

Institute and Faculty of Actuaries
Current Highlights in Pensions 31 October 2016
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B2 The latest on Pensions Tax Relief: what does it mean for you?

Lane Clark & Peacock LLP Trustee Consulting Investment Consulting
Corporate Consulting Insurance Consulting Business Analytics www.lcp.uk.com

2015 Consultation on pensions tax relief

Three potential systems discussed

	Current system	Flat rate relief	ISA-style
Contribution	Not taxed E	Taxed + Relief T+R	Taxed + Incentive? T (+I)
Investment	Not taxed E	Not taxed E	Not taxed E
Distribution	Taxed T	Taxed T	Not taxed E
25% tax free at drawing			

No change YET
LISA being launched April 2017 as a
“complementary” savings vehicle

6 April 2016

~~£40K~~

~~£1.25m~~

£10K - £40K

£1m + inflation from 2018

Pensions tax protections and mirror image transfer projects

- Lifetime Allowance protections
- Scheme specific 2006 protections (lump sum rights, minimum normal pension age)
- ... leaving Annual Allowance issues to another day...

Tapered Annual Allowance

- Scheme Pays rights
- Information Exchange
- Some pitfalls

Other

- Dependant scheme pension – revised test, good news

Pensions tax protections and mirror image transfer projects



Your client is considering...

- Winding up just one section of its DB scheme

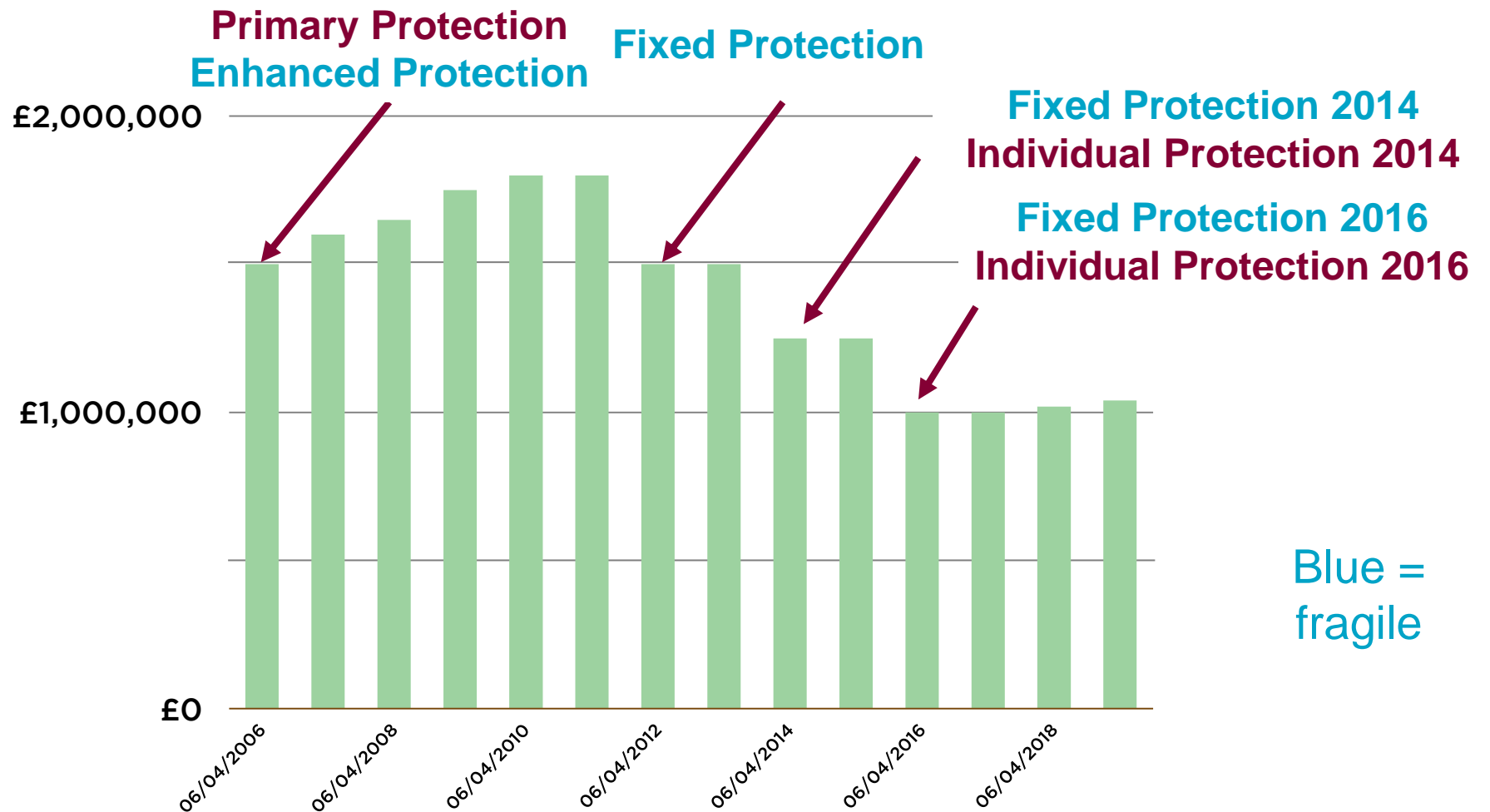
- Transferring out
 - all the DC AVCs from a scheme to a separate scheme leaving behind just the DB
 - or maybe not just AVCs, but the on-going DC section
 - or all the DB from a scheme to a separate scheme leaving behind just the DC

