Secondsight
Part of the Foster Denovo Group

Don’t lose out on your pension pot

What you need to know about managing the changes to pension allowances if you’re in a mid to higher income bracket

Pension allowances have fallen

This April the new Finance Act came in to effect, bringing in a number of changes to the rules surrounding pensions.

The changes are likely to impact the nation's highest earners, directors, senior management and some middle income earners may be affected too.

Are you at risk and what should you do about it?

- This guide has been designed to help you understand the changes and determine if you will be impacted.
- It also details the kind of actions a financial adviser would discuss with you if you're likely to be affected.

The issues explained

Tapered annual allowance

The tapered annual allowance will affect anyone with income over

£150,000 per year.

But isn't solely based on your annual salary.

Instead it is your 'adjusted' income – something that is made up of a number of variables.

What is your adjusted income?

The calculation for this includes:

- your pension contributions;
- your employer's contribution to your pension;
- salary sacrifice and benefits in kind;
- commission;
- income from a pension; and
- '**income**' also includes employment income and additional taxable private income you may receive from savings, investments, and buy-to-let income.

Why should you be concerned?

- In future you could face 45% tax bills on any annual contributions to your pension pot over £10k*.

*You could receive an unexpected tax bill of £13,500.
So you could receive a hefty bill out of the blue.

Could your pension contributions result in a hefty tax bill?

Until now, one of the most tax-efficient ways to save for the future (and for your employer to reward you) was through pension contributions.

However, with the introduction of the pension annual allowance changes, if you continue paying pension contributions of £40,000, you could face a tax bill of as much as £13,500.

The source of the problem is the new system of tapered annual allowance and it applies to anyone with an income or 'adjusted income' of £150,000+.

Who will be affected?

(The really tricky part)

You will be - if your annual salary is £150,000+*	You will be - if your salary is less than £150,000, but your 'adjusted income' is £150,000 or more
This includes a year-end bonus that pushes your overall package (not just salary) to £150,000+. * this may not be the case if your threshold income is lower than £110,000.	'Adjusted income' includes anything you would be asked to declare on your Self Assessment tax return including: • your pension contributions; • your employer's contributions; • any salary sacrifice arrangements you have in place; • any commission you might earn; and • any additional taxable income you earn from savings and investments, bonuses and buy-to-let income.

BEWARE OF THE 'BONUS'

It could take you over the top.

Every £2 you pay into your pension pot will be slashed by 90p

90p off

The £40,000 annual allowance will be reduced by £1 for every £2 of adjusted income above £150,000 until it reaches £10,000 for adjusted incomes of £210,000 and above.

Could the new rules make you 'too rich for a pension'

	Before the 6th April 2016		Current rules from 6th April 2016
Your **'adjusted income'**	**£100,000**	**£150,000**	**£210,000**
Total **maximum contributions** before you have to pay tax	**£40,000**	**£40,000**	**£10,000****
What the **taxman pays in** for the employee (this forms part of the annual £40k limit)	**£16,000**	**£18,240***	**£4,500**
***How big your pension pot could be in 'today's' terms after 30 years of contributions.	**£1,300,000** Approx.	**£1,300,000** Approx.	**£325,000** Approx.

Source: Secondsight.

A loss of £1million

*£11,200 of this contribution enjoys an effective relief rate of 60% due to reclaim of some of the personal allowance. **This figure assumes no annual allowance relief has been carried forward.***Forecast based on 5% growth per year and 2.5% inflation per annum. Figures are rounded to assist clarity.

