STATUTORY INSTRUMENTS

2006 No. 568

INCOME TAX

The Registered Pension Schemes (Prescribed Manner of Determining Amount of Annuities) Regulations 2006

Made - - - -	*9th March 2006*
Laid before the House of Commons	*10th March 2006*
Coming into force - -	*6th April 2006*

The Commissioners for Her Majesty's Revenue and Customs make the following Regulations in exercise of the powers conferred by paragraphs 3(1)(d), 6(1)(e), 17(1)(c) and 20(1)(e) of Schedule 28 to the Finance Act 2004(**a**) and now exercisable by them(**b**).

Citation, commencement and interpretation

1.—(1) These Regulations may be cited as the Registered Pension Schemes (Prescribed Manner of Determining Amount of Annuities) Regulations 2006 and shall come into force on 6th April 2006.

(2) In these Regulations a reference to a numbered section or Schedule (without more) is a reference to the section of, or Schedule to, the Finance Act 2004 bearing that number.

Determining amount of member's lifetime annuity

2.—(1) The annual amount of a member's lifetime annuity shall be determined in accordance with any of paragraphs (2) to (4).

(2) The manner of determination prescribed by this paragraph is variation from year to year—

(a) where the variation is in line with, or by a percentage which does not exceed, the percentage by which the amount would vary if it varied in line with, changes in—

(i) the retail prices index,

(ii) the market value of any freely marketable assets,

(iii) an index reflecting the value of freely marketable assets,

after allowing for any contractual charges;

(b) in accordance with an insurance company's published "Principles and Practices of Financial Management" in relation to with-profits business, as required under section

(**a**) 2004 c. 12. Paragraph 3(1)(d) was substituted by paragraph 13(1) and (2) and paragraph 6(1)(e) by paragraph 14(3), and paragraph 17(1)(c) was inserted by paragraph 15(3), and paragraph 20(1)(e) by paragraph 16(3) respectively of Schedule 10 to the Finance Act 2005.

(**b**) The functions of the Commissioners of Inland Revenue were transferred to the Commissioners for Her Majesty's Revenue and Customs by section 5(2) of the Commissioners for Revenue and Customs Act 2005 (c. 11). Section 50 of that Act provides that, in so far as it is appropriate in consequence of section 5, a reference, however expressed, to the Commissioners of Inland Revenue is to be read as a reference to the Commissioners for Her Majesty's Revenue and Customs.

6.10 of the Financial Services Authority's Conduct of Business Sourcebook as it stood immediately before the coming into force of these Regulations(**a**); or

(c) any combination of those factors.

(3) The manner of determination prescribed by this paragraph is variation—

(a) in line with, or by a percentage which does not exceed the percentage by which the amount would vary if it varied in line with, changes in any of the factors specified in paragraph (2) (or any combination of those factors); and

(b) by reference to an assumed annual level of growth of between 0% and 5%, selected by the member, in the relevant factor or factors.

(4) The manner of determination prescribed by this paragraph is determination in accordance with the following conditions.

Condition 1

The amount of the annuity payable is linked to any of the factors specified in sub-paragraphs (a) to (d) of paragraph (2) (or any combination of those factors).

Condition 2

A review is conducted, by the insurance company by whom the annuity is provided, at least once every 5 years of the value of the sums and assets which are applied towards the provision of the annuity.

Condition 3

At the time of the review, the maximum and minimum amount of income that may be drawn in each year until the next review is determined.

The maximum amount of income which the annuitant may draw is 120% of the annual rate of a level annuity which could be purchased with the sums and assets which are applied to its provision for the member, for the term for which the annuity is provided.

The minimum amount of income which the annuitant may draw is half of the annual rate of a level annuity which could be paid upon the assumptions in the preceding paragraph of this condition.

(5) For the purposes of paragraph (4), the annual rate of an annuity which could be purchased with the sums and assets applied to its provision shall be assumed to be—

(a) the freely marketable level annuity rate (if any) applicable in the case of the insurance company in question which could be purchased with those sums and assets; or

(b) if the insurance company in question does not offer level annuities, the average of three current market annuity rates for a level annuity.

(6) For the purposes of paragraph (2)—

"freely marketable assets" means assets which are sold on the open market at a price not determined by the member;

"the retail prices index" has the meaning given in section 279(1).

Determining amount of dependant's annuity

3.—(1) The amount of a dependant's annuity shall be determined in the same manner as a member's lifetime annuity.

(2) For this purpose, paragraphs (2) to (6) of regulation 2 shall apply, but subject to the following modifications—

(**a**) The current text of the relevant part of the Handbook appears on the website of the Financial Services Authority at http://fsahandbook.info/FSA/html/handbook/COB/6/10.

(a) in paragraphs (2), (4) and (6) substitute "dependant " for "member" wherever it occurs, and

(b) in paragraph (3)(b) for "member" substitute "member or dependant".

Determining amount of short-term annuities

4.—(1) The amount of a member's short-term annuity shall be determined in the same manner as a member's lifetime annuity in accordance with paragraph (2) or (3) of regulation 2.

(2) The amount of a dependant's short-term annuity shall be determined in the same manner as a member's short-term annuity, and for this purpose paragraphs (2), (3) and (6) of regulation 2 shall apply , but substituting "dependant " for "member" wherever it occurs.

David Varney
Paul Gray

9th March 2006 Two of the Commissioners for Her Majesty's Revenue and Customs

EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations prescribe the manner in which the amount of increase or decrease in the amount of an annuity paid under a pension scheme is to be determined.

Regulation 1 provides for citation, commencement and interpretation.

Regulation 2 prescribes the manner of determining the amount of a member's lifetime annuity.

Regulation 3 prescribes the manner of determining a dependant's annuity.

Regulation 4 prescribes the manner of determining a short-term annuity, paragraph (1) prescribing the manner in relation to members' short-term annuities and paragraph (2) prescribing the manner in relation to dependants' short-term annuities.

A regulatory impact assessment in respect of the provisions of Part 4 of the Finance Act 2004 and subordinate legislation under it was published by the Board of Inland Revenue on 8 April 2004, and is available on the Inland Revenue website at www.inlandrevenue.gov.uk/ria/simplifying-pensions.pdf or (for hard copies) by writing to the Ministerial Correspondence Unit, 1st Floor Ferrers House, PO Box 38, Castle Meadow Road, Nottingham, NG2 1BB.

A copy of the Financial Services Authority Conduct of Business Sourcebook is part of the FSA Handbook. The Handbook in its current form is accessible on the Authority's website at http://fsahandbook.info/FSA/html/handbook/ and may be purchased on paper and on CD Rom from the Publications Department (Sales), Financial Services Authority, 25 The North Colonnade, Canary Wharf, London E14 5HS and is available on line at www.fsa.gov.uk.

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