- Transferring DB members from scheme of one group to another, no change of employment because a share sale

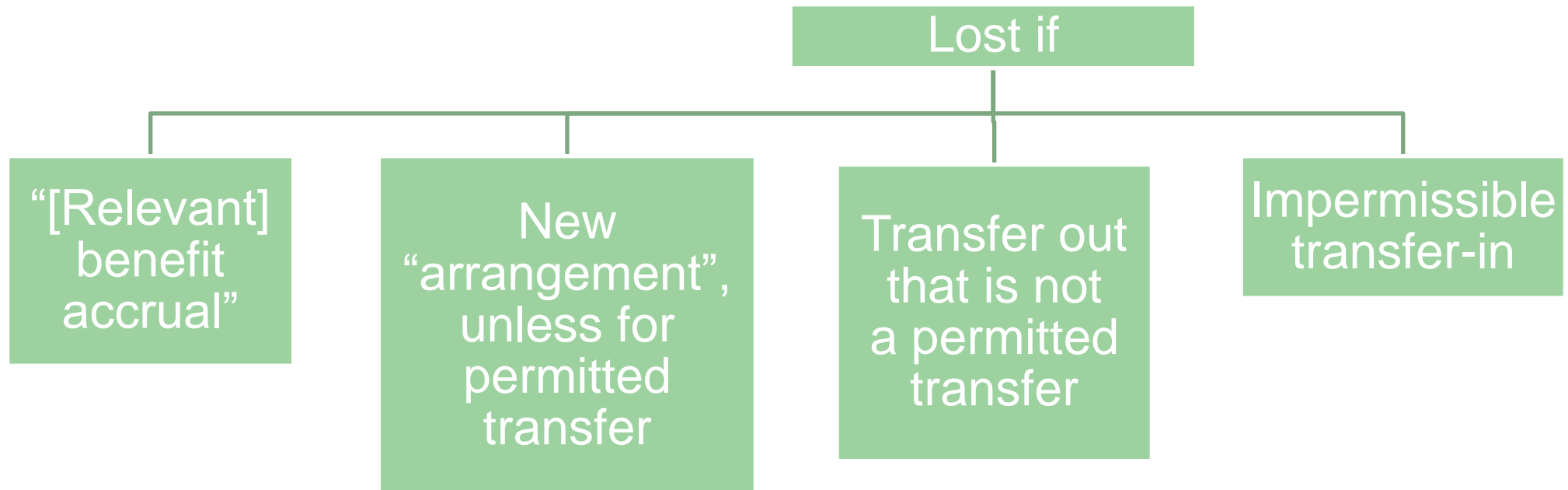
Have you considered pensions tax protections?

- No member consent = Trustee duties
- With member consent = proper information

1. Lifetime Allowance protections



Enhanced Protection, Fixed Protections Lost how?



What is a permitted transfer?

No overall change in value
(using normal actuarial practice) AND any of:

To DC

But for EP
triggers an
accrual test

To DB/CB

+ in connection with
a “relevant business transfer” =
20+ employees move between non-
associated employers

+ in connection with
the transferring scheme winding up
+ schemes relate to same employment

Example gaps: same employer but no (full) wind-up (incl following share sale)

