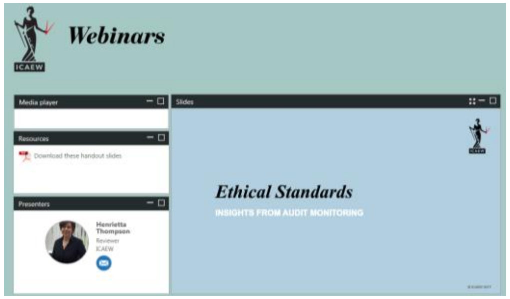
- Thank you for joining this webinar - we will begin shortly.

- You can customise the webinar console, move and resize the widgets:



- You can also minimise and maximise the widgets by clicking on the icons. The icons are located in the dock at the bottom of the console:

- You can submit questions using the Q+A widget at any time during the webinar

Webinar: Pension Funding and the approach to retirement

FACILITATED BY

JOHN GASKELL, HEAD OF PERSONAL FINANCIAL PLANNING, ICAEW

Today's speakers

VINCE SMITH-HUGHES

DIRECTOR, SPECIALIST BUSINESS SUPPORT

PRUDENTIAL

LES CAMERON

HEAD OF TECHNICAL

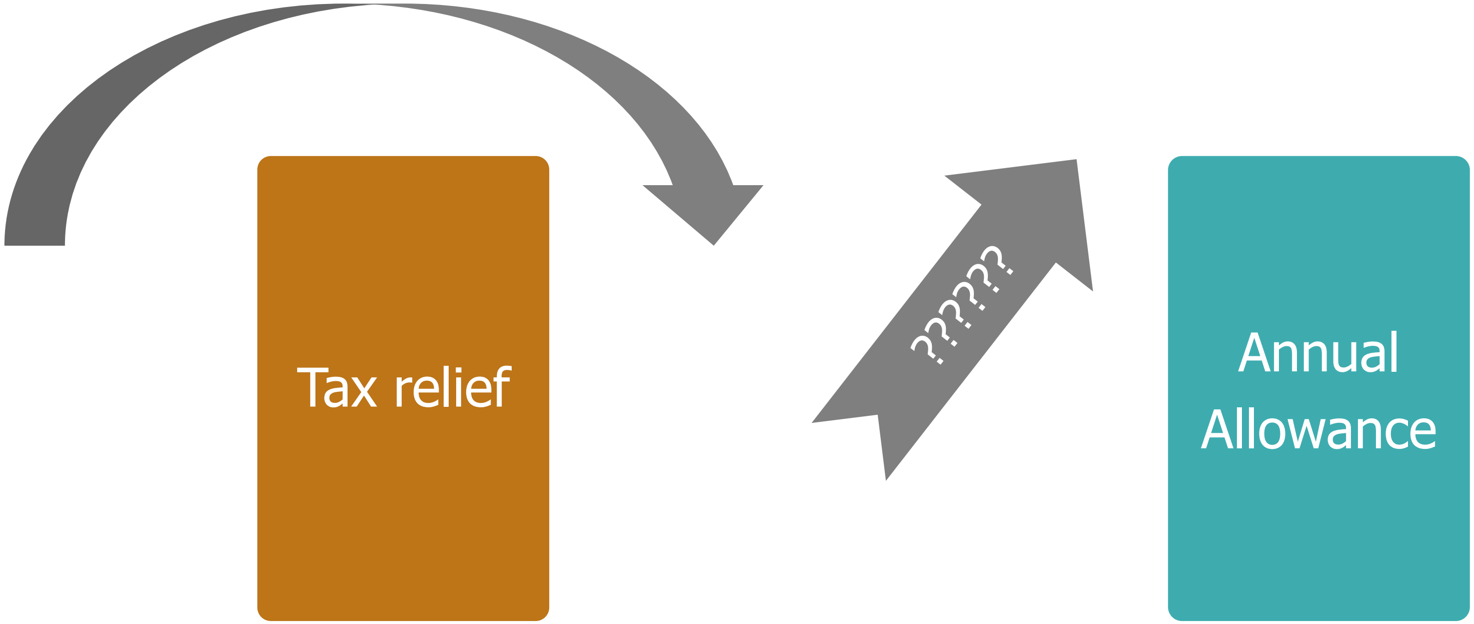
PRUDENTIAL

Agenda

- **Why we have annual allowances**
- **How they work**
- **Different types of annual allowance**
- **Planning**

Pensions Tax Limits

One before the other



Tax Relief v Annual Allowance

Tax relief

- Individual Contributions
- Tax Years
- 100% of relevant earnings or £3,600 if higher

Annual Allowance

- Pension Input Amounts
- Pension Input Periods
- Various limits!

