SUMMER BUDGET 2015
PENSIONS – THE TIPPING POINT?

16 JULY 2015

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MEET THE TEAM

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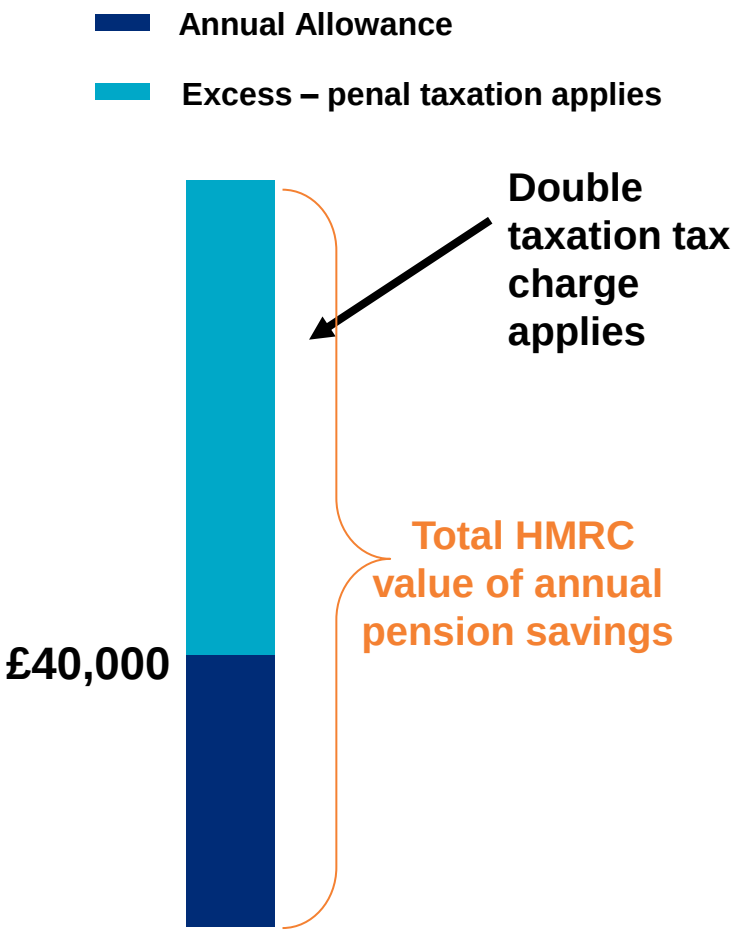
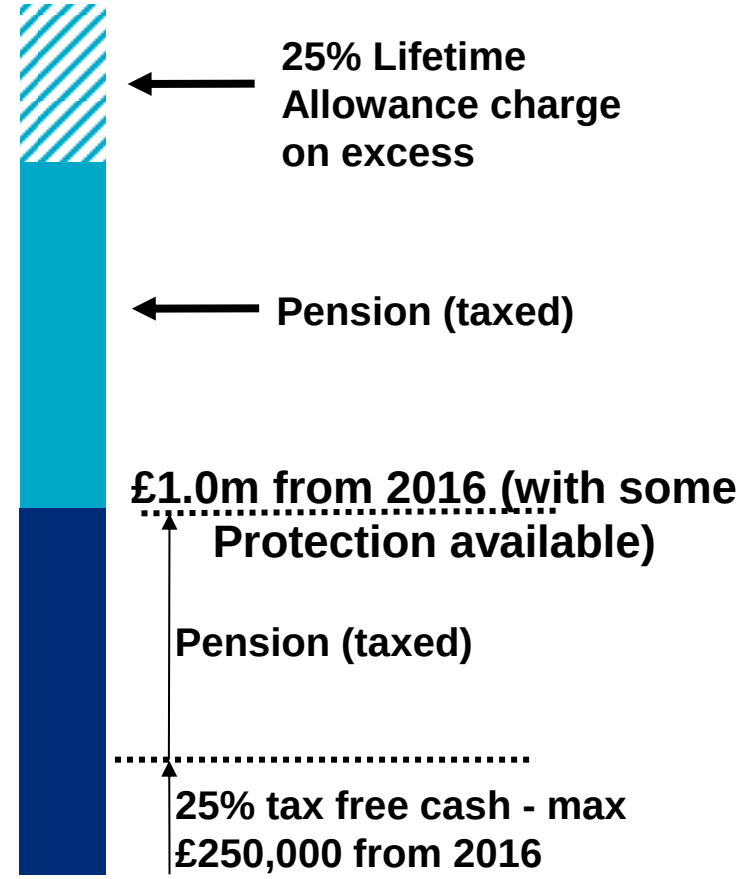
SO WHERE WERE WE AT 7 JULY 2015?



Annual Pension Savings



Lifetime Pension Savings

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SUMMER BUDGET 8 JULY 2015?
HEADLINES

- Progressively lower Annual Allowance (AA) if 'Adjusted Income' exceeds £150,000
- AA will be tapered – as low as £10,000 if Adjusted Income is £210,000 or more
- Pension Input Periods will be aligned to the tax year over 2015/16
- Green Paper introduces a consultation on whether pensions tax relief should be reformed or whether the current system should be kept

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SCOPE OF TODAY'S WEBINAR

1. The detail of the Summer Budget
2. How can this all be implemented?
3. The Green Paper - where are pensions and savings going?
4. Pensions and savings designs of the future
5. Other areas of interest
6. Conclusions

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THE DETAIL – MERCER'S CURRENT INTERPRETATION
TAPERED ANNUAL ALLOWANCE

Threshold Income

Individual's total taxable income i.e. earned income, rent, dividends etc

Less member contributions to a contract based pension scheme

Plus employer contributions to a new salary sacrifice arrangement

Adjusted Income is Threshold Income

Plus member and company contributions to any DC scheme

Plus Pension Input Amount to a DB scheme

But don't count a new salary sacrifice arrangement twice!