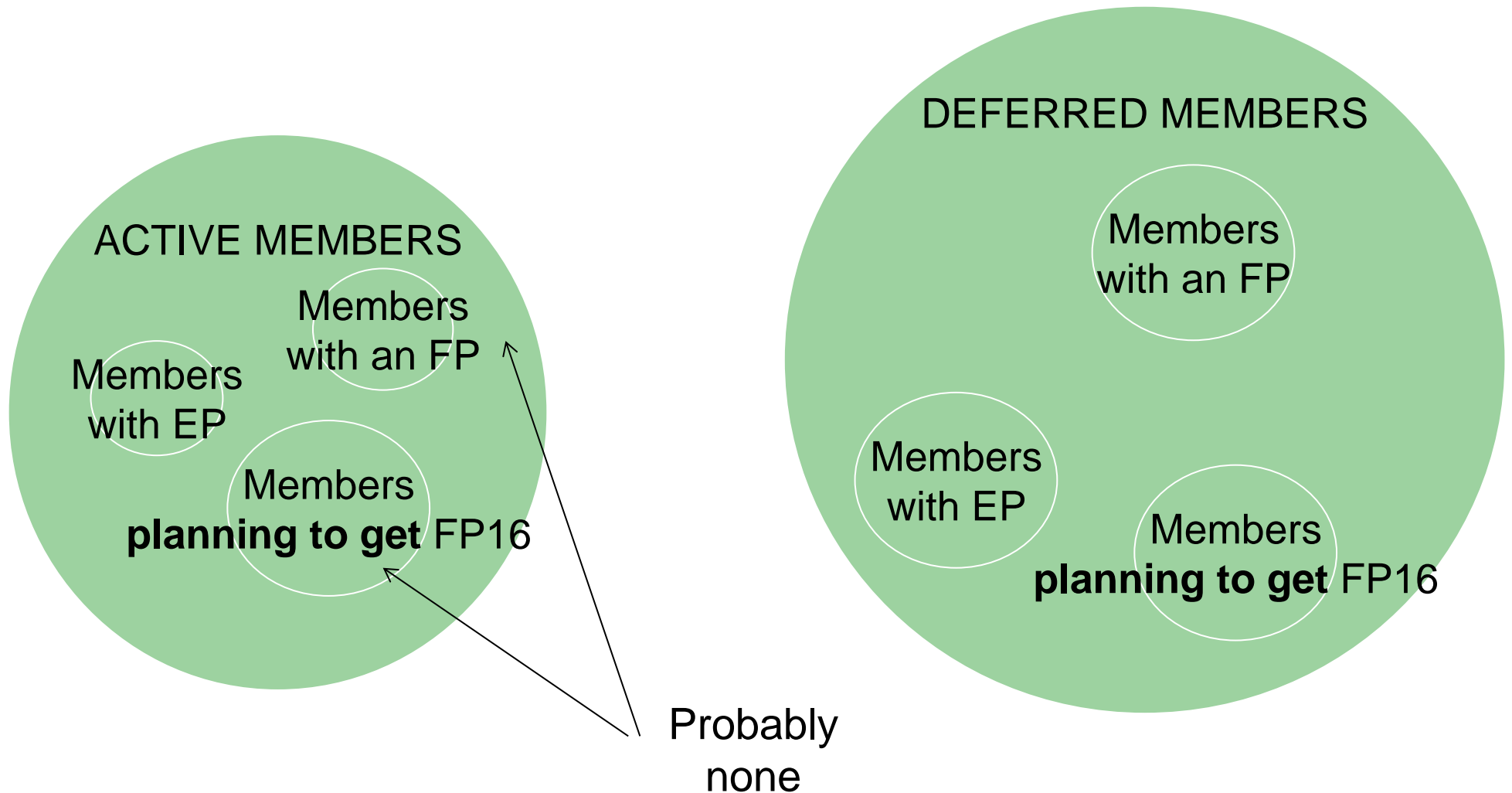
Lifetime Allowance (LTA) charge at stake

Member has this if s/he applied and has not yet been disqualified

Vulnerable Protections	Apply by	Underpinned LTA	If lost, worst case potential extra tax when LTA is £1m
Enhanced Protection	5 April 2009	Not applic	Unlimited
Fixed Protection [2012]	5 April 2012	£1.8m	£200,000
Fixed Protection 2014	5 April 2014	£1.5m	£125,000
Fixed Protection 2016	NO CLOSURE but can get disqualified	£1.25m	£63,000

Who has the protections?

Difficult to tell .. And member has this if s/he applied and has not yet been disqualified



2. Scheme specific protections: protected Pension Age/ protected lump sum rights

TEST

Member had the right under the scheme provisions at 10 December 2003 to retire below age 55 in scheme

Member's accrued right to lump sum was 25% or more of the value of his accrued retirement benefits, both as at 5 April 2006 measured under the scheme rules and through the spectacles of Finance Act 2004