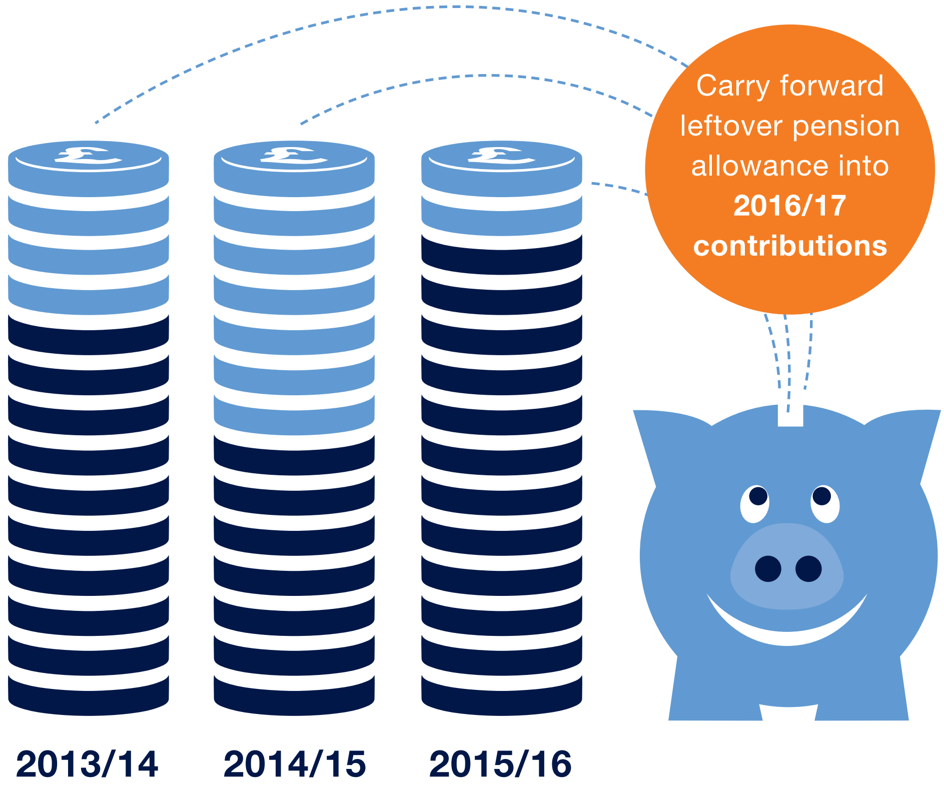
You're reading this, so you know you may need to take action now to avoid the potential pitfalls.

What to talk about with your financial adviser

Choose to take professional advice and you can do a great deal to mitigate the effects of the new legislation.

Your adviser should be reviewing and re-assessing your retirement planning. They will look at whether you can:

1. **utilise any unused annual allowance. You can go back three years so this could deliver considerable tax savings;**



2. **draw up suggestions that you can raise with your employer around re-thinking their contribution strategy. It's worth exploring how flexible they can be. For example, could they offer you other savings mechanisms, provide a pension on a non-contributory basis, or consider alternative cash rewards?**

Take immediate action

Seek financial advice.

Lifetime allowance

Don't let the new reduced lifetime allowance stop you achieving your planned retirement.

A prosperous retirement is the result of careful planning, however your pension pot is now capped at £1million. This may sound like a lot, but we'll demonstrate that it really isn't.

The direction of travel is a growing cause for concern, as this latest pension pot reduction is a cool £0.25million* less than any of us previously enjoyed.

*This figure may change in line with indexed CPI from 2018/19.

Previous allowance **Current allowance**

Indexed inline with CPI from 2018/19 tax year.

*To add insult to injury, even a death in service payout could be included in your diminished pension pot. See page 9.

Your pension could be 'full up' if you earn over £80,000+

If your immediate reaction is that you weren't anticipating a £1million+ pension pot; think again. The first thing to bear in mind is that your lifetime allowance applies to the value of your pension when you come to draw money from it. Not the value on the 5th April 2016. Which means this latest reduction in lifetime allowance could mean a tax liability for anyone earning over £80,000. Please note: depending on the term to retirement, the current value of their pension pot and the value of any future contributions, individuals with earnings lower than £80,000 could also be affected.

Example*

An individual earning £80,000, with 6 years to retirement, death in service benefit of four times salary, and an existing pension pot of £533,000 should seek immediate financial advice. You may wish to reassess your pension contributions.

*Assume a 6% matching pension contribution, a 0.5% AMC and a 5% assumed growth rate excluding inflation. Please note: depending on the term to retirement, the current value of their pension pot and the value of any future contributions, individuals with earnings lower than £80,000 could also be affected.

