are strongly advised to take independent financial advice.

Issued for and on behalf of the Trustee and the Company