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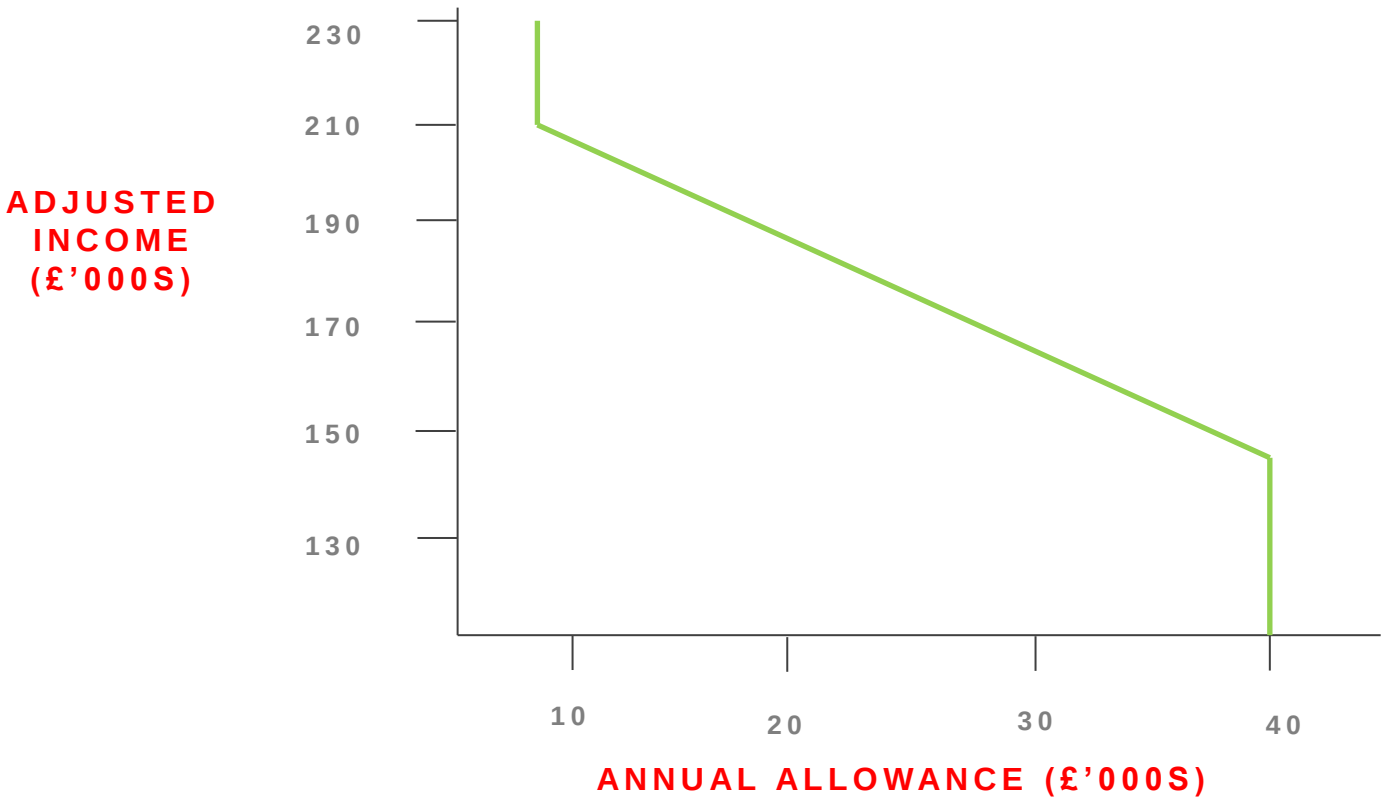
THE DETAIL – THE TAPERED ANNUAL ALLOWANCE



EXAMPLE: ADJUSTED INCOME = £165,000

ANNUAL ALLOWANCE = £40,000 – (£165,000 - £150,000)/2
= £32,500

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THE DETAIL – THE TAPERED ANNUAL ALLOWANCE

If Threshold Income does not exceed £110,000 than no Tapered Annual Allowance applies irrespective of the level of Adjusted Income

Threshold Income	Adjusted Income	Does Tapered Annual Allowance apply?
£109,000	£160,000	No
£110,001	£160,000	Yes (*)
£120,000	£155,000	Yes (*)
£150,000	£150,000	No
£150,000	£160,000	Yes (*)

*** BUT MEMBER CAN MAKE A PENSION CONTRIBUTION TO GET THRESHOLD INCOME BELOW £110,000 TO AVOID THE TAPER (BUT NOT THROUGH A NEW SALARY SACRIFICE ARRANGEMENT)**

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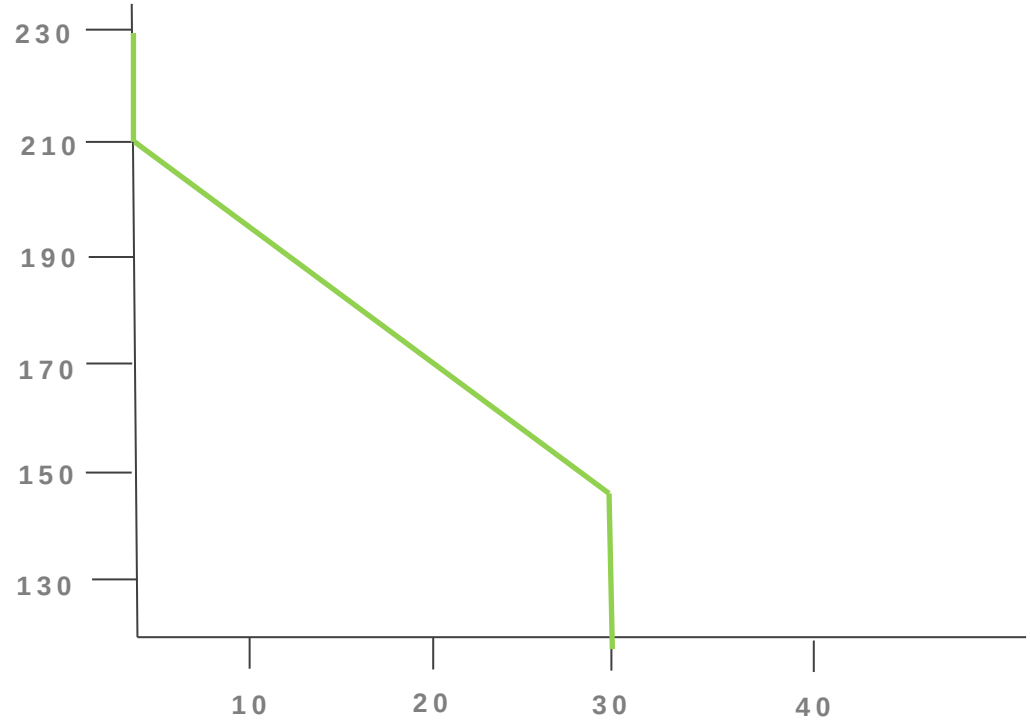
THE DETAIL – THE TAPERED ANNUAL ALLOWANCE
IMPACT OF MONEY PURCHASE ANNUAL ALLOWANCE