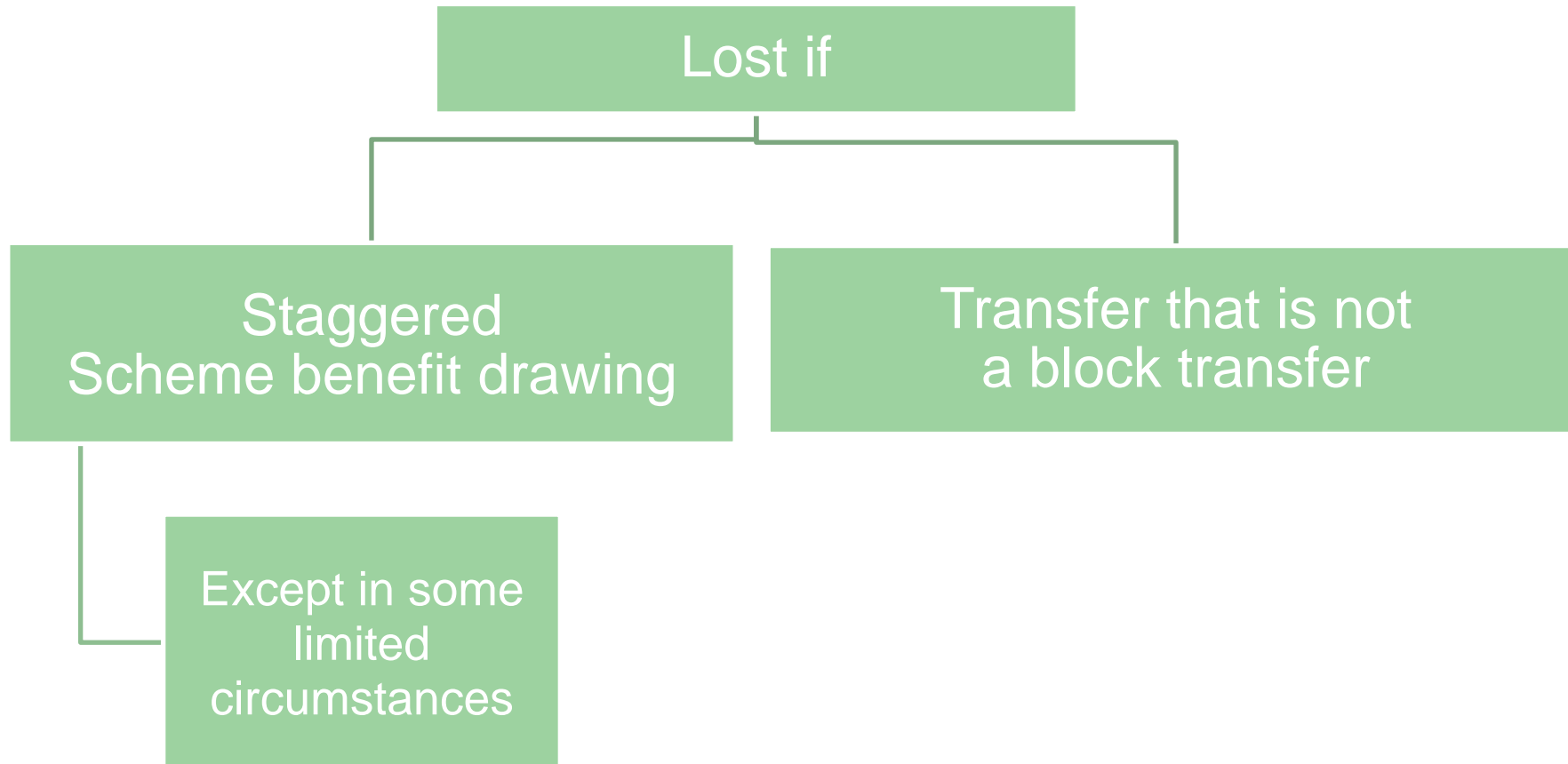
OUTCOME

- Right continues authorised, in the scheme
- The protection normally reflects any fetter that applied (eg "if made redundant")
- Can apply to subsequent scheme joiners to the same category

- Tax law permits PCLS of more than the standard "25% of the package"
- using a complex formula centred around VULSR and VUR
- Increasingly generous as tax law changed

...PROVIDED no disqualifying action

Scheme specific protection



Block transfer =
all the member's rights/assets transferred in one transaction

To OPS or personal pension
ONLY IF >1 member to same
destination at the same time