Money Purchase Pension Inputs

The calculation

Your Contributions + **Your Employer Contributions** + **Third Party Contributions**

Defined Benefit Pension Inputs

The calculation

Value at end of year − { **Value at start of year** × **Inflation (CPI)** }

DB Inputs example

Bob

Accrual: 1/60th

Salary at start of year: £50,000

Service at start of year: 20 yrs

Salary at end of year: £53,000

CPI: 3%

Opening value

20/60 x £50,000 x 16

= £266,667

Increased by CPI @ 3%

= £274,667

Closing value

21/60 x £53,000 x 16

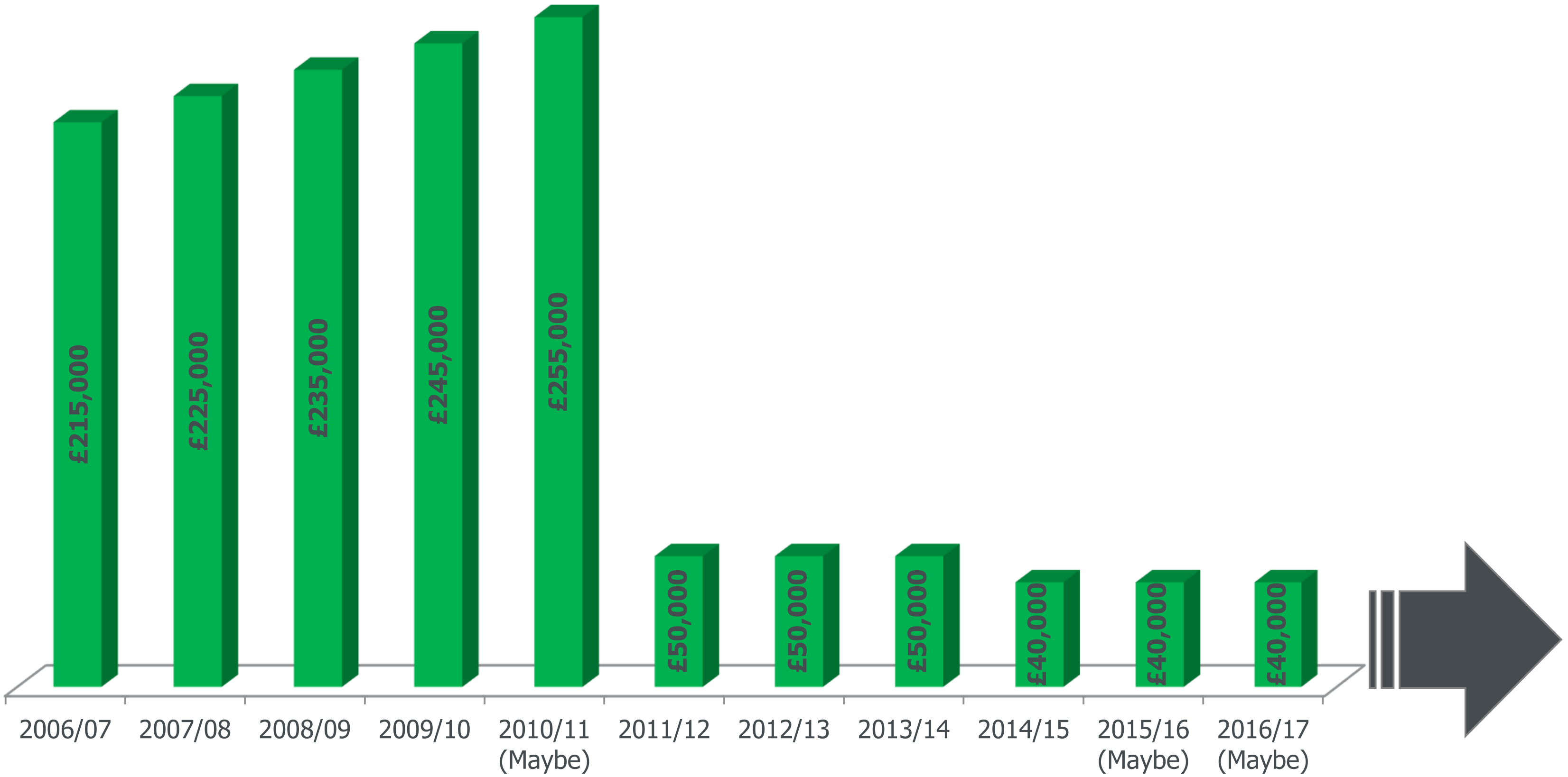
= £296,800

Pension Input Amount

£296,800 - £274,667

= £22,133

The Limits



£215,000
£225,000
£235,000
£245,000
£255,000
£50,000
£50,000
£50,000
£40,000
£40,000
£40,000
2006/07
2007/08
2008/09
2009/10
2010/11 (Maybe)
2011/12
2012/13
2013/14
2014/15
2015/16 (Maybe)
2016/17 (Maybe)

Carry Forward

What's it for	Mitigate Annual Allowance charges
Eligibility	From 1st tax year joined a scheme No earnings or contributions needed
Who benefits	Anyone whose inputs exceed their annual allowance
Using carry forward	Up to 3 yrs **unused** allowance can be carried forward to current tax year No need to make a claim

How much AA in 2018/19

	2014/15	2015/16*	2016/17	2017/18	2018/19
Pension Inputs	£26,000	£25,000	£29,000	£82,000	
Unused	£24,000	£15,000	£11,000	-£42,000	£40,000
Used in 2017/18	£24,000	£15,000	£3,000	-£42,000	
Unused for 2018/19	£0	£0	£8,000	£0	£8,000
					£48,000

