

## Annual and Lifetime Allowances - seven steps to success

Employers seeking to attract and retain the very best talent are aware that pension provision is a significant part of an individual's remuneration package. However, considerable changes to pension taxation in recent years will heavily impact high earners.

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Our specialist team was set up to assist employers in relation to pension planning for their senior staff and to help senior individuals in relation to their pensions.

This briefing note details these changes and highlights the seven stage process that employers should follow to avoid unnecessary pension taxation issues.



### Annual Allowance

The Annual Allowance (AA) is the total pension savings that can be made in a single year without incurring a tax charge. The current AA is £40,000 but has been reduced for high earners from 6 April 2016. Where taxable income is above £110,000 it will be necessary to calculate the “adjusted income” for the tax year – broadly this is all taxable income (less pension contributions made by the individual) plus the value of all pension savings. If the “adjusted income” exceeds £210,000, the Annual Allowance will be just £10,000.

### Lifetime Allowance

The Lifetime Allowance (LTA) is the maximum level of benefits that an individual can draw from all registered pension schemes without incurring tax charges. The current LTA is £1million and is expected to increase in line with Consumer Prices Index (CPI) from 6 April 2018.

Each £1 p.a. of pension (from a final salary scheme) brought into payment is valued as £20 against the LTA and cash sums are taken at face value. The fund value (from a defined contributions scheme) at the point that a pension is brought into payment is assessed at face value against the LTA.

In response to the tax changes from April 2016, we have developed the existing services that we have been providing to senior staff for the last ten years. Our specialist team was set up to assist employers in relation to pension planning for their senior staff and to help senior individuals to make decisions in relation to their pensions. We have considerable experience of advising both companies and their senior staff in relation to the pension issues for high earners.

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We would work with the company to understand your requirements. Step two would involve meeting with you to discuss your specific issues and concerns

Our new approach is centred around a staged 'educational' process which is described in more detail below:



## SET OUT CORPORATE GOALS

It is important to be clear about your goals from the outset. For example, what are the company's objectives for pension planning in terms of cash spend for senior staff? Would the intention be to offer cash in lieu of pension contributions for those who opt out or wish to limit their contributions to the AA?



## UNDERSTANDING YOUR REQUIREMENTS

We would work with the company to understand your requirements. This would involve meeting with you to discuss your specific issues and concerns, the current arrangements and strategy in place. We would obtain copies of any key documentation and aim to understand how you want to engage with staff who are potentially impacted by the changes. We would discuss the options you may wish to consider for those individuals affected by the AA reductions.



## CREATE A PLAN OF ACTION

We would then prepare our report, setting out the implications of the pension tax changes for your senior staff which would include the options available to the company and proposed communication strategy. We would normally prepare a draft report containing our advice for discussion with you prior to finalisation. We envisage that our recommendation would be to provide written communication to all your staff followed by seminars.



## COMMUNICATION PLAN

We recommend that communication should cover the changes to the AA and LTA tax changes, including information about what these mean and about the available LTA protections.

The communication should provide details of the Company's proposals to assist high earners mitigate the impact of the reduced pension allowances, for example the option of a salary supplement in lieu of pension savings. Full details of any salary supplement and whether or not any associated benefits, such as death in service and ill health benefits will be maintained for those who opt out of the pension scheme should also be provided.

The communication should also provide information about Lifetime Allowance protections.

### Follow up Communication (call for action)

This should ideally be sent out after the Initial Communication. This will be similar to the Initial Communication but will include a reminder of the protections available and that some employees will be able to pay additional pension contribution before the end of the tax year.

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We can deliver briefing sessions for your HR and Reward staff, enabling them to deal with routine questions from staff



## ENCOURAGE UNDERSTANDING OF CHANGES

We can deliver briefing sessions for your HR and Reward staff, enabling them to deal with routine questions from staff. The briefing sessions would outline the AA and LTA changes introduced in earlier years and from April 2016, the options staff have in relation to their pension arrangements with the company, and other issues that individuals should consider.



## SEMINARS FOR SENIOR STAFF

You may wish to provide seminars for senior staff (selected by you) who are likely to be affected by the changes to AA and LTA reductions.

These seminars would outline the change to the AA and LTA introduced in earlier years and from 6 April 2016, and other issues that individuals should consider. They would include case studies to highlight how the new changes have some advantages, in terms of better options in the event of death and IHT planning. The ideal number of attendees per session is about 20, which also allows time for any questions to be raised.

For Steps 5 and 6 we can include information about your own pension scheme(s) in these seminars. We are aware that some clients prefer to arrange for a member of their in-house pensions team to attend alongside Barnett Waddingham to cover pension scheme details and deal with specific questions about your scheme during the briefing session.



## SPECIFIC MEETINGS AND REVIEWS FOR INDIVIDUALS

For very senior staff, you may choose to offer individual meetings, and or detailed guidance.

### The individual meetings can include:

- a brief review of the individual's pension arrangements in order to indicate whether the member is likely to have pension benefits in excess of the LTA and consider possible options that may be available to mitigate any potential LTA tax charge (and hence whether they may benefit from further detailed advice)
- a brief review of the AA position and details of the possible options that may be available to mitigate any potential AA tax charge
- details of possible options for drawing benefits in a tax-efficient manner
- details of possible options for utilising the further Defined Contribution (DC) flexibilities introduced in Budget 2014

The cost for individual meetings is usually on a time-cost basis (within pre-agreed parameters) and this typically covers the review of the information about all the individual's pension arrangements prior to the meeting, the 'guidance' meeting and for writing a summary note of the meeting.

In addition we can provide a comprehensive review on an individual basis.

### This covers a detailed analysis of all their pension provision from all sources and includes:

- a detailed review of AA and LTA positions

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We can also provide a comprehensive review for selected individuals on an individual basis. This covers a detailed analysis of all their pension provision from all sources

- projections of pension benefits (at different retirement ages). This includes details of benefits if the individual continued to accrue benefits in their current pension arrangement, as well as the details of benefits which might be expected if the individual ceases to accrue benefits, or limits accrual to the AA
- consideration of possible ways of mitigating any potential AA and / or LTA tax charges
- a check on eligibility for Individual Protection 2014 and Individual Protection 2016
- information about the options for drawing benefits in a tax efficient manner
- information about the options for utilising the further flexibility introduced in Budget 2014
- provide guidance on the order to draw pension benefits at retirement

The detailed review includes a report setting out the options and can include a meeting to discuss our report, if required.

The cost for this service is dependent on the actual work required and charged on a time-cost basis with the fees being met by the individual or the company. Our fees for full advice will depend on the complexity of the pension arrangements that the individual has. We can provide individual estimates as required.

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Please contact Bhargaw Buddhdev, Head of Executive Pensions if you would like to discuss any of the above topics in more detail. Alternatively contact us via the following:

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