



factsheet

for pensioner members of the Coats Pension Plan

Government Pension Reform

Please take a few minutes to read this Factsheet. It contains important information about new Government regulations and changes to 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.

If you have retired and are not earning any other income, or building up any other pension, you do not need to worry about the changes, as your benefits remain unaffected by them.

However you may like to note the new rules which enable anyone aged between 60 and 75, whose total pension (excluding State Pension) is less than £600 per year, to apply to have their pension exchanged for a cash lump sum. This is covered in more detail later in this Factsheet.

Although most pensioners are no longer building up pensions, some people have taken up second careers, or are earning income on which they may wish to build up further pensions. If you are in this category, you will need to know more about the limits and the new options which are open to you. We have included some details, and you should ask your financial adviser or pension provider for more information.

Revenue limits

There are radical changes in the law affecting the limits that the Revenue will apply in future. As you have already retired, however, any Revenue restrictions will have been applied when your benefits came into payment. This means that your benefits under the Plan will be unaffected by changes to the Revenue rules. This applies also to any future increases on pension, which will remain subject to the old Revenue limits. This simplifies administrative complications and avoids unnecessary increases in the cost of the Plan.

Trivial Pensions exchangeable for cash

Under the old Revenue rules, you were not allowed to exchange a trivial pension for cash once your pension had come into payment. Under the new rules, even people who have already retired with a pension, and taken their tax-free cash sum, may be able to ask for the rest of their pension to be converted to a cash lump sum if they are aged between 60 and 75. The new rules state that for this to be possible:

- the total value of all pensions from any funded pension scheme must be under £15,000 – which under the Revenue rules equates to a total pension of £600 a year; and
- it must be at least 12 months since you last took any tax-free cash from any pension arrangement.

(State Pension can be ignored for the purpose of deciding whether your total pensions are over £600 a year.)

Members will have to sign a certificate confirming the total value of their benefits from all pension schemes is under £15,000 before the Pensions Office can pay the benefit. If you are able to do this, and wish to do so, you should get in touch with the Pensions Office after 6 April 2006.

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.

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.

Further details

If you would like any further details, please contact 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.

Information on the legislative changes for those who want to know more about it and/or who are building up pensions elsewhere, or would like to do so.

Revenue limits

The Revenue has always placed restrictions on pensions and other benefits, such as a maximum pension of 2/3rds of final remuneration.

The Government's new "simplified" approach will allow pension arrangements that are registered with HM Revenue & Customs to pay any level of benefits, subject to benefits not exceeding new 'allowances' which come into force on 6 April 2006. There will be very few benefit limits. The new approach means that you will be taxed on any benefits over the level of the allowances, rather than have the benefits limited. There will continue to be a restriction on the maximum tax-free cash sum, although it will be calculated differently in future.

The current Inland Revenue limits are 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. This allowance will initially be £1,500,000. To decide whether someone's pension is regarded as breaking this limit, the Government divides the amount by a factor of 25 to give an annual pension figure. This means your pension from the Coats plan, if that is the only pension you have, would have to exceed £60,000 a year before you reached that limit. (For money purchase, or defined contribution, pension schemes such as personal pensions, the sum is taken at face value, and you would have to add that figure to the value of your final salary pension(s) such as the Coats Pension.)

- 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. For the purposes of the Plan, the year over which you will be assessed for the purposes of the Annual Allowance will be the Plan year, which starts on each 1 April. However if you pay any contributions to the Plan on a money purchase basis i.e. as additional voluntary contributions, they will be assessed in each tax year (i.e. starting each 6 April) for this purpose.
- Where the value of benefits is in excess of the Lifetime Allowance (see above) additional tax will be payable. The Lifetime Allowance has been set at a relatively high figure, so that very few people will be affected by it. The tax treatment of benefits will be much as it is now, as long as the benefits meet certain criteria and the overall value of them does not exceed the Lifetime Allowance. The Lifetime Allowance is expected to be as follows for the next five years:

Tax Year	Lifetime Allowance
2006/7	£1,500,000
2007/8	£1,600,000
2008/9	£1,650,000
2009/10	£1,750,000
2010/11	£1,800,000

The rate at which the Lifetime Allowance is increased by the Government after 5 April 2011 is expected to keep pace with inflation.

Earnings cap

Under current requirements, earnings for contributions and benefits may be subject to an earnings cap, set by the Government. For the tax year 2005/2006 the earnings cap is set at £105,600. Normally this only applies to people who joined pension schemes on or after 1 June 1989.

As from 6 April 2006, the Revenue will no longer apply the earnings cap, currently £105,600, as a limit on the pension benefits you can earn, with tax relief. As a result, schemes are no longer required to limit contributions and benefits by reference to the earnings cap, although they may choose to keep existing limits in place to prevent unexpected increases in pensions which have not been funded for.

For information, to work out how much your pension entitlement is valued at in relation to the new Lifetime Allowance, your annual pension is multiplied by a factor of 25.

Note: although this does not affect your Coats pension, if you are still building up a pension as an active member of another pension arrangement, you may like to note that a different factor, 20, is used for pensions not yet in payment. For money purchase schemes, you need to add together the value of your accumulated pot and add them in too. This includes things like AVCs and personal pensions.

In simple terms, people who receive a pension of over £75,000 a year (in current terms) are likely to hit the new limit, and if they do, they will be taxed on the excess. There are mechanisms for those over the limit at 6 April 2006 to register their existing benefits accrued to date (known as Primary or Enhanced Protection). Anyone whose Coats pension benefits are already in excess of the limit will receive a

separate letter explaining more about what this means, but should seek independent financial advice.

Note: There will be no mechanism for the Coats Pensions Office to identify anyone who has benefits held elsewhere which, when added to their Coats benefits, could take them over the limit. **It will be your responsibility to check if you are close to the limit by getting up to date figures on all your other pension benefits.** If you think you may be in danger of going over the limit, you will need personal independent financial advice which the Pensions Office is not permitted or qualified to give you.

Pension Contributions

From 6 April 2006, individuals will be allowed to pay contributions to more than one type of pension scheme, and the limits on contributions will be relaxed considerably.

The limits for contributions which attract tax relief are changing from the current level of 15% of taxable earnings, to up to 100% of taxable earnings (it is possible to contribute up to £3,600 even if you have no taxable earnings). You will be taxed on anything higher than the Annual Allowance limit mentioned in the section on Revenue limits (starting at £215,000).

It will also be possible to pay into as many pension arrangements as you wish at the same time, as only the contributions (and eventual benefits) will be limited as described above.

There are new complications over what has to be done by the individual before payments of benefits can be settled in future. If you have benefits elsewhere, you should contact your provider to find out more.

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.