ASSUME MEMBER PAYS AT LEAST £10,000 INTO A MONEY PURCHASE ARRANGEMENT

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THE DETAIL – THE TAPERED ANNUAL ALLOWANCE

Worked Example	DB Scheme
Threshold Income	£115,000
Pension Input Amount (PIA)	£65,000
Adjusted Income	£180,000
Tapered Annual Allowance	£25,000
Excess pension savings	£40,000
Annual Allowance charge	60% of £7,000 + 40% of £28,000 + 45% of £5,000 **= £17,650**

THE MEMBER MAY WISH TO PAY AVCS OF £5,000 TO REDUCE THRESHOLD INCOME TO £110,000 (BUT WILL STILL EXPERIENCE A VERY LARGE AA CHARGE)

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ALIGNMENT OF PENSION INPUT PERIODS
HOW THINGS WERE - EXAMPLE

1 JULY 2014

2015/16 £40,000 ANNUAL ALLOWANCE
+ CARRY FORWARD FROM 2012/13, 2013/14 & 2014/15

30 JUNE 2015

1 JULY 2015

2016/17 £40,000 ANNUAL ALLOWANCE
+ CARRY FORWARD FROM 2013/14, 2014/15 & 2015/16

30 JUNE 2016

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ALIGNMENT OF PENSION INPUT PERIODS(PIP)
REALIGNMENT IN 2015/16

CATEGORY 1: 2016/17 PIP HAD ALREADY STARTED (7 APRIL – 8 JULY START DATE)

CATEGORY 2: 2015/16 PIP NOT YET ENDED (9 JULY – 5 APRIL START DATE)

CATEGORY 3: PREVIOUSLY ALIGNED TO TAX YEAR (6 APRIL START DATE)

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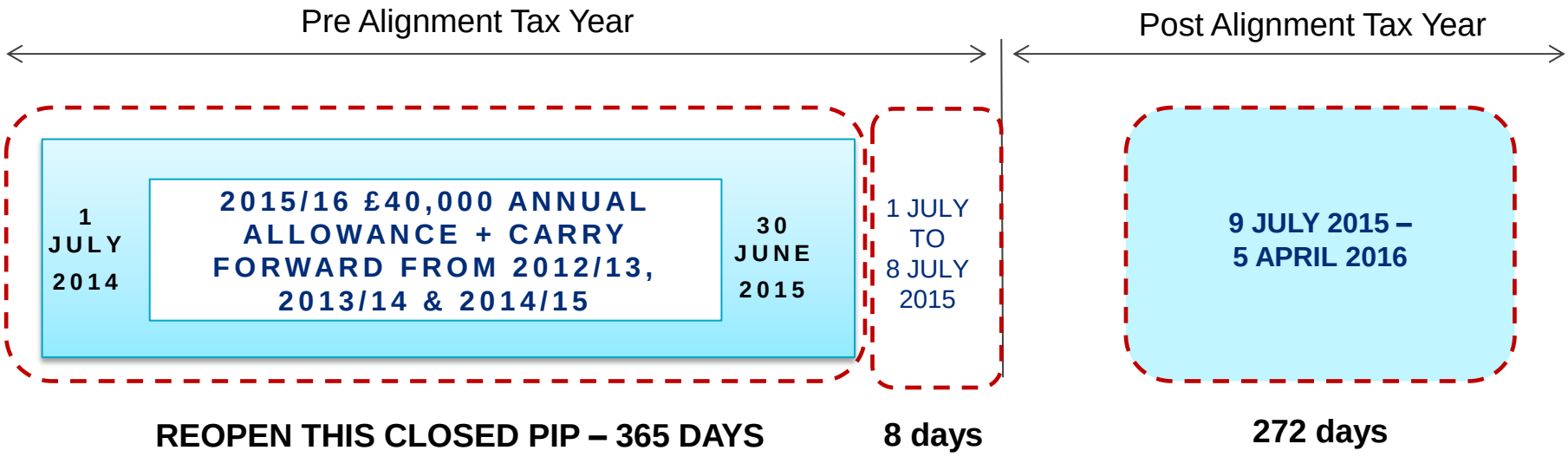
REALIGNMENT OF PENSION INPUT PERIOD IN 2015/16
CATEGORY 1 EXAMPLE – LATEST PIP STARTED 1 JULY 2015



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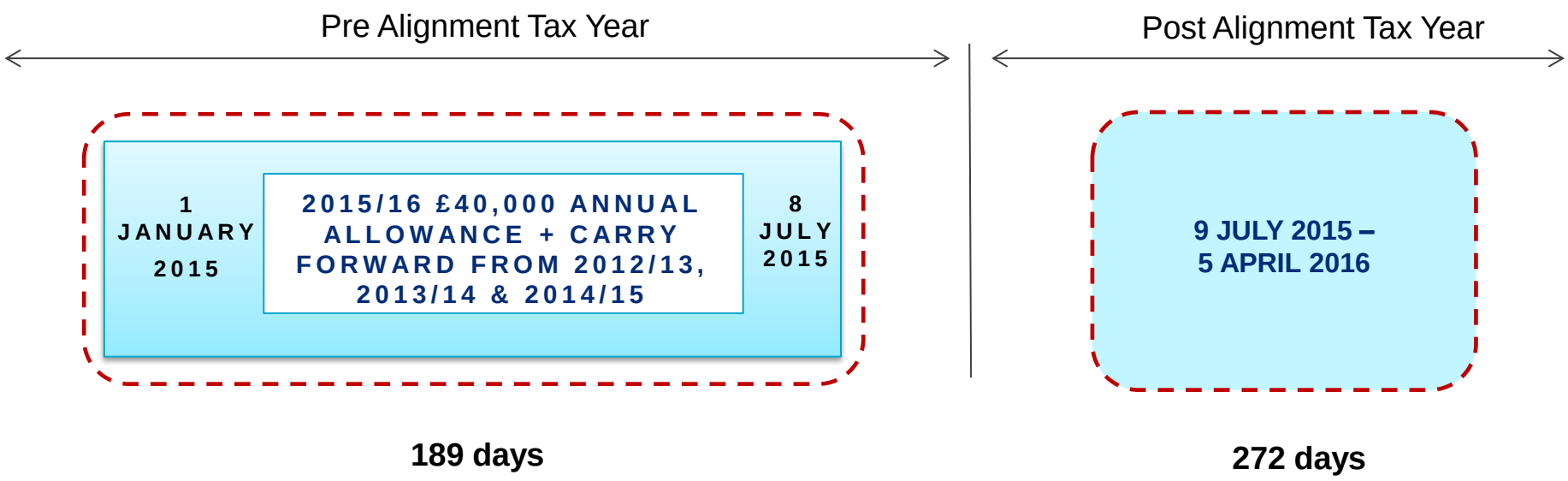
REALIGNMENT OF PENSION INPUT PERIOD IN 2015/16
CATEGORY 2 EXAMPLE – LATEST PIP STARTED 1 JAN 2015



