The Actuarial Profession
making financial sense of the future

Finance Act 2004:

Pension Issues for Senior Executives

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Agenda

- Categories of Executives
- Developing a policy
- Some solutions
- What companies are doing
- More about a “new” solution
- The way forward

Categories of Executives

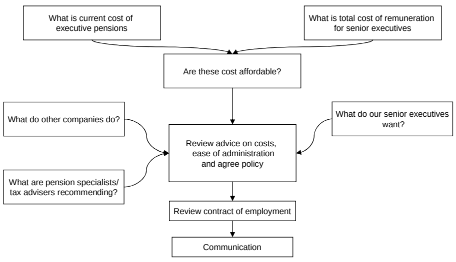
Executives – board members

Executives – decision makers

Executives – senior staff
long serving staff

Executives – wealthy individuals

Developing a new policy



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Company Options

- Do nothing – [individuals may pay more tax]
- Do something but:
  - avoid increasing overall costs
  - give executives choice
  - meet existing promises
  - have a policy – rather than case by case
  - protect reputation

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Executive solutions

- What have companies done for capped senior executives <u>before</u> simplification?
  - FURBS
  - UURBS
  - Extra Cash
  - What else?

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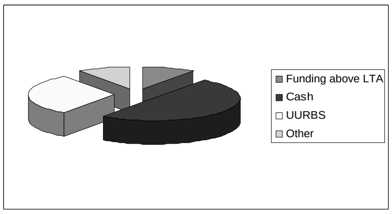
What are companies doing now?

- Consulting pension advisors
- Consulting tax advisors
- Talking to their peer group
- Talking to senior executives
- But not many have made decisions…yet

Executive solutions

- What are some companies proposing?
  - Additional cash
  - UURBS
  - Funding above LTA (and pay tax?)
  - Other solutions
  - Offering one:one guidance
  - Offering modelling tools
  - Larger companies offering group sessions

What some companies are proposing



Pay cash 1

- Pay cash?
  - How much?
  - Allowance for age/gender?
  - What about retained benefits?
- Many opt for flat rate
  one example
  40% for CEO
  30% for other board members
  25% for other senior staff

Pay cash 2

- Admin – easy
- Communication – easy
- Some executives prefer cash for:
  a) buying overseas property or
  b) setting up SIPP for spouse

  but;
- Not a retention factor
- NIC payable

UURBS

- Useful for matching DB benefits
- DC UURBS possible
- No NIC payable if benefits are paid part cash (25%) and pension
  but;
- Security?
- Finance directors don't like UURBS liabilities

SUURBS

- UURBS with security,
  separate trust set up and assets,
  eg property, charged to trust
- not very common
- but market likely to grow after 2006
  esp if set up for decision-makers
  set up instead of FURBS

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Employee Benefit Trusts 1

- Vehicle for deferred compensation
  set up by employers to retain and motivate key staff
- Employees can waive future rights to bonuses
  or participation can be mandatory.
  Conditions can be attached (eg “bad leaver” clause).
- Payments made into EBT by employer for
  potential benefit of <u>all</u> employees.
- Trustees have absolute discretion on benefits
  can take account of employers’ requests.

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EBT 2

- Possible to set up revocable sub-trust
  individual employees (and dependants) as beneficiaries
  gives employees greater feeling of ownership
- Most EBTs set up off-shore (e.g. Channel Islands) to
  obtain tax-free growth on investments
- Professional trustee usually provide
  - trust deeds and other documentation
  - administration services
  - trustee services

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EBT 3 : Tax position

- Payment by employer into EBT :
  No tax or NIC liability to employee
- CT deduction only available when (and to extent that) distribution is subject to tax and NIC (deductible amount cannot exceed original employer contribution)
- Distribution subject to tax/NIC as if employment income (PAYE/NIC withholding required)
- Tax/NIC not due in exceptional circumstances only

EBT 4

- Established vehicle may become popular again as funds not subject to LTA
- Extremely flexible re timing and format of distribution.
- Can be set so that funds held until retirement or under forfeiture conditions(retention factor)
- More expensive than paying cash
- More 'secure' than UURBS

The way forward

- General written explanation, urging retained benefit collection
- Intranet information
- Group presentations / workshops
- Use of modelling to see how individual affected
- One to one sessions

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Please note:

The above is based on our understanding of current legislation and Inland Revenue practice as at May 2005.

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