To a S32 buy-out
ONLY IF in connection with
winding-up of transferring scheme

Within a year of member first joining the
receiving scheme

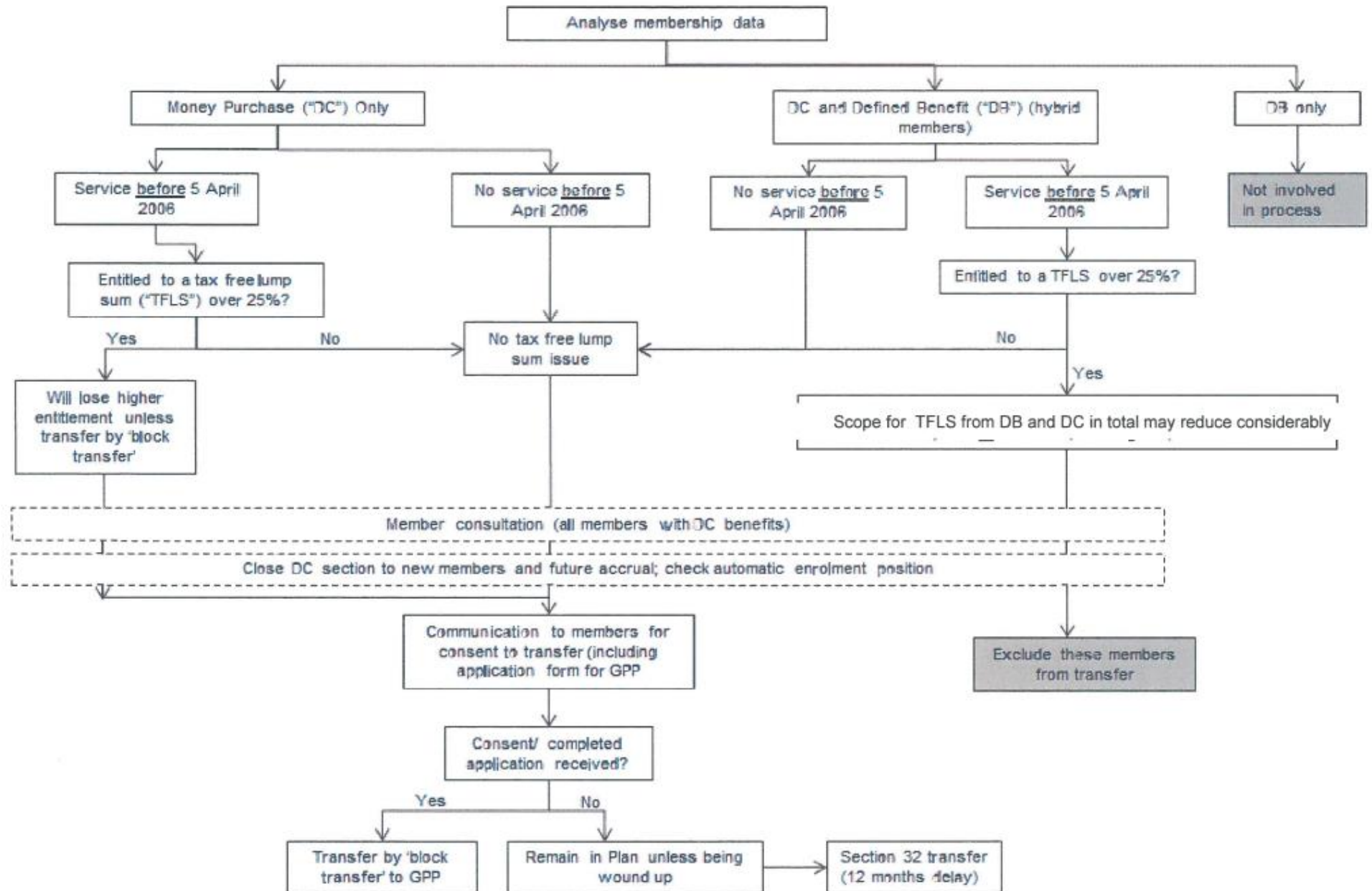
Partial transfers: protection for the benefits in the transferring scheme not destroyed but

- (MNPA) no protection for the benefits in the receiving scheme
- (Lump sum protection) the sum of the scope for tax free lump sum thereafter may well be much lower because of flawed legislation

Tools available

- Communicate with members and wait
- Leave some members untransferred
- Transfer but pay compensation
- Reshape the schemes involved/reshape the wind up

Anatomy of a transfer from trust-DC to contract-DC



Tapered Annual Allowance



Annual Allowance Scheme Pays 2016/17

Message to member: you **may** be able to ask a scheme to pay some of your AA charge for a tax year and instead reduce your ultimate scheme benefits

Advantages: cash flow/usually tax efficient/accrual worthwhile.
The exact impact depends on the reduction terms (which must be *just and reasonable having regard to normal actuarial practice*) set by Trustees/ insurer

Conditions you must satisfy in law to have the right to use this for an AA charge for **2016/17**:

- Your total AA charge for 2016/17 exceeds £2,000
- You elect by statutory deadlines
- But allow for interaction with the £10K MP AA
- AA used up in the scheme in 2016/17 exceeds £40,000 (**not the TAA**)



**Pay tax now
from own
resources**

**Or pay from pension pot and so receive a little
less gross pension each year
(and a consequent saving in income tax then)**

Scheme Pays rights 2016/17+

Voluntary Scheme Pays will become important to employees...