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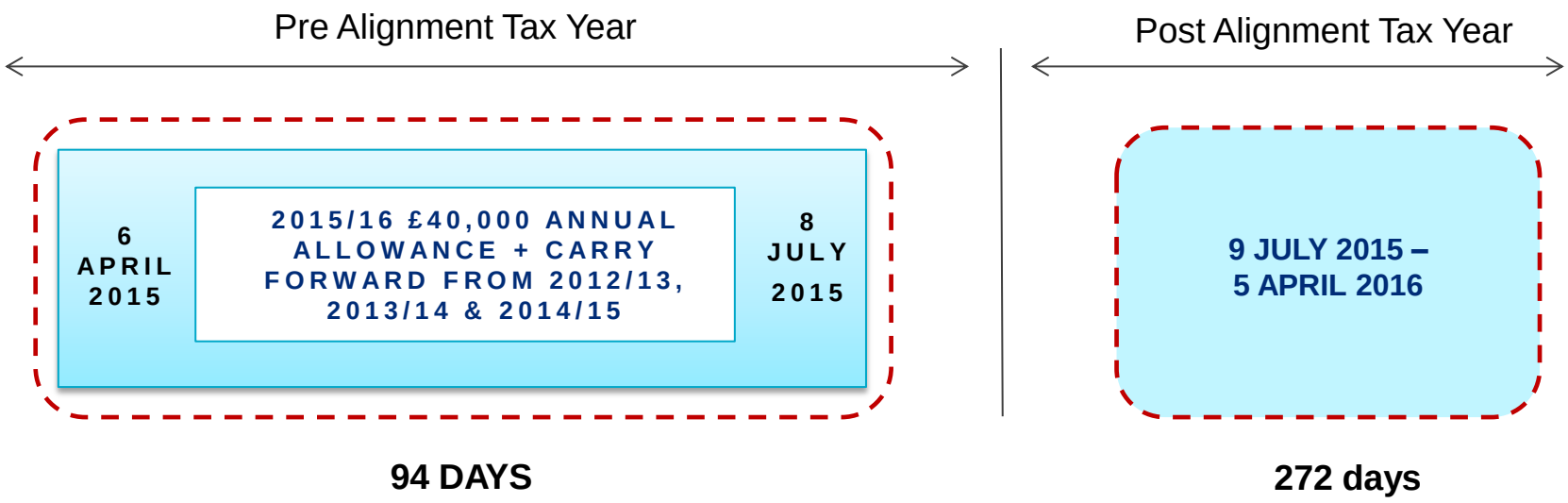
REALIGNMENT OF PENSION INPUT PERIOD IN 2015/16
CATEGORY 3 EXAMPLE – LATEST PIP STARTED 6 APRIL 2015



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AVAILABILITY OF ANNUAL ALLOWANCE
SPLITTING THE 2015/6 TAX YEAR

PRE-ALIGNMENT

ANNUAL ALLOWANCE =

£80,000

PLUS

CARRY FORWARD FROM 2012/13, 2013/14 & 2014/15

POST- ALIGNMENT

9 JULY 2015 to 5 APRIL 2016

ANNUAL ALLOWANCE =

£80,000 – PRE-ALIGNMENT PIA BUT WITH MAXIMUM OF £40,000

PLUS

ANY REMAINING CARRY FORWARD FROM 2012/13,2013/14 & 2014/15

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CALCULATING THE PENSION INPUT AMOUNT FOR 2015/6 - DC SCHEMES

Pre Alignment Tax Year	Post Alignment Tax year
Amount contributed by or on behalf of a member in Pre Alignment Tax Year	Amount contributed by or on behalf of a member in Post Alignment Tax Year

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CALCULATING THE PENSION INPUT AMOUNT FOR 2015/16 - DB SCHEMES

Best Illustrated via an example	Calendar year example
Accrued pension at 1 January 2015	£40,000 p.a.
Accrued pension at 5 April 2016	£46,070 p.a.
PIA for Combined Period (Pre and Post Alignment Periods combined)	[£46,070 – (£40,000 x **1.025**)] x 16 = £81,120
PIA for Post Alignment Period	£81,120 x 272 / (189+272) = £47,863
PIA for Pre Alignment Period	£81,120 - £47,863 = £33,257

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PENSION INPUT AMOUNT FOR 2015/6
ANALYSIS OF EXAMPLE – ASSUME NO CARRY FORWARD

- Pension Input Amount for Pre Alignment Period (£33,257) is less than the £80,000 available
- Balance of Annual Allowance available for Post Alignment Period

  =£80,000 - £33,257

  = £46,743, but subject to a maximum of £40,000
- Pension Input Amount for Post Alignment Period (£47,863) is more than the available £40,000
- Annual Allowance charge is based on £7,863 (£47,863 - £40,000)
- Note that Annual Allowance charges can arise in both the Pre Alignment Period and Post Alignment Period

