The 2nd Younger Members Convention

1-2 December 2003
The Glasgow Moat House

Whose Money Is It Anyway?

1 December 2003

Payal Shah

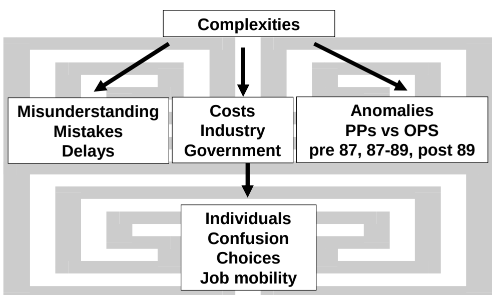
Agenda

- Current position
- Proposed changes
- Impact on companies/individuals
- Longer term actions
- Case study

Taxation - The Current Position

Old Code	RACs
Pre 87	
87 - 89	PPs
Post 89	Stakeholder
SSASs	SIPPs
UURBS	FURBS

Current Rules



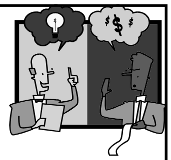
Proposed changes - Overview

- ☑ One regime for all pensions
- ☑ Remove limits for most people
- ☑ Flexibility e.g. retirement and contributions

but ....

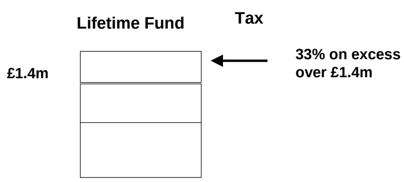
- ☒ Everyone capped
- ☒ Complexity for those near/above limits
- ☒ Existing benefits may not fit comfortably

Taxation – The Proposals



- £1.4m (indexed) Lifetime Limit
- Individual contributions up to 100% earnings
- £200k pa tax free contribution/accrual
- 25% tax-free cash
- Retirement only from 55
  - phased through to 2010
  - exemption for ill-health
- Must start to draw benefits by 75
- Can contribute whilst drawing part of pension
- 33% “recovery tax”

The £1.4m Lifetime Limit

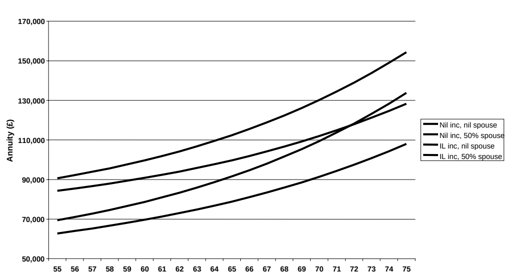


DB Schemes – convert p.a. pension to cash

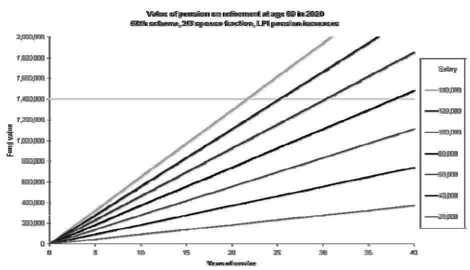
Tax Free Lump Sum – 25% fund net of excess tax charge
Maximum tax-free cash = £350,000

Pre A-Day value protected with indexation

What £1.4m currently buys



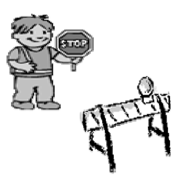
Who the £1.4m affects



Grandfathering

- Accrued rights at A-Day to be protected
  - Indexation for consultation
- Tax free cash separately grandfathered
  - if currently >25%
- 3 years to measure/register

Threats: Companies



- Unwanted increase in liabilities
- New information demands
- Employee pressure for information/advice/compensation
- Impact on succession planning

Opportunities: Companies

- Flexibility
- Integrate pension policy with other parts of the package i.e. shares, deferred comp, etc
- Discretionary approval

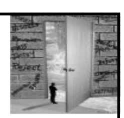
- Reduced costs?

Threats: Individuals

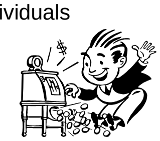
- Loss of existing approved pension and/or tax-free cash
- Loss of ability to start pension before 55

- Uncertainty around current FURBS

Benefits: Individuals

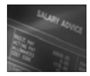


- Window of opportunity to keep 50-55 retirement
- Window to maximise pre A-Day benefits
- Greater scope to contribute on post A-Day basis
- Simplicity
- 25% cash (tax-free)
- Limits currently apply to very few individuals



Administration Implications

- Monitoring fund and contribution limits
- Payslips and P60 information
- 33% tax collection and payment
- Factors and program changes
- High earners demand for information pre A-Day
- Flexible retirement



Discovery: affected individuals

- Who will have uncapped benefits worth over £1.4m at A-Day?
- Who are likely to hit LL post A-Day?
- Who has subsidised ER over £200k in value?
- Who might seek to retire before the minimum age goes up to 55?
- Are these problems individual or are there well-defined groups?

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Discovery: contractual problems

- Scheme literature/rules/contracts
  - what steps needed to change CoE?
  - what steps needed to change scheme rules/ literature?

Longer term actions

- Succession planning
- New retention tools
- Rebalance remuneration package
- Shareholder disclosure
- Company paid help?
- Company co-operation?

Timing

- Where are we now?
- Announcement of details deferred
- Start date expected to be 6 April 2005
- Speculation on changes to limits
  - Overall structure remarkably little changed

Case Study

Recently qualified actuary

Potential benefit limited by post 89 regime

Under the Earnings Cap and Lifetime Limit at A-Day

What is the position at age 60?

Case Study - Data

Personal Data

Age = 32
Accrued service = 10 yrs

NRD = 60

Future service = 28 yrs

Salary = £65,000 pa

Assumptions

Investment return = 6%pa

Salary increase = 4.5%pa

Inflation = 2.0%pa

Annuity rate = 20

Case Study - Results

Pension at A-Day = £10,800 pa

Value of pension at A-day = £97,700

Projected pension at NRD = £141,200 pa

Projected value at NRD = £2,820,000

Lifetime Limit at NRD = £2,440,000

Case Study - Results

Fund value exceeds Lifetime Limit at NRD

Tax due = 33% x (£2,820,000 – £2,440,000)
= £127,000

25% of Lifetime Limit = £610,000
but
Tax-free cash taken from fund net of tax

Questions for debate

- Should companies compensate for losses ?
- Shareholder disclosure - will it become an issue ?
- Should companies assist employees optimise position ?

And whose money is it anyway?

Questions