*Assume PIA all post-alignment

Don't look back for just 3 years…

1. Go back until you've three excess free years
2. Uncover **unused** allowances

2015/16 pre and post alignment

Budget
8 July 2015

06/04/15

05/04/16

£80,000 Annual Allowance

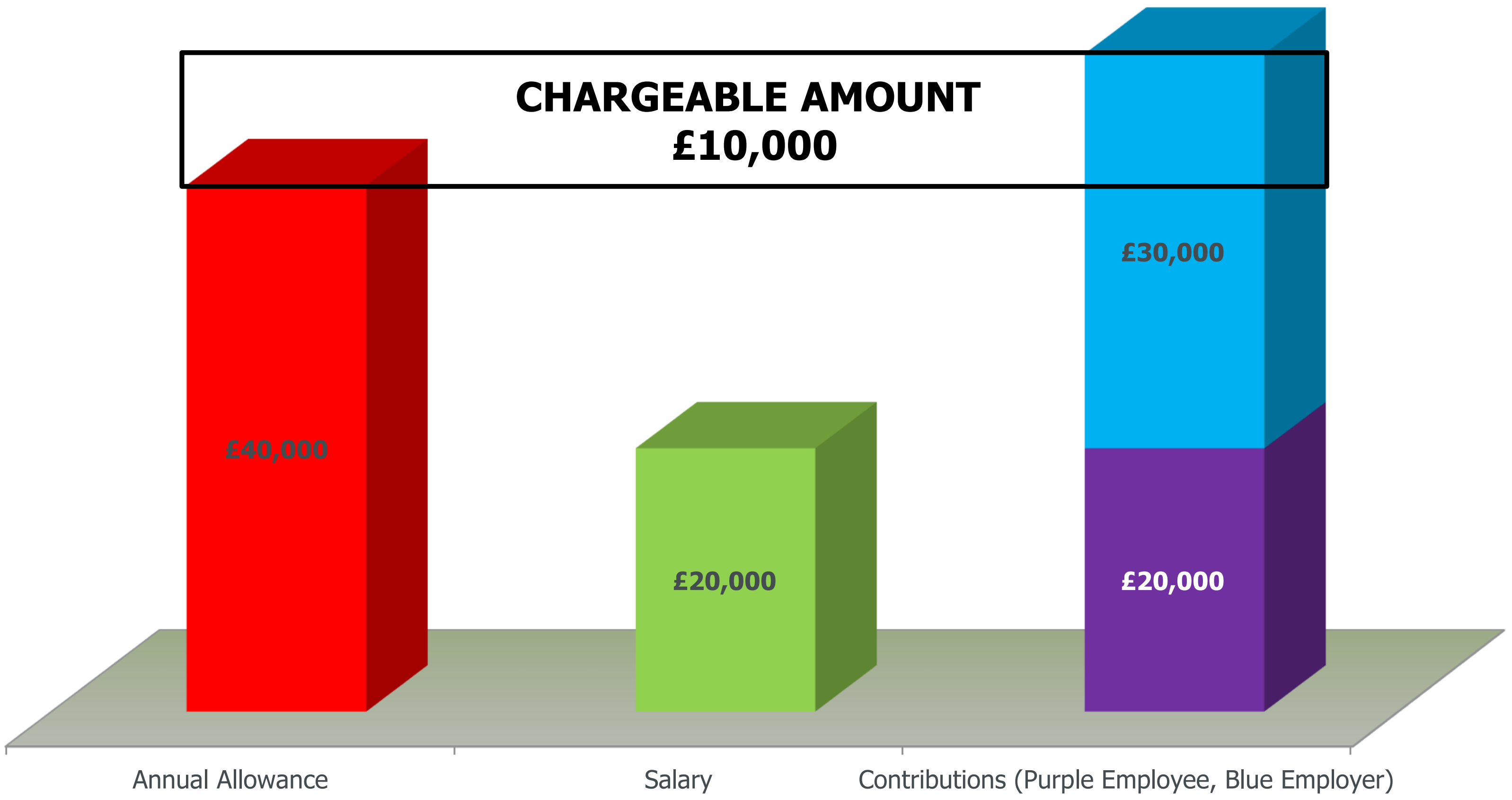
Nil Annual Allowance

Unused Allowance

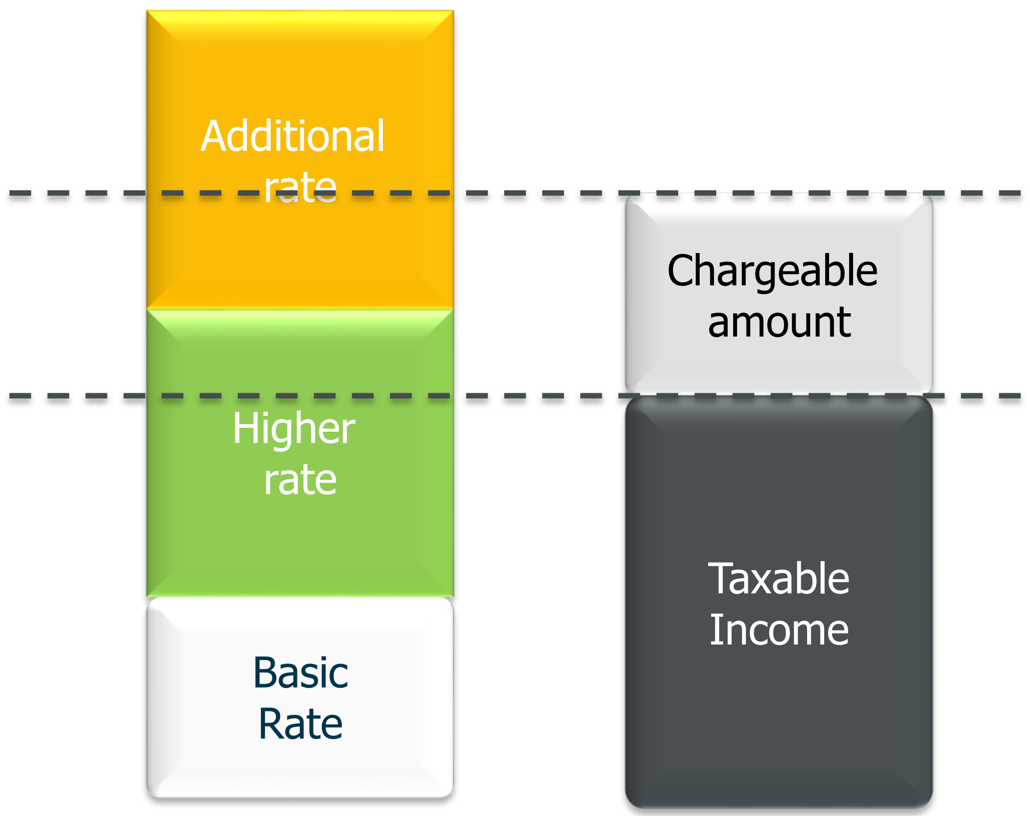
[Lower of £40,000 and (£80,000 – pre alignment inputs)] ***less*** post alignment inputs