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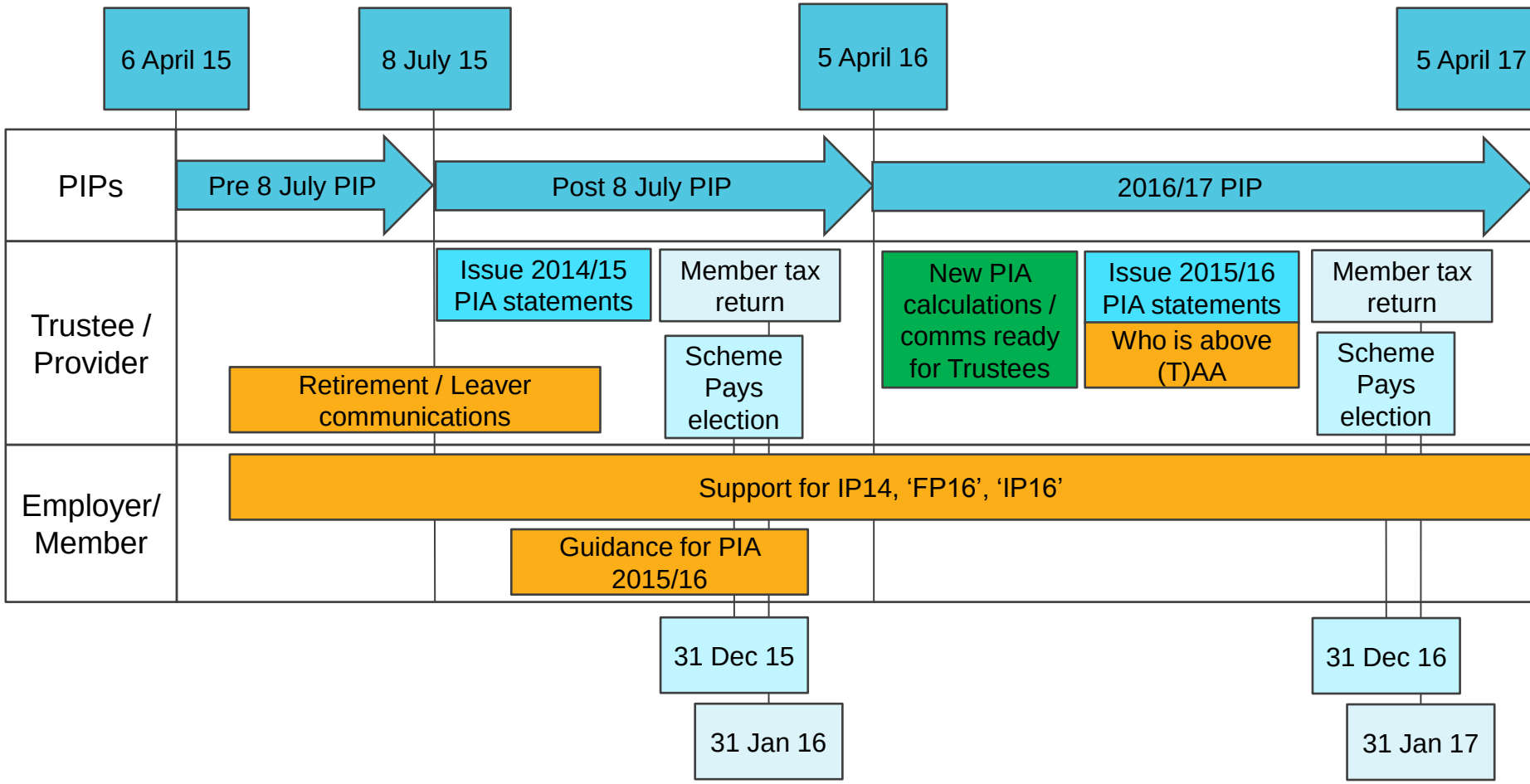
Section 2

How can this all be implemented?

HOW CAN THIS ALL BE IMPLEMENTED?
ADMINISTRATION IMPLICATIONS

Simple PIP Transition – Categories 2 & 3 (slide 11)



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HOW CAN THIS ALL BE IMPLEMENTED?
TRUSTEE / PROVIDER PRACTICALITIES

- Trustees/Providers provide Pensions Savings Statement, *where PIA exceeds AA*
  - ✓ TAA applies where earnings are above the threshold
  - ✓ If TAA applies, value will depend on earnings including PIA
  - ✓ Not clear how trustees will know if earnings exceed threshold/PIA exceeds TAA and when
- Current practice for pensions savings statements
- Need to consider different approaches post TAA
  - ✓ Conservative approach to earnings / TAA or employer driven
  - ✓ 2015/16 transition period: PIA calculations & delivery dates

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HOW CAN THIS ALL BE IMPLEMENTED?
TRUSTEE / PROVIDER PRACTICALITIES (2)

- Differences in PIPs
  - ✓ E.g. Individual PIPs
- Retirements / leavers - need to consider:
  - ✓ Will PIA be correct for retirees/leavers pre 8 July?
  - ✓ Probably (but not always) and context will be incorrect
  - ✓ What should be said to imminent retirees?
  - ✓ Difficult to say before autumn
  - ✓ General member communication may be appropriate
  - ✓ NOTE: Members can elect Scheme Pays at retirement
  - ✓ May need to unwind this

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HOW CAN THIS ALL BE IMPLEMENTED?
EMPLOYER / MEMBER PRACTICALITIES

- Support for decisions about contributions in 2015/16
  - ✓ How much Employer support?
  - ✓ Is it an employment issue or a personal tax issue?
  - ✓ How much will cost be a factor?
- Provision of support for individuals who wish to register for IP14, ‘FP16’, ‘IP16’
  - ✓ IP14 should still be supported – provision of LTA calculations
  - ✓ FP16 and IP16 will also need to be supported
  - ✓ But number potentially affected is growing all the time
  - ✓ How will trustees / employer manage demand?

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HOW CAN THIS ALL BE IMPLEMENTED?
EMPLOYER / MEMBER PRACTICALITIES

- Communications to members
  - ✓ Consider proactive communications to members
  - ✓ Cover position for recent and imminent retirees / leavers
  - ✓ Also heads up on next steps
- Scheme design Issues
  - ✓ Benefits limited to PIA
  - ✓ May lead to alternative investment routes

