Integritas Financial Planners Ltd
Nurture · Grow · Protect

SECTION 32 BUY OUT PLAN

What is it?

A Section 32 Buy Out plan (Section 32) is designed to accept the transfer of funds from an occupational pension scheme which is in the process of winding up and / or where a member has left employment and wishes to transfer to a plan in their own name. It's called a Section 32 policy as this was the section in the Finance Act 1981 that referred to such contracts and is also known as a 'buyout' policy, as the members' benefit rights have been 'bought out' of the registered pension scheme.

Section 32 plans are money purchase schemes but unlike Personal Pensions are able to accept and provide a Guaranteed Minimum Pension (GMP). A GMP is what you would have built up as a result of being a member of a final salary scheme which was contracted out of the State Second Pension Scheme (or the State Earnings Related Pension Scheme) between 6 April 1978 and 5 April 1997. The amount of GMP you receive from the Buy Out Plan at 65 (male) or 60 (female) will not be less than the amount you would have received from your previous final salary scheme. Normally a Section 32 can only accept a transfer in. If your circumstances change, it is possible to transfer out of the Section 32 to another Section 32 or Personal Pension Plan.

Eligibility

An individual must generally be under 75 years of age and resident in the UK although each provider will have their own criteria.

Transfer value limits

There are no limits on the amount of transfer value that may be accepted

Taxation

Funds transferred into a Section 32 do not receive tax relief.

Your transferred fund will be invested in funds where there is no liability to tax on capital gains and where all forms of investment income are also tax free. Your money may therefore grow faster in a Section 32 than in most other forms of non-pension investment.

All statements concerning the tax treatment of products and their benefits are based on our understanding of current tax law and HM Revenue and Customs' practice. Levels and bases of tax relief are subject to change.

Withdrawals

The earliest age upon which you can take benefits is age 55. The minimum age will increase to 57 from 2028 with further increases expected as the State Pension Age goes up. Early access may not be possible if your plan has a GMP and there are insufficient funds to cover this liability.

At retirement you have the option to take up to 25% of the fund as a tax free cash lump sum within allowable limits (or higher if you have a 'protected' amount). The remaining funds will normally provide you with a taxable income.

There is now no upper age limit by which retirement benefits must be taken although a provider may require benefits to be taken no later than age 75.

There are no restrictions on people's ability to draw down from their defined contribution pension pots after age 55 (57 from 2028) and, if the provider permits, this will allow flexible access to your pension savings. Where the Section 32 includes GMP rights, it may not be possible to use the pension flexibilities that will usually be available from a money purchase pension plan.

The terms of the particular Section 32 plan will determine which retirement options are available.

If a provider does not allow flexible access, this may be available with another provider but will require the transfer of existing funds to a new provider. This may not be possible, or advisable, if the plan includes GMP rights or a protected tax free cash sum.

Before 6 April 2023, if the total value of your pension benefits exceeded the 'Lifetime Allowance' the excess benefits were subject to a tax charge of up to 55%. The Lifetime Allowance charge no longer applied from 6 April 2023 and the lifetime allowance has been completely abolished from 6 April 2024. Instead, there are two new limits relating only to the amount of lump sum benefits that can be taken tax free, either during lifetime or on death. For most people the Lump Sum Allowance is £268,275 and this is the limit on the amount of tax free lump sums that can be taken during lifetime (at any age) and the Lump Sum and Death Benefit Allowance is £1,073,100 which covers tax free lump sums paid during your lifetime (at any age) and following your death if before age 75. If you have lifetime allowance protection, your limits will be higher. Any lump sum benefits that exceed available allowances are subject to income tax on the recipient.

Payment on death

The value of the pension fund is available (except if you have GMP where provision may need to be made for a spouse's / registered civil partner's pension regardless of your marital status) to your beneficiaries on your death and can normally be withdrawn as a lump sum or left within the pension wrapper to be drawn on to provide a regular or ad-hoc income – further details are contained in the accompanying literature.

Death benefits, whether drawn as a lump sum or income, are normally payable tax free to your beneficiaries if you die before age 75 (in the case of lump sum death benefits, assuming they are within your available Lump Sum and Death Benefit Allowance; any excess would be subject to income tax on the beneficiary). If you die after age 75, death benefits withdrawn as a lump sum or income are taxable on the recipients as earned income.

Pension Credit

Pension Credit is a State benefit that provides additional income to pensioners on a means tested basis.

The guarantee credit, available from State Pension Age, tops up weekly income to a prescribed level (£218.15 (for single people) or £332.95 (for couples – living together, not necessarily married) in 2024/25.

There used to be a savings credit element of pension credit but that was abolished for those reaching state pension age after 5 April 2016 (unless your spouse / civil partner had reached state pension age before 6 April 2016 and was already in receipt of savings credit).

The guaranteed element of pension credit will remain as a last resort for those who need it.

By the mid-2030s, the government estimates that over 80 per cent of people reaching their State Pension age will receive the full New State pension which is set above the level at which Guarantee Credit would be payable. This means that the number of people eligible for Pension Credit will reduce over time.

If your estimated income in retirement means that you could be eligible for Pension Credit this might mean that some or all of the benefits from this pension plan are merely replacing income that you would have received via Pension Credit anyway.

The qualifying age for Pension Credit is gradually increasing as State Pension Age increases. It reached age 66 for all in 2020 and will have reached age 67 for all by 2028 with a further increase to at least age 68 expected in future.

Risk considerations

There are a number of risk considerations that need to be taken into account. It is important that you are aware of these.

- The illustration uses certain assumed rates of growth, as prescribed by the Financial Conduct Authority. The figures used within the illustration are only examples and are not guaranteed.
- What you will get back depends on how your investments grow and on the tax treatment of the investment.
- The value of your pension fund can go down as well as up and the value will depend on how much is saved, the charges paid and the rate at which the investment grows.
- Past performance is no guarantee of future returns.
- There is no guarantee that the performance of your investment will achieve the growth rate required.
- If growth is low, charges may eat into the capital invested.
- Any employer contribution to your plan is dependent upon the continued solvency of your employer.
- In the event that your employment status changes, it is important that your retirement planning is reviewed.
- Depending how it is taken, your pension income may also depend on interest and annuity rates at the time you retire.
- If you have a GMP it may be necessary to restrict the shape and timing of benefits.
- This investment is intended as a long-term investment and under current HM Revenue & Customs' practice it is not normally possible to access the fund(s) prior to the age of 55. The minimum age will increase to 57 from 2028 with further increases expected as State Pension Age goes up.
- Your eventual income in retirement may be less than your previous employers' arrangement.
- The current tax treatment and annual contribution limits may change in the future.
- Please be aware that there may be occasions when an individual fund or funds may have a higher risk rating than your overall stated attitude to risk. If this is the case, then the overall risk rating applied to all of the combined funds recommended will still be designed to meet your stated tolerance.
- If you have accessed a pension plan of any type before 6 April 2024 and might benefit from increasing your tax free lump sum entitlement through obtaining a Transitional Tax-Free Amount Certificate (TTFAC), then if you take a Pension Commencement Lump Sum (PCLS or tax free cash sum) or Uncrystallised Funds Pension Lump Sum (UFPLS) on or after 6 April 2024 before obtaining a TTFAC you will have lost the chance to do so. This may mean a lower entitlement to tax free lump sums during your lifetime or for your beneficiaries if you should die before age 75 than might have been the case if you had obtained a TTFAC.