Should I be concerned?

To get an idea of whether you may be affected you need to know what you've got in your current overall pension pot.

1. Start with the pension you've got with your employer. Ask them what the current value is.
2. Now you need to add in any pensions from past employment. They will be either money purchase or defined benefit pensions. Both can really add up over time.
3. Since money purchase pensions are subject to investment performance you can only make an estimated forecast of their value when you come to retire.
4. However with a defined benefit pension or final salary pension you can make a sure-fire calculation.
    - For example, if you expect to receive benefits of £20,000 at retirement from your defined benefit pension, you'd need to multiply that by 20 to calculate a figure in relation to your lifetime allowance.
    - In this instance, it would account for £400,000 of your lifetime allowance. A significant amount.

As you can see there are a lot of variables, so if you believe you may be affected it's wise to seek financial advice. Figures quoted are indicative.

Should I stop my pension contributions?

Only a financial adviser can help you with this decision, but you may wish to consider ceasing pension contributions after taking advice. The forecast below is an example forecast for a 45 year old, earning £80,000 per year, 6% matched contribution, 5% growth on current pensions, 0.5% AMC.

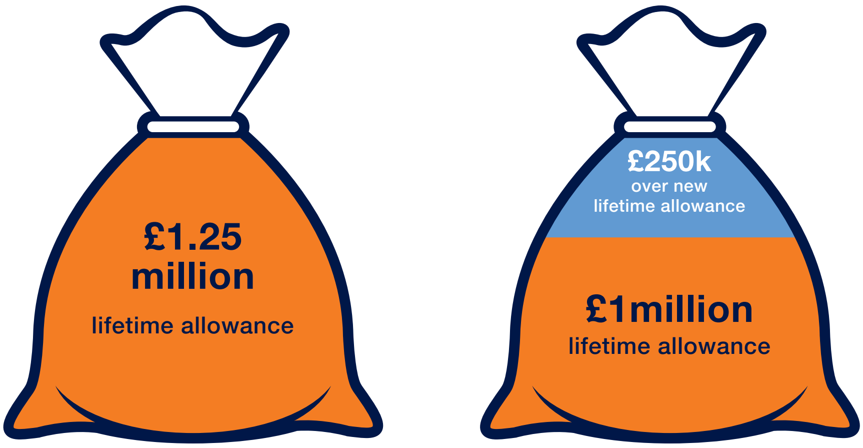
Re-valued lifetime allowance at 1.9% from April 2018.

What could happen if I'm affected and don't act?

Tax at 55%.

You may be liable to pay 55% tax on any money that you take out of your pension pot over the new lifetime allowance of £1million.

By taking advice you can avoid the risk of sleepwalking into unnecessary taxes, with grave consequences.



Before the 6th the April 2016 **After the 6th April 2016**

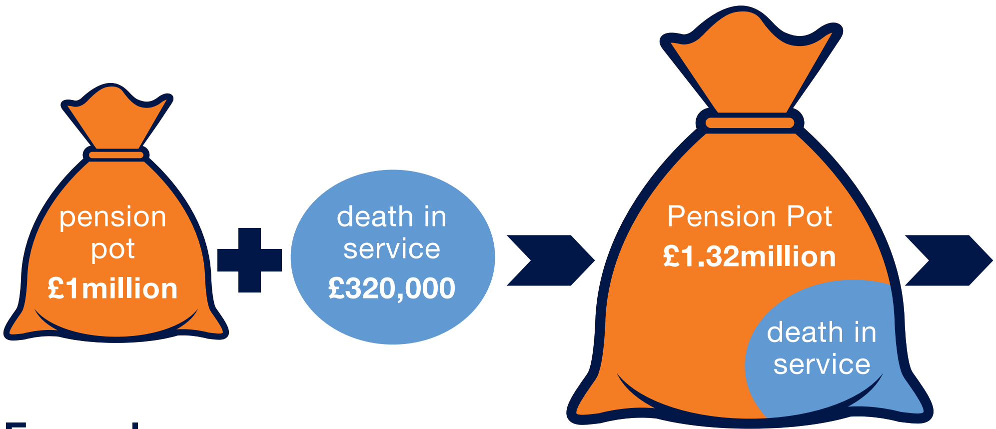
Think you might be affected?