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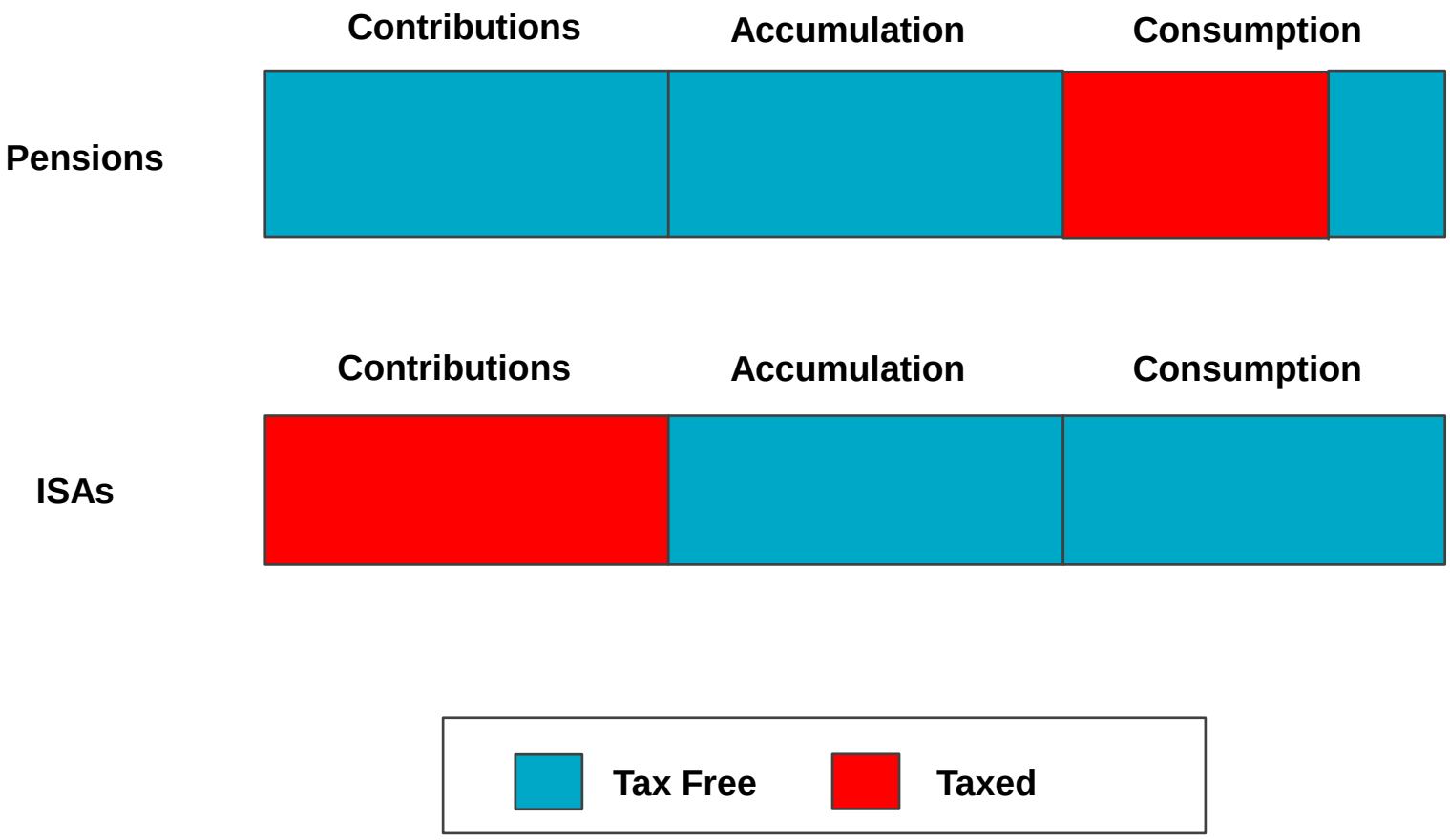
Section 3

The Green Paper - where are pensions and savings going?

THE GREEN PAPER – WHERE ARE PENSIONS AND SAVINGS GOING?

RECAP ON DIFFERENCES BETWEEN PENSIONS AND ISAS



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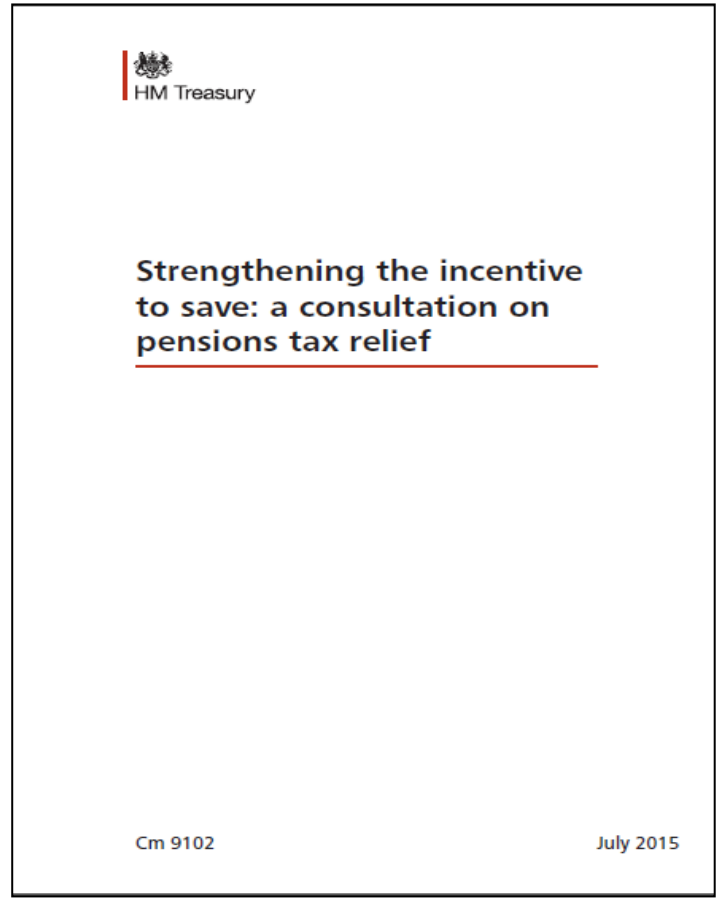
THE GREEN PAPER – WHERE ARE PENSIONS AND SAVINGS GOING?

CONSULTATION ON PENSION TAX RELIEF



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SO WHERE ARE PENSIONS AND SAVINGS GOING ?

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Section 4

Pensions and savings designs of the future

WORKPLACE SAVINGS: BRIDESMAID TO BRIDE?

- Growing interest in Corporate ISAs and other workplace savings from employers
- Drivers:
  - ✓ Employees subject to the LTA, receiving cash supplements and wanting an alternative tax efficient savings vehicle;
  - ✓ Desire to provide attractive benefits to wider generations;
  - ✓ Desire to differentiate from competitors.
- We expect take-up to increase
- Providers who offer pension and savings on the same platform will prosper