Bob

- Pension savings £30,000
- Tapered AA £20,000

Tax to pay £4,000

(if no carry forward and 40% tax rate)

No right to Scheme Pays

Bob may have to pay £4,000

Ann

- Pension savings £42,000
- Tapered AA £20,000

Tax to pay £8,800

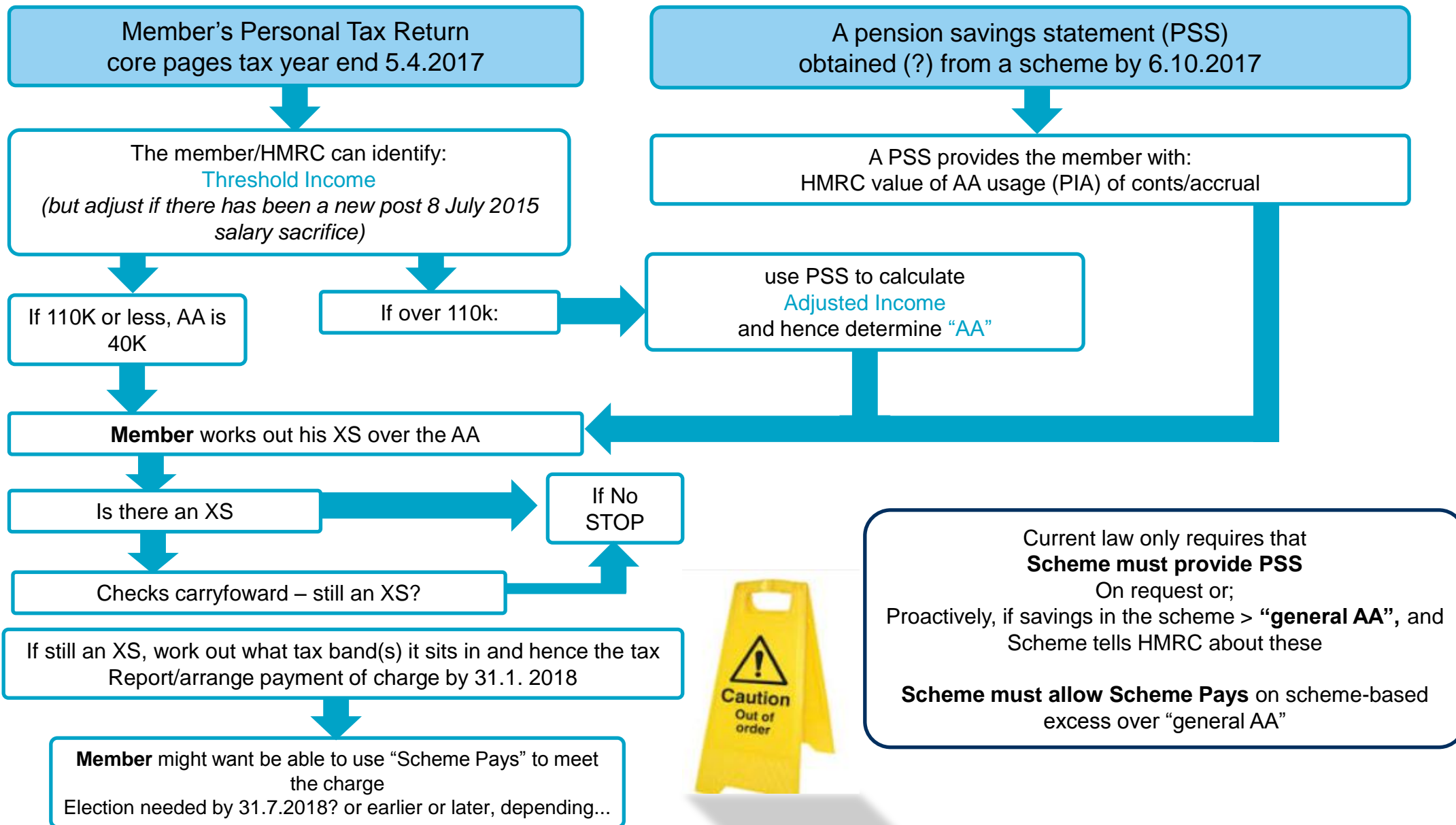
(if no carry forward and 40% tax rate)

Right to Scheme Pays for £800

Ann may have to pay £8,000

TAA work in practice?!

(ignoring the 10K MP AA here..)