Tax etc!

Exceeding the allowance

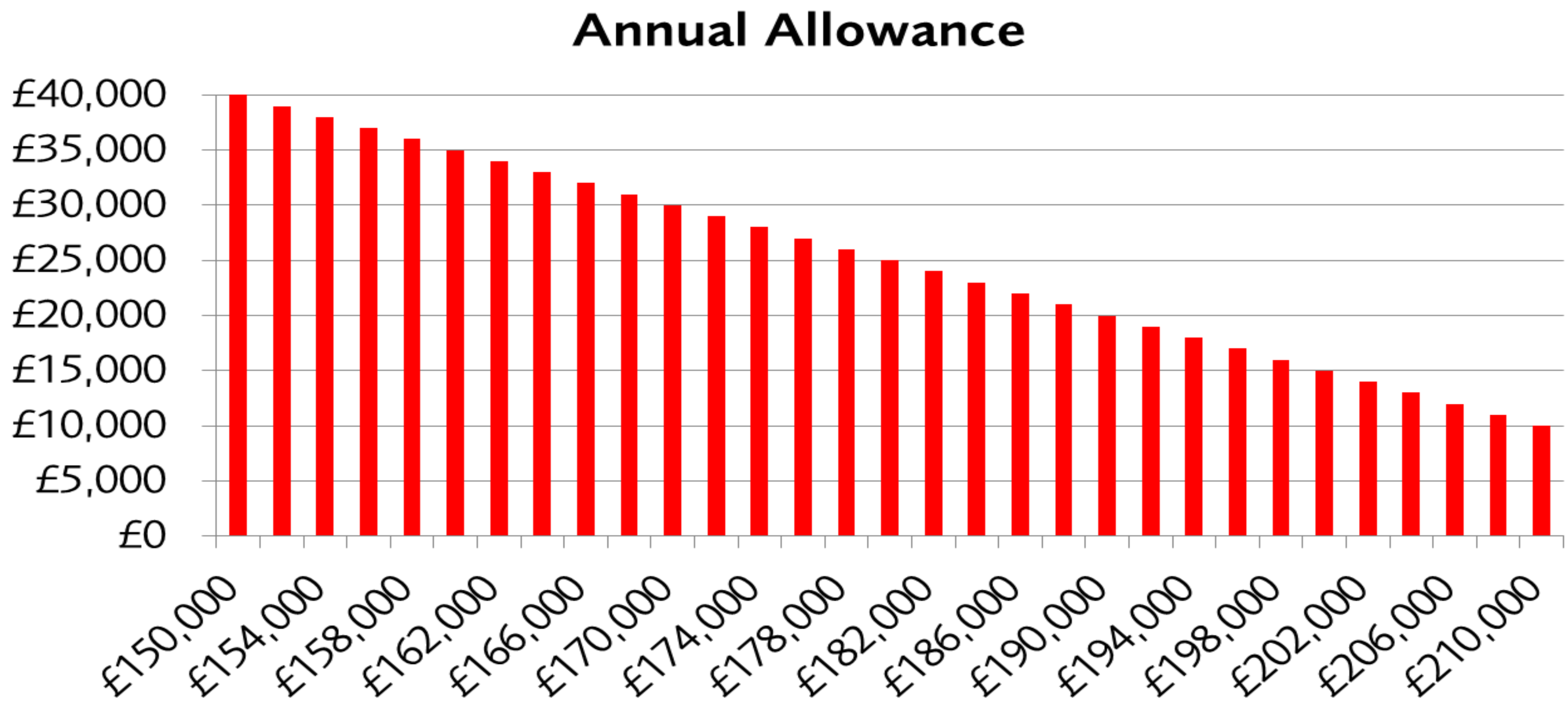


The tax charge



High Earners!

Tapered annual allowance



Adjusted v Threshold

“Adjusted income” > £150,000	“Threshold income”> £110,000

Both limits need to be exceeded for the taper to apply

- Add up all income – salary, dividends, interest, FULL bond gains etc etc
- Take off net pay and relief on making a claim pension contributions and any other allowable STEP 2 reliefs
- Take off any taxable lump sum death benefits

Add in

- The pension amounts deducted above
- Any employer contributions
- The annual allowance value of any DB accrual less any individual contribution related to that accrual

Add in

- Post 8th July 2015 employment income given up

Deduct

- Any relief at source pension contributions (gross).

DB case study

Sarah

Accrual: 1/60th

Salary: £198,000

Contribution: 10%

Gross Contribution: £19,800

Net contribution: £10,890

"I should opt out?"

Pension gained

£198,000 / 60

£3,300 p.a.

Pension Input Amount

16 x £3,300

*inflation ignored

£52,800

DB case study

Salary: £198,000 Pension Input Amount: £52,800 Gross Contribution: £19,800

Adjusted Income

Total Income	**£198,000 – 19,800 = £178,200**
−	**−**
Allowable reliefs	**£0**
+	**+**
"Paid Gross" pension contributions (individual)	**£19,800**
+	**+**
Value of employer pension	**£52,800 - £19,800 = £33,000**
−	**−**
Taxable lump sum death benefits	**£0**

£231,000

DB case study

Salary: £198,000 Pension Input Amount: £52,800 Gross Contribution: £19,800

Threshold Income

Total Income	**£198,000 – 19,800 = £178,200**	
–	–	
Allowable reliefs	**£0**	
–	–	
Personal Pension Contributions	**£0**	**£178,200**
+	+	
Employment Income given up > 8 July 15	**£0**	
–	–	
Taxable lump sum death benefits	**£0**	

Freedom!

