

## News on Pensions

AUGUST 2015

### Taxation update: Summer Budget 2015

In his 'emergency' [Summer Budget](#) in July - the second Budget of 2015 and the first under a majority Conservative government since 1996 – the Chancellor of the Exchequer delivered two significant items of pensions-related news. The first was a tapered reduction in the Annual Allowance for high earners, and the second was the launch of a Green Paper consulting on the future of tax relief for pensions.

Other pensions-related points in the Budget included:

- Access to Pension Wise will be extended to individuals aged 50 and over, and the Government will launch a marketing campaign to promote the service.
- To ensure that people are able to easily access the new defined contribution (DC) pension flexibilities, the Government has launched a [12-week consultation](#), asking both pension specialists and individual consumers for their views on:
  - early exit penalties, and how to address excessive charges
  - the transfer process – making the process smoother and quicker
  - the clarity of information provided when individuals are required to seek financial advice
- Plans for annuity policyholders to sell their annuities on a specially created secondary market will be set out in the autumn, with implementation delayed until 2017.
- The Government will actively monitor the rise in popularity of salary sacrifice arrangements and, in particular, their effect on tax receipts.

### Annual Allowance

The Conservative party's [pre-election manifesto](#) pledged that the Annual Allowance (AA) would be reduced to £10,000 for high earners. The Chancellor has confirmed that this will now come into effect from April 2016. The AA reduction is expected to raise over £4 billion in tax revenue between 2016/17 and 2020/21, which will be used in part to fund additional Inheritance Tax relief.

The reduction in the AA will be tapered from £40,000 to £10,000 for individuals with 'adjusted income' between £150,000 and £210,000 per year. For example →

The assessment of adjusted income could be complicated, but any individual whose taxable income (i.e. ignoring the value of pension contributions or accrual, but with newly sacrificed salary added back in) is below £110,000 will not be subject to the tapered AA.

Extra care should be taken where the 'Money Purchase Annual Allowance' applies to an individual as a result of them having accessed pension savings under the new flexibilities first announced in the March 2014 Budget.

No changes have been announced to 'Scheme Pays' – a system that allows members to meet AA charges over £2,000 directly from their pension savings.

Adjusted income*	Annual allowance
Up to £150,000	£40,000
£170,000	£30,000
£190,000	£20,000
£210,000 or more	£10,000

\*Adjusted income includes taxable income from all sources – for example salary, interest on savings, rental income and dividend payments – as well as the value of pension contributions to a DC arrangement and pension accrual in a DB scheme, and any salary sacrificed under a new salary sacrifice arrangement set up since 8 July.

## Changes to 'Pension Input Periods'

A Pension Input Period (PIP) is the period over which the value of pension savings (DB scheme accrual or DC scheme contributions) is measured for AA purposes. PIPs are normally, but not necessarily, twelve months long. When assessing overall AA charges, individuals are required to consider all their arrangements with PIPs ending in a particular tax year.

Whilst many arrangements will have PIPs aligned with tax years, the trustees of a large number of occupational schemes took advantage of the ability to align PIPs with their scheme accounting year, for ease of administration.

In order that the tapered AA can operate as intended, the Government has announced that all schemes' PIPs will be aligned with tax years. All PIPs that were open on Budget Day were closed immediately (on 8 July 2015) regardless of whether the scheme currently uses the tax year or some other period. The next PIP will then run from 9 July 2015 to 5 April 2016, thereby splitting the 2015/16 tax year in two.

To ensure no one is subject to unexpected tax charges as a result of the changes to PIPs, a one-off £40,000 addition to the AA will apply to the PIP closed off on 8 July. This may be carried forward in usual way, and any unused carry forward from earlier periods will also not be lost. The additional allowance could represent a limited opportunity for individuals to make relatively large pension savings without triggering an AA charge. The Treasury will consider in due course whether the concept of a PIP will become redundant and may simplify legislation accordingly.

Our Executive Pensions team can provide expert guidance in these areas and run [Educational Seminars](#) on the changes to the AA and Lifetime Allowance (LTA) for employees.

## Strengthening the incentive to save: A consultation on pensions tax relief

The Government has published a [Green Paper](#) inviting views (rather than putting forward proposals) on the future of pensions tax relief. The paper focuses on managing the cost to government and strengthening the incentive to save. Suggestions range from moving to a system where pension contributions are taxed, but investment growth and pension income are tax-exempt, to mere adjustments to the current system.

### The Government believes any reform should:

- be simple and transparent
- allow individuals to take personal responsibility for the adequacy of their savings
- encourage people to save more
- be sustainable and in line with the Government's current fiscal strategy

The consultation ends on 30 September 2015.

