Forthcoming Pension Changes Briefing – January 2016

There are several changes and potential changes to pensions which will impact a number of clients in the next few months and the aim of this briefing document is to outline at a high level the key points involved. These come under the headings of;

- Reduction in the Lifetime Allowance
- Reduction (for some) of the Annual Allowance
- Possible tax relief changes

**Reduction in Lifetime Allowance (LTA)**

Currently there is in place a Lifetime Allowance (LTA) of £1.25 million for individuals when they take pension benefits. This governs the maximum value of pension benefits that can be drawn during one’s lifetime without incurring the Lifetime Allowance Charge. The LTA is reducing from £1.25 million to £1 million on the 6th April this year and will therefore impact a growing number of individuals for whom it hasn’t previously been an issue. To complicate matters the reduced £1 million LTA is also to be increased by CPI each year from April 2018.

The LTA calculation uses the monetary value of money purchase (defined contribution) benefits and a 20 times multiple calculation of final salary benefits i.e. if a client has £500,000 in a money purchase scheme and a final salary pension of £30,000 per annum, this would result in a £1.1 million benefit for LTA purposes. The actual mechanics can be quite complicated where benefits aren’t all taken at the same e.g. where benefits and different schemes are phased in and expert advice to avoid the possible traps is essential.
It will be possible to retain the current £1.25 million Lifetime Allowance using something called Fixed Protection 2016 (FP16) but this will require that no further pension contributions (both employee and employer) are made nor pension benefits accrued after the 5th April 2016. A particular trap here might be where you are in a company scheme and cease your contributions at the end of March. If your Employer doesn't make the contribution until the 6th April any application for FP16 will not be valid. If you believe it is possible that your pension benefits may be close to or above this new LTA please speak to your Harpsden adviser as soon as possible.

**Reduction in the Annual Allowance (AA)**

The Annual Allowance (AA) is the maximum amount of pension contributions that can be made in a tax year. Currently the AA is £40,000 per annum for all individuals, this figure includes both personal and Employer contributions. For those in Defined Benefit schemes the contribution is calculated as 16 times the additional pension accrued during the year. If your own and your employer’s contributions exceed this level you are taxed on the excess at your marginal rate of Income Tax. It is however possible to carry forward unused relief from the previous three tax years, where in any of these three previous tax years the total contributions were less than £40,000.

From the 6th April 2016 the AA is reducing to £10,000 per annum for those with ‘income’ (both earned and unearned income) above £210,000 per annum. Please note that this ‘income’ figure of £210,000 includes any employer pension contributions. The reduction in AA applies to all individuals earning over £150,000 (including employer pension contributions) on a sliding scale. For example if someone is ‘earning’ £170,000 (say a salary of £130,000 and Employer pension contribution of £40,000) their Lifetime Allowance would be reduced by £10,000 to a maximum of £30,000. Again if you feel this may impact you it is important that you talk to your Harpsden adviser as soon as possible.

**Possible Change in Tax Relief**

In the 2015 Budget the Chancellor announced a review into how pension funds, contributions and benefits are taxed. There has been much industry speculation that the Chancellor may take the 2016 Spring Budget as an opportunity to remove higher rate pension tax relief for personal contributions to pension schemes. Though this has been mooted on previous occasions, with the current fiscal deficit and the very high amount of tax relief going to higher rate (as opposed to basic rate) taxpayers, it seems increasingly likely that the Chancellor will finally be tempted to remove or further limit higher rate tax relief.

One possibility being put forward in the pensions industry is that the government might instead fix a flat rate of tax relief above the current 20% level, perhaps at around 25%. This would make the change politically palatable as basic rate savers would gain and have a greater incentive to save whilst saving, apparently, the Revenue significant sums overall. Another line of thought is that if higher rate tax
relief is removed the Chancellor might also abolish the Lifetime Allowance. We are certainly at a potentially very fluid point in the pensions arena.

Although these changes are pure speculation at this stage, there are reasons to suspect that it might be on the Chancellor’s agenda. An announcement regarding the outcome of his pensions review was expected in the 2015 Autumn Statement, subsequently deferred to the 2016 Spring Budget suggesting that the Treasury needs more time to work through the implications of any changes. At the very least it would seem prudent for those who are higher or additional rate taxpayers to consider making additional pension contributions before the 2016 Budget both to qualify for the highest possible rates of tax relief and also to avoid potentially being caught by the reduction in the AA. However before making any decisions you also need to bear in mind your Lifetime Allowance limit!

**Conclusion**

This is a very brief overview of the changes. There is a great deal of complexity and the implications/application of the new rules will be potentially different for each individual. It is therefore very important that if you feel any of these changes may impact you that you take the opportunity discuss this in greater detail with your Harpsden adviser, if you have not already done so.

Roland Jones  
Chartered Wealth Manager  
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**Important Information/Risk Factors:**  
Past performance is not a guide to future performance and investment markets and conditions can change rapidly. Investments in equity markets will be more volatile than an investment in cash or fixed deposits. The value of your investment may go down as well as up. There is no guarantee you will get back the amount invested. If a fund invests in overseas markets, currency movements may affect both the income received and the capital value of your investment. If it invests in the shares of small companies, in emerging markets, or in a single country or sector, it may be less liquid and more volatile than a broadly diversified fund investing in developed equity markets. The views expressed herein should not be relied upon when making investment decisions. This article is not intended as individual advice. If you require advice or further information please contact us.