1. Seek professional advice because:
2. You may be advised to reduce or cease contributions.
3. You may be better off using alternative investments
4. You may be entitled to 'protect' the higher lifetime allowance of £1.25million for 2016 or even the £1.5million allowance from 2014.
5. Be aware of the pitfalls of changing jobs; these include the consequences of automatic enrolment and death in service contributions.

Death in service implications

How belonging to your company's group life assurance scheme benefits could rebound for your family.

It's estimated that 90%[1] of today's group life assurance benefits are set up as pension arrangements. Under this system a death in service payout can't be classed as a taxable benefit. With the new lifetime allowance this could prove very costly for the intended beneficiaries.



Example

- An individual, earning £80,000 dies aged 48.
- At the time of death his pension pot is £1million.
- His death in service benefit of £320,000 is calculated as part of his pension pot.
- As the £320,000 is in addition to the £1million lifetime allowance, it is taxed at 55%.
- Leaving his family with £144,000 – less than half the money paid out.

This is not something anyone wants to contemplate. But if you were in the same position, earning £80,000, your family would receive four times that amount if you were to die. And unless you took preventative action, the payout of £320,000 would be subject to 55% tax before your family received any money. So it would fall from £320,000 to £144,000. Not what your employer intended when they offered you the benefit. Please note: even individuals on an income less than or greater than £80,000 could be affected.

Right now

Seek financial advice.
If you are about to change jobs don't join the company's group life assurance scheme without taking advice or at least asking if the scheme is an 'excepted scheme'.

[1] Source: Canada Life. Based on figures from 14,000 group life assurance schemes.

Why have we published this guide?

As a multi-award winning, national firm of financial advisers we keep a close eye on new financial legislation and the implications for our clients and prospective clients.

Alarm bells

The more we analysed the cumulative and knock-on effects of the changes we've outlined here, the more concerned we became for our clients and their families.

Perhaps unwittingly, HMRC's actions may undermine many carefully made pension plans, to disincentivise retirement planning for higher earners, and to cause multiple headaches for employers trying to reward their most valued people.

Whether you're an existing Secondsight client, or you're finding out about us for the first time; we can help.

How we can help you

You can come to us to discuss your concerns and we'll arrange an appointment with one of our many specialised financial advisers.

Our aim is to flag up the issues and to offer you support.

- Firstly, we can help you to protect your interests.
- Secondly, we can advise you on new ways to approach efficient retirement planning.

Your benefits package is designed to benefit you. So the last thing you want is for it to fall short of your expectations.

As this guide illustrates, without preventative action you could:

- receive an unexpected tax bill;
- have your retirement impacted by a large tax liability when you take your pension; and
- have your family receive less than half of your death in service payout due to tax.

If you believe the issues raised in this guide may affect you, we can advise and help you navigate these changes.

Call us now on **0330 332 7866***

We are a multi-award winning national firm of financial advisers. Part of the Foster Denovo Group, we provide specialist financial advice to individuals and families, corporate clients and charities.

About us

Probably best to let external sources do the talking:

- we've been awarded over 20 accolades; ranging from IFA of the Year and Estate Planner of the Year through to formal recognition of our charities division and our employee benefits division, Secondsight. Including; Consultant of the Year 2014 by Charity Times Awards and Best Employee Benefits Advisory Service UK and Workplace Financial Education Firm of the Year UK at the Finance Awards 2015;
- we work with our clients to help them achieve their financial goals both now and in the future; and
- our Net Promoter Score (NPS) revealed that our clients rate us as +56 and 83% and say we are, 'easy to do business with'.

Speak to your Secondsight Partner.
Or if you aren't a client of ours yet:

call 0330 332 7866*;
email advise-me@second-sight.com; or
visit www.second-sight.com

*Calls are charged at your standard landline rate.