Information on...

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Case Study July 2013 – Pension Options for High Earners

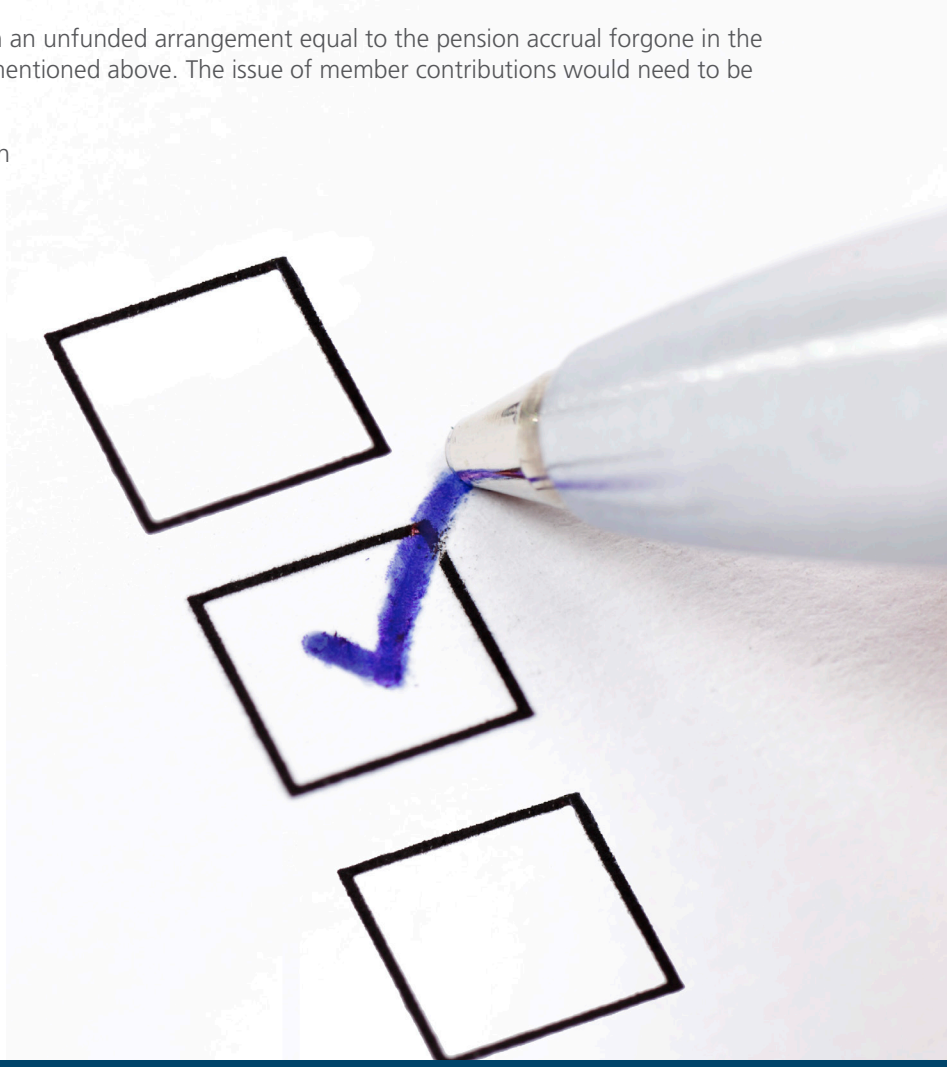
Will any of your executives be affected by the Lifetime or Annual Allowance? Do they have Enhanced or Fixed Protection? This case study explains how we have helped one employer and their executives with these issues.

Some executives of a contributory final salary pension scheme had registered for Enhanced Protection or Fixed Protection. These protections were expected to be invalidated because of their continuing pension accrual. Others were facing Annual Allowance or Lifetime Allowance tax charges if they continued to accrue pension benefits on the current basis.