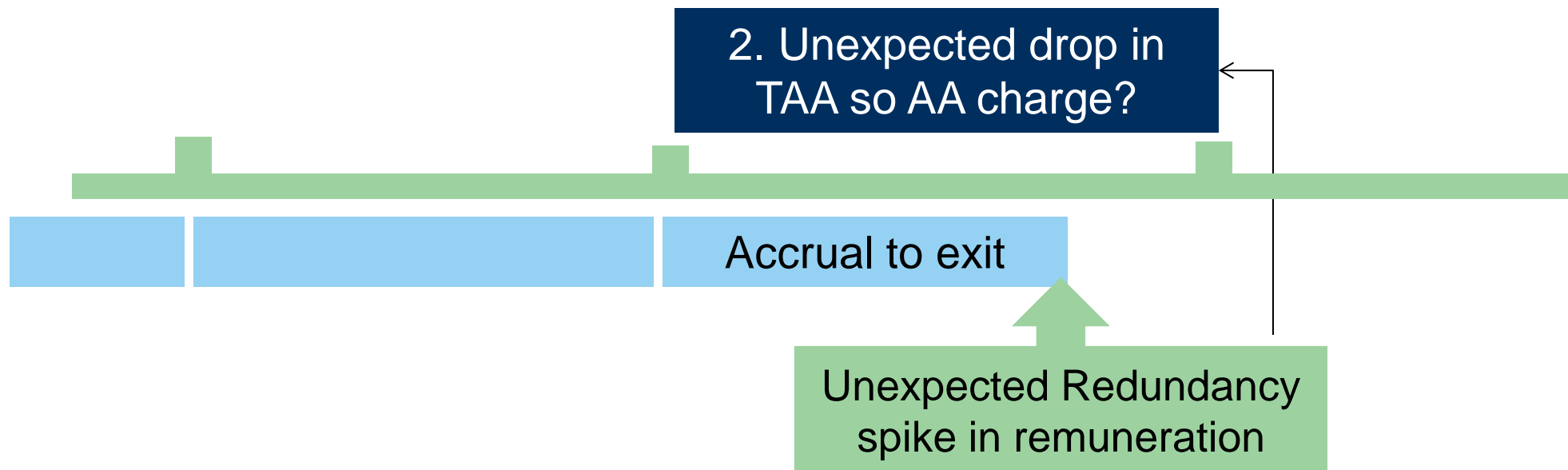
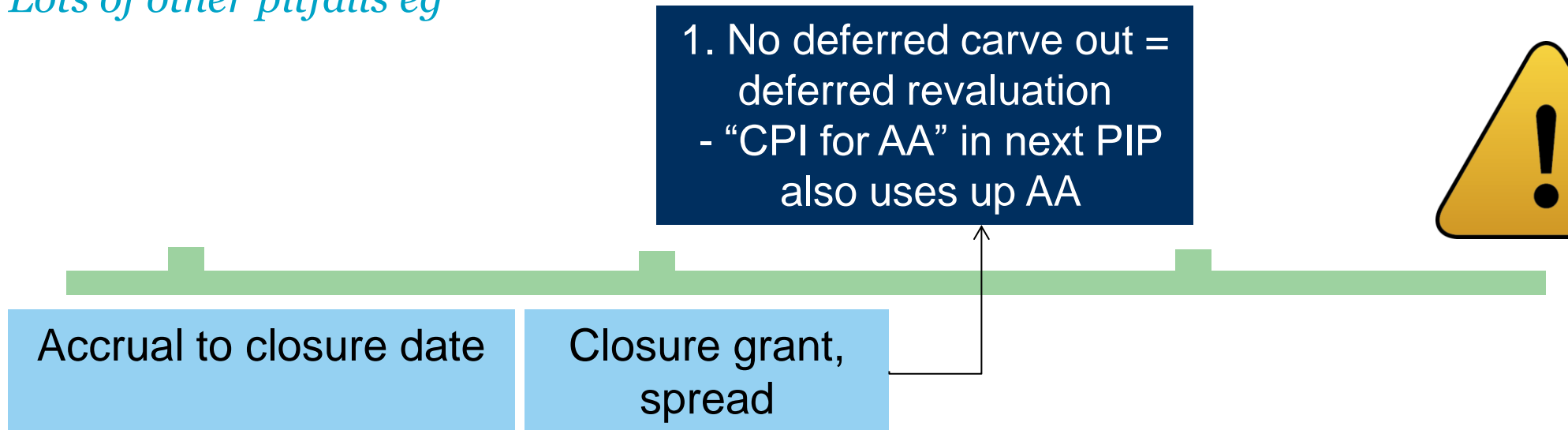


Current law only requires that **Scheme must provide PSS** On request or; Proactively, if savings in the scheme > "general AA", and Scheme tells HMRC about these

Scheme must allow Scheme Pays on scheme-based excess over "general AA"