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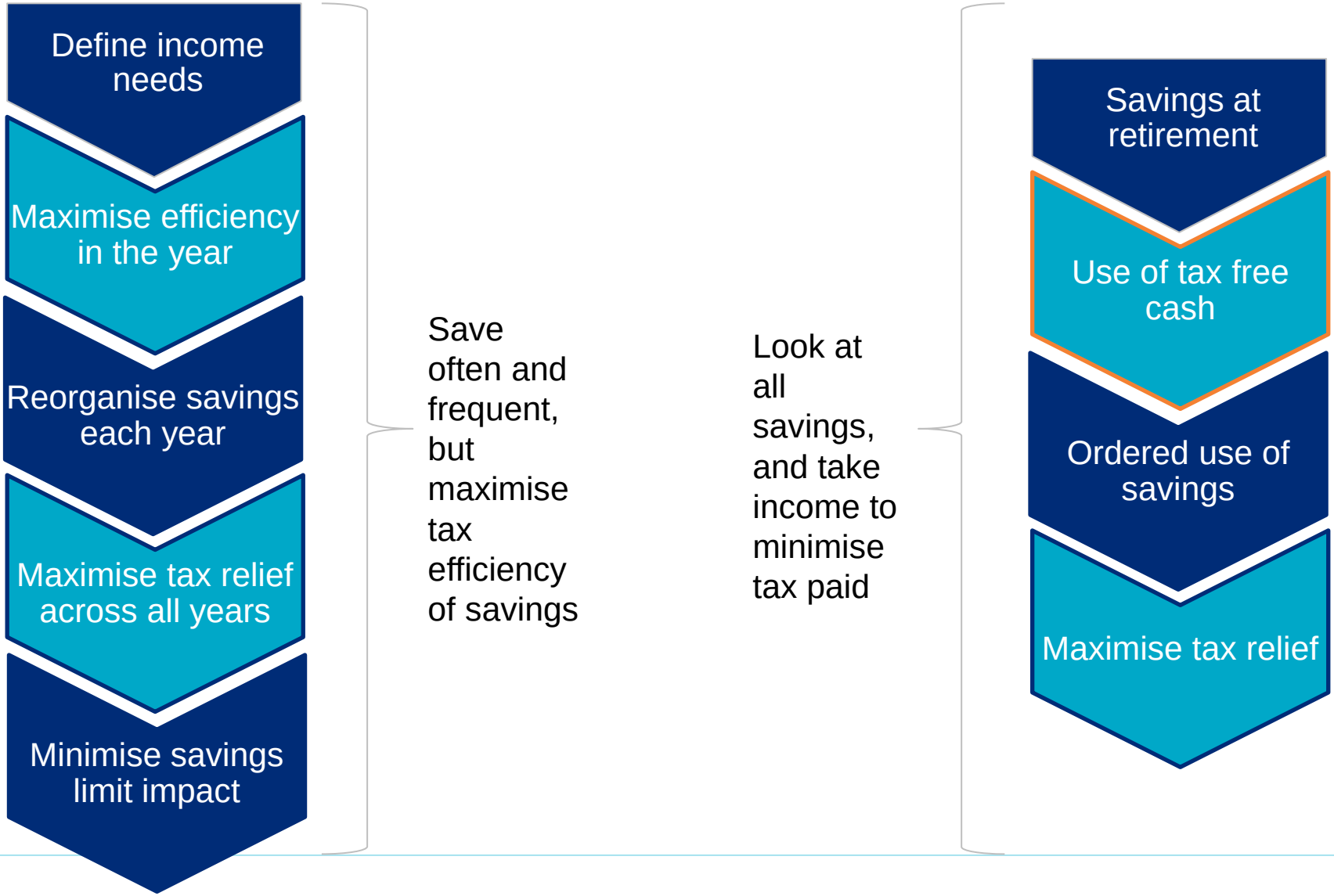
PENSION AND SAVINGS OF THE FUTURE
A COMBINED APPROACH



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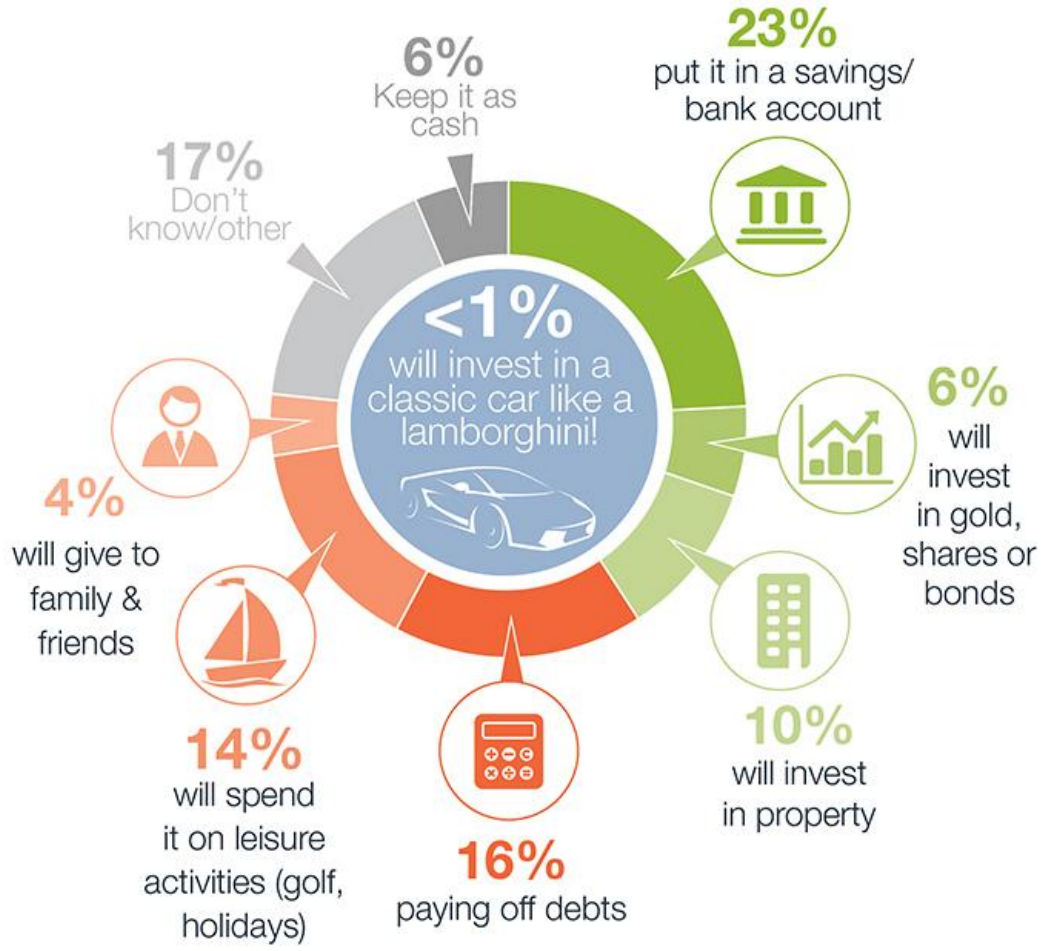
SPENDING THE SAVINGS FUND?



