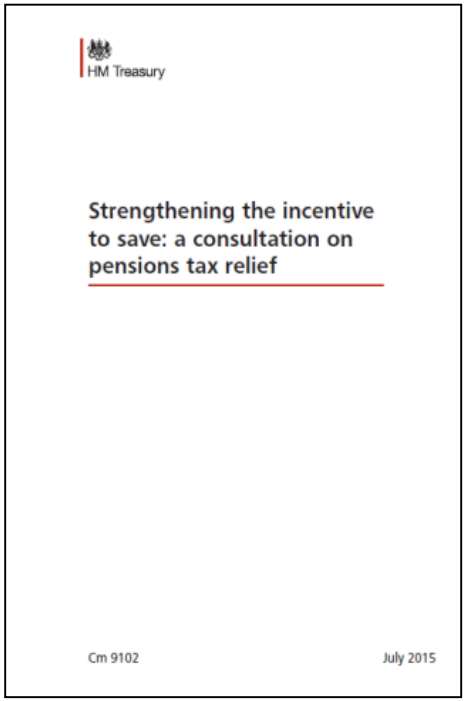
Karen Goldschmidt and Tim Sexton
ACA sessional meeting 17 March 2016

The Budget 16 March 2016 and pensions

Response to consultation on pensions tax relief … so far

- As widely predicted, no pensions tax relief changes
- "No consensus"
- Otherwise … silence



Budget 16 March
Other key pension related announcements

- Confirmed that pension schemes can continue salary sacrifice
- Watching brief on unfunded EFRBS
- Tax relief on employer-financed pensions financial advice increasing from £150 to £500
- Consult on £500 from DC schemes being used for financial advice
- **Introduction of Lifetime ISAs (LISAs)