To maintain valid Enhanced Protection or Fixed Protection, or to mitigate the Annual Allowance and Lifetime Allowance tax charges, one or more of the following options might be made available to the senior executives:

- Restriction of pensionable salary to the maximum possible without breaching the Annual Allowance.
- Restricting the amount of pension accrued in the registered pension scheme so as not to invalidate the Enhanced Protection or Fixed Protection or breach the Lifetime Allowance limit.
- A pension to be paid (by the employer) through an unfunded arrangement equal to the pension accrual forgone in the registered pension scheme for the restrictions mentioned above. The issue of member contributions would need to be addressed however.
- Where necessary, provision of life cover through an "excepted group life policy" to avoid loss of Fixed Protection.
- Continue to accrue benefits as per existing provision leading to significant Annual Allowance and Lifetime Allowance tax charges.
- Cease all pension accrual and in lieu receive a salary supplement.

All of the options were discussed with the employer to agree a way forward. We then met the senior executives individually to advise them of the pension tax changes and the options offered by the employer. We explained to them how their eventual benefits could be paid and the tax implications of the different options which took account of their individual circumstances and objectives.



Primary Protection

Primary protection was available if pension savings of more than £1.5 million had been built up as at 5 April 2006. The last day for application to be made was 5 April 2009. A Primary protection factor was given which is used to calculate the individual's personal lifetime allowance when they take their benefits. Primary protection cannot be given up but it can be lost if the pension savings are reduced to less than £1.5 million because of a pension sharing order on divorce.

Enhanced Protection

Enhanced protection was available until 5 April 2009. Individuals with Enhanced protection will not have to pay a lifetime allowance charge, regardless of the value of their pension savings on 5 April 2006. Enhanced protection is lost if after 5 April 2006 a further contribution is paid to a money purchase arrangement or pension savings accrue in a defined benefits scheme, in general terms, by the greater of 5% per annum, the rise in the cost of living or increase in pensionable pay. It will also be lost if savings are made in a new pension arrangement.

Fixed Protection 2012

Fixed protection 2012 was available until 5 April 2012. Under Fixed protection 2012 the lifetime allowance is fixed at £1.8 million. It cannot be given up but can be lost if after 5 April 2012 a further contribution is paid to a money purchase arrangement, pension savings accrue in a defined benefits scheme by more than the permitted limit or savings are made in a new pension arrangement.

Further reductions of Annual Allowance and Lifetime Allowance from 6 April 2014

On 5 December 2012, changes were announced to further reduce the lifetime allowance from £1.5m to £1.25m and the annual allowance from £50,000 to £40,000. These reductions will apply from 6 April 2014. The Government has proposed to introduce legislation to offer two new types of lifetime allowance protection, available to individuals who are likely to be affected by the reduction of the lifetime allowance from 6 April 2014.

Fixed Protection 2014

Fixed protection 2014 will allow individuals to retain a lifetime allowance of £1.5m and similar restriction will apply to further pension savings as with Fixed protection 2012.

Individual Protection 2014

The Government is also consulting on "Individual Protection" which will be available to individuals with pension savings of more than £1.25 million on 5 April 2014 and will give them a personalised lifetime allowance equal to the value of their pension savings as at 5 April 2014, but capped at £1.5 million. Unlike Fixed Protection 2014, individuals will be able to carry on pension savings without losing their Individual Protection. Any pension savings above the individual's personalised lifetime allowance will be subject to a lifetime allowance charge when the benefits are taken. Final details on Individual Protection are expected to be available in late 2013.

There are various other restrictions relating to the above types of lifetime allowance protection and advice should be sought on the full conditions and operation of each type of lifetime allowance protection.

About us

Our Executive Pensions practice was set up in order that we can advise and assist employers on pension requirements for their senior staff. We work with HR and Finance teams as well as Remuneration Committees on all issues relating to pension planning for senior staff.

The members of the Executive Pensions team have substantial experience of advising employers and their high earners on tax efficient pension provision and negotiations on any pension promise. The team includes actuaries and pension specialists.

Please contact your Barnett Waddingham consultant if you would like to discuss any of the above topics in more detail. Alternatively contact Bhargaw Buddhdev via the following:

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