Source: Brewin Dolphin – YouGov Survey 2015

*Respondents were able to pick multiple answers

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TAX EFFICIENT SAVINGS CHOICES THROUGH OR GUIDED FROM THE WORKPLACE

Product	Available through a consolidated Workplace platform now?
DC Pension (Trust, Contract, Master Trust)	Yes
ISA (Cash and Stocks & Shares)	Yes
Help to Buy ISA (if they proceed)	Not yet
Junior ISA	Not yet
Unit trusts & OIECS	Yes
Save As You Earn	Not Yet
Share Incentive Plan	Not Yet

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CHARACTERISTICS OF AN IDEAL WORKPLACE SAVINGS SOLUTION

- Selected by the employer based on its needs and based on full market knowledge
- Delivered by a robust provider committed to:
  - ✓ A long-term presence in the UK market;
  - ✓ Maintaining leading edge communications;
  - ✓ Enabling access to the latest investment products and highly rated investment funds;
- All products visible and transactions possible through one screen;
- Offer tools to model income needs & tax ‘break-points’;
- Close to institutional charges;
- Clean & transparent fees;
- Employee focused communications;
- Links & data feed to Flex and Employee Financial Wellbeing Platforms;
- Sound governance.

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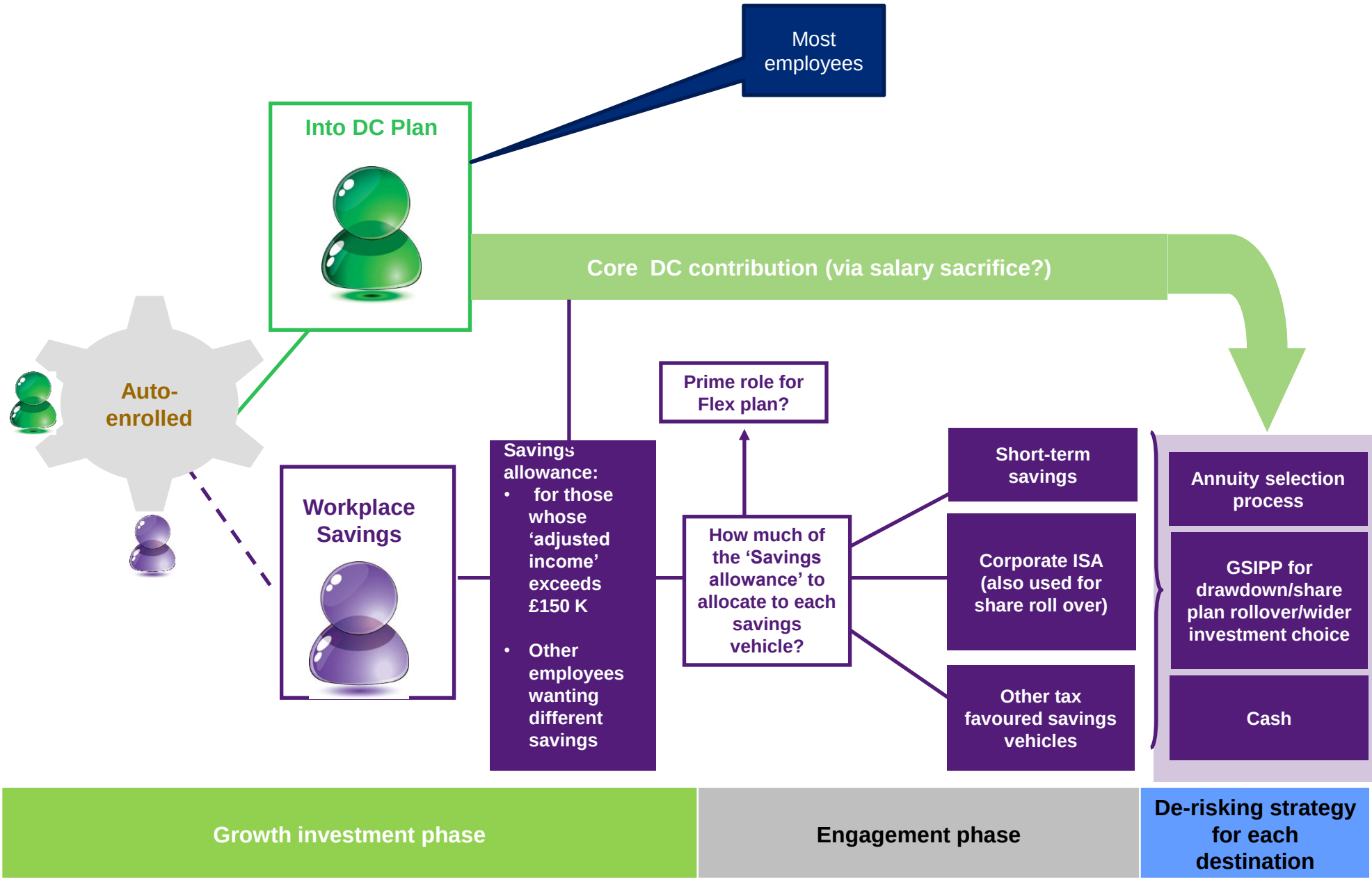
21ST CENTURY PLC: BENEFIT STRATEGY



Section 5

Other areas of interest

OTHER AREAS OF INTEREST

- Consultation on EFRBS
- Salary sacrifice schemes to be monitored
- Secondary market for annuities – delayed until 2017
- Tax on lump sum death benefits on death after age 75 will change to marginal rate
- New £5,000 Dividend Allowance

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Section 6

Conclusions

QUESTIONS FOR YOU

- Will you do anything for your employees in response to the Summer Budget 2015 pension changes?
- What will be the threshold for doing something? Salary above a certain level?
- What will you do? A salary supplement instead of pension? Company contribution to an ISA?
- If so, how much will the salary supplement/contribution to the ISA be?

QUESTIONS

Please type your questions in the Q&A section of the toolbar and we will do our best to answer as many questions as we have time for.

To submit a question while in full screen mode, use the Q&A button, on the floating panel, on the top of your screen.

CLICK HERE TO ASK A QUESTION TO "ALL PANELISTS"

FEEDBACK

Please take the time to fill out the feedback form at the end of this webcast so we can continue to improve. The feedback form will pop-up in a new window when the session ends.

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MAKE TOMORROW, TODAY

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