## LTA: Summer Finance Bill 2015

The [Summer Finance Bill 2015](#) has been published and includes clauses which, when enacted, will reduce the LTA to £1.0 million from April 2016, as [previously announced](#). The Government had also previously announced that the LTA will be indexed annually in line with the Consumer Prices Index from 6 April 2018. Legislation for this will be included in the Finance Bill 2016.

Meanwhile, HM Revenue & Customs (HMRC) has published its latest [Pension Schemes Newsletter](#) in which it confirms that there will be fixed and individual protection regimes for individuals affected by the cut in the lifetime allowance from £1.25 million to £1.0 million but suggests that individuals may not need to apply for these in advance. Instead, HMRC is considering removing the deadlines for applications and will publish full details later in the summer.

## End of contracting-out: Consultation response

The Department for Work and Pensions (DWP) has published [a response](#) to its earlier consultation on the Occupational Pension Schemes (Schemes that were contracted-out) Regulations (see [News on Pensions – April 2015](#)).

The regulations are being made to ensure that National Insurance rebates paid to schemes before the abolition of contracting out next April will result in earners receiving at least the minimum benefits which were originally required as a condition of contracting-out.

It was expected that the Government would provide a power to trustees to modify scheme rules without consent to take account of both the abolition of contracting-out and the introduction of the single-tier state pension from 2016. However the Government has confirmed that it does not intend to provide trustees with the latter power.

The DWP notes that one of the most common methods of integrating DB pensions is via a Basic State Pension (BSP) offset. As the BSP will be paid for years to come, the amount will continue to be published in legislation each year after 2016, and so the DWP anticipates that the new state pension system is unlikely to result in difficulties for schemes. Nevertheless, trustees should engage now with their legal and actuarial advisers to ensure that the end of contracting out – and the new state pension system – will not result in unintended consequences for their scheme.

In particular, sponsoring employers with schemes which remain open to accrual may want to adjust future benefits to reflect the new state pension arrangements. The employer will also be required to consult with members.

This could make it more difficult for schemes which have designed their benefits to integrate with the state pension and could potentially result in a windfall for active members who will be eligible for the new single tier state pension if no changes are made.