And in the Annual Allowance world

Lots of other pitfalls eg

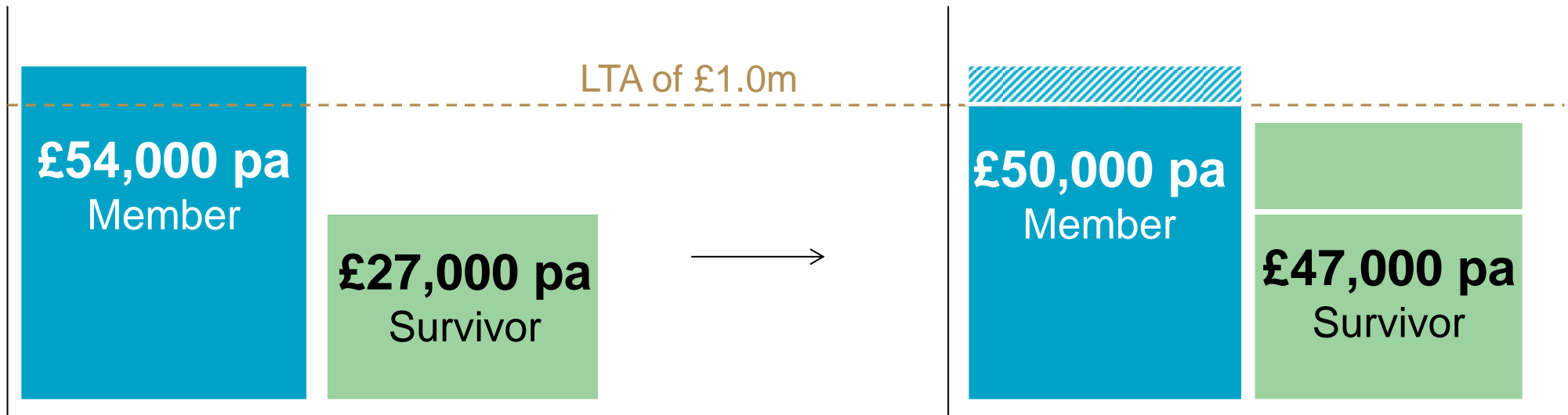


Dependant scheme pension – revised test, good news



A DSP test has existed in tax law since 2006...

Because survivor pension is invisible to Lifetime Allowance ..



HMRC value	£1.08m
Say LTA	£1.00m
LTA charge on	£0.08m
(ie on £4,000 pa excess)	

HMRC value 1.00m
No LTA charge

Aim of the tests?

- Pass if within reason
- But don't abuse (too much/shaping)

Test **at** death and every year **after**

Fail = part of each

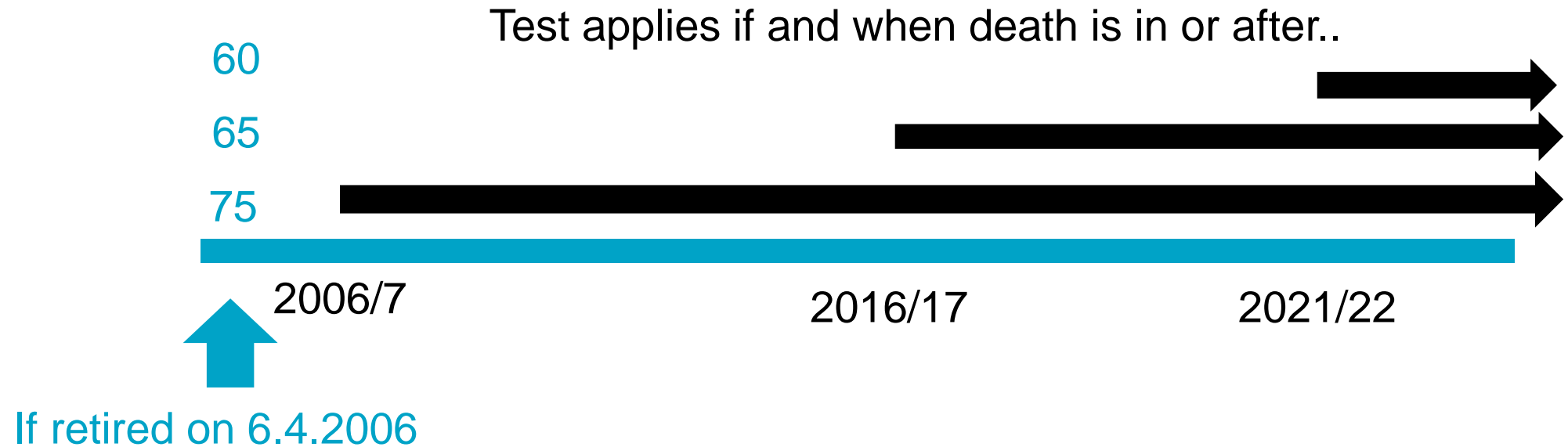
DSP paid unauthorised

The test applies only for a specific group

so not noticed much publicly yet

The test applied to a DSP arising from the death of a member with “scheme pension” (= usually DB pension) only if

- The member started his pension on or after A day (6 April 2006)
- AND the member died on or after his 75th birthday



Test is at and after death ... but Immediate issue as relevant to options exercised at retirement and to benefit design (and admin)

Headline message

- Previous test very flawed

- Revised test for deaths from (broadly) 2016
 - range of tools including some allowing clear prediction:
 - many fewer unreasonable outcomes

- In short
 - Have regard to the test if dealing with someone exercising significant LTA options
 - (or surrender in connection with significant potential LTA excess)
 - Or some extreme scheme designs
 - But not if dependant pension (total) in the scheme likely to be less than £25,000 pa + 5 % from 2016/17



tax doesn't have
to be taxing”



Questions



Comments

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