Pensions Tax Limits

Pension Freedoms

Money Purchase Annual Allowance

Flexibly accessing benefits

UFPLS

Payment from post April 15 flexible annuity

Income from

Flexi-access Drawdown

Capped Drawdown payment above cap

Money Purchase

Scheme Pension

< 12 members

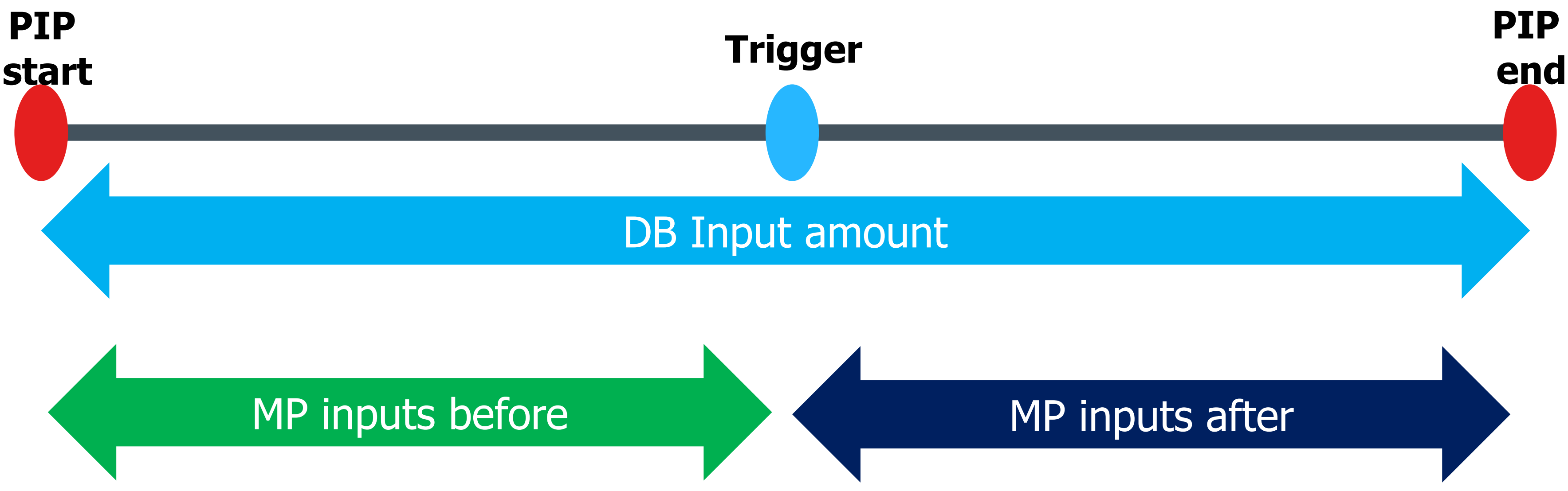
Flexible Drawdown

6 April 15

Standalone Lump Sum

Primary Protected TFC

MPAA Limits



AA = up to £36,000 plus carry forward

AA = £4,000 **NO** carry forward

Question

Do you think the tapered annual allowance will lead to unexpected tax bills?

- Yes
- No
- No, because people without advisers may be unaware they need to report it

Planning!

The six steps

AA happiness?

6. What do they get overall?

5. What do they do if they stop?

4. What'll they get if they stop?

3. What will they actually get?

2. What's the cost to get there?

1. Where will they be?

DB case study

Sarah

Accrual: 1/60th

Salary: £198,000

Contribution: 10%

Gross Contribution: £19,800

Net contribution: £10,890

"I should opt out?"

Sarah ctd

Tapered: Yes

Adjusted Income: £231,000

Pension accrued: £3,300p.a.

Pension Input Amount: £52,800

DB case study

Sarah ctd

Tapered: Yes

Adjusted Income: £231,000

Pension accrued: £3,300 p.a.

Pension Input Amount: £52,800

Carry Forward: £0

Net contribution: £10,890

Annual Allowance reduction

(£231,000 - £150,000)/2

£40,500 = £10,000 AA

Annual Allowance excess

£52,800 - £10,000

£42,800

Annual Allowance charge

£42,800 x 45%

£19,260

Scheme Pays?

20:1
£19,260/20

Pension cost £963 p.a.

Benefit (post tax charge)

£3,300 - £963

£2,337 p.a.

Cost

£10,890

DC case study

Sarah

Salary: £198,000

Contribution: 10%

Net contribution: £10,890

Employer matched: 10%

"I should opt out?"

Sarah ctd

Adjusted Income: £217,800

Threshold Income: : £178,200

Tapered: Yes

Pension Input Amount: £39,600

DC case study

Sarah ctd

Tapered: Yes

Adjusted Income: £217,800

Pension Input Amount: £39,600

Carry Forward: £0

Net contribution: £10,890

Annual Allowance reduction

(£217,800 - £150,000)/2

£33,900 = £10,000 AA

Annual Allowance excess

£39,600 - £10,000

£29,600

Annual Allowance charge

£29,600 x 45%

£13,320

Scheme Pays?

1:1
£13,320

Fund cost £13,320

Benefit (post tax charge)

£39,600 - £13,320

£26,280 pot

Cost

£10,890

Question

Do you think people should opt out of pensions to avoid paying annual allowance charges?

- Yes
- No
- No, but only where the tax charge does not erode the value of the benefit too greatly.

Any questions?

ICAEW