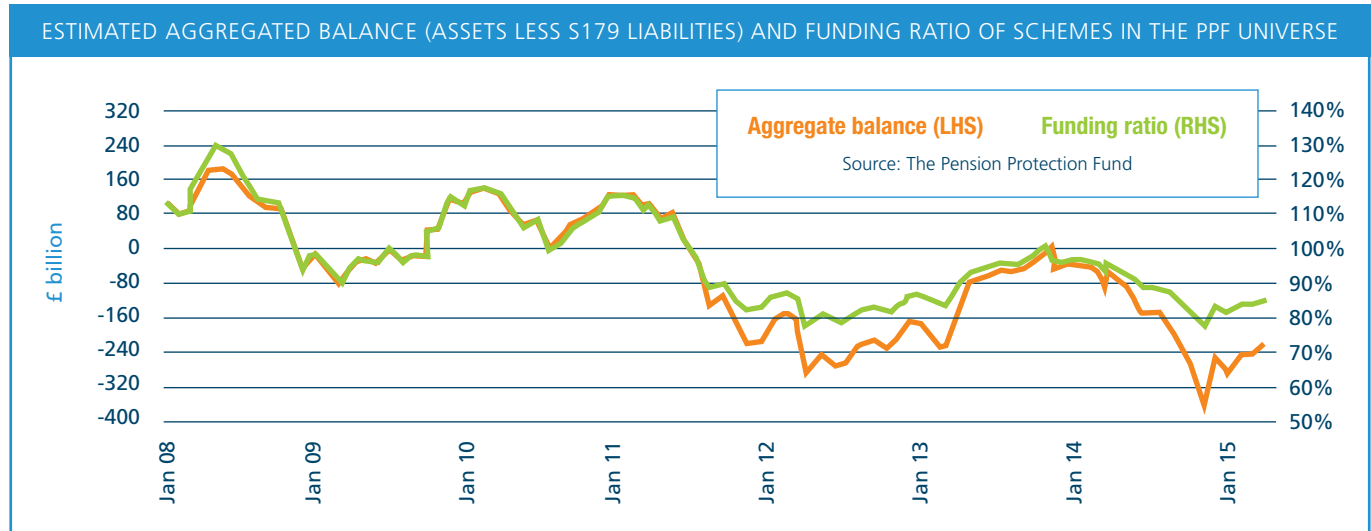
## Auto-enrolment Update

- The DWP has launched a [new campaign](#) to make smaller companies aware of their duties to automatically enrol workers into a pension scheme including the recycling of an old "[workplace pension rap](#)" video produced by the Government.
- The DWP has published figures on [workplace pension participation](#) and savings trends which show that between 2012 and 2014 there was a significant increase from 10.7 million to 13.9 million eligible employees participating in a workplace pension. The highest earners continue to have the highest participation levels and participation in workplace pension continues to increase with age.
- The Office for National Statistics (ONS) has [issued statistics](#) based on 2005-2014, which show a fall in the median contribution rate. Median contribution rates are expected to increase as the planned implementation of higher minimum contribution rates for auto-enrolment proceeds.
- The Pensions Regulator (TPR) has published a [quick guide](#) to help small businesses select a scheme for auto-enrolment and contrary to its earlier consultation, a [list of providers](#) with master trust assurance to help smaller businesses find a quality pension scheme.
- TPR has also published its quarterly [auto-enrolment compliance bulletin](#) which shows that more than 20% of those due to stage between June and November this year have not yet drawn up plans to meet their duties. The bulletin highlights that employers who employ workers on zero hours contracts will need to carefully consider their duties.

## Other news

### PPF 7800 Index

The [latest update](#) of the Pension Protection Fund's (PPF) 7800 Index of schemes' funding (on the s179 basis) has been published. There was an increase in schemes' overall s179 funding ratio from 84.1% to 84.8% between May and June 2015.



The aggregate deficit of the 6,057 schemes in the index is estimated to have decreased over the month to £223.1 billion at the end of June 2015, from a deficit of £241.3 billion at the end of May 2015. There were 4,794 schemes in deficit and 1,263 schemes in surplus.

### Ombudsman: GMP Equalisation

A recent [Pensions Ombudsman determination](#) will give trustees reassurance that, for now at least, they can be comfortable in taking no action in respect of equalising Guaranteed Minimum Pensions (GMPs) whilst waiting for further clarification from the Government.

A member of the Campden R.A. Pension Scheme complained to the Ombudsman that the calculation of his retirement pension was not completed in accordance with the Scheme's rules and sex equality legislation.

The Ombudsman found that, under the Rules of the Scheme, it was the Scheme Actuary's prerogative to formulate an appropriate method of calculating the benefits and that the Trustees were entitled to use the actuary's method (even though, in this case, it resulted in lower benefits for the member than an approach adopted by the scheme's previous actuary).

The Ombudsman said that the Scheme could continue to defer taking action on equalising GMP benefits given the position remains generally unclear.

### TPR: Perceptions tracker

TPR has [published a report](#) highlighting the results of its 2014-15 annual survey exploring the industry's perceptions of TPR. The main aim of the survey was to understand how effectively TPR is perceived to be fulfilling its statutory objectives. Key findings of the survey included:

- 77% of those surveyed rate TPR's performance over the last twelve months as 'very good' or 'good' - significantly higher than in the 2014 survey.
- TPR continues to be rated positively with regard to its statutory objectives.
- TPR continues to exceed the target of 70% average agreement with the 'PACTT Better Regulation' Principles.
- A majority of respondents continue to perceive TPR as an informative, independent, authoritative and respected organisation.
- Around three quarters of respondents had regularly accessed information on pensions via TPR's website (76%) and emails sent by TPR (72%), with this information predominantly viewed as useful.
- 20% of relevant audiences have experienced pension scams, with this figure higher among large schemes.

## DC Reforms: Work and Pensions Committee investigation

The Government's Work and Pensions Committee is to undertake [an investigation](#) to ensure people "are adequately supported in making good, informed decisions about their retirement savings in light of the changes on access to pensions and pension drawdown introduced in April 2015".

The reforms allowed people to have more freedom in choosing how to use their retirement savings. The Work and Pensions Committee have requested written submissions with evidence of "take-up, suitability, affordability and independence of the advice, guidance and information available to those approaching retirement". The committee will also consider recommendations for improvement.

---

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

✉ [info@barnett-waddingham.co.uk](mailto:info@barnett-waddingham.co.uk)

☎ 0207 776 2200

🖱 [www.barnett-waddingham.co.uk](http://www.barnett-waddingham.co.uk)



---

Barnett Waddingham LLP is a body corporate with members to whom we refer as "partners". A list of members can be inspected at the registered office. Barnett Waddingham LLP (OC307678), BW SIPP LLP (OC322417), and Barnett Waddingham Actuaries and Consultants Limited (06498431) are registered in England and Wales with their registered office at Cheapside House, 138 Cheapside, London EC2V 6BW. Barnett Waddingham LLP is authorised and regulated by the Financial Conduct Authority and is licensed by the Institute and Faculty of Actuaries for a range of investment business activities. BW SIPP LLP is authorised and regulated by the Financial Conduct Authority. Barnett Waddingham Actuaries and Consultants Limited is licensed by the Institute and Faculty of Actuaries in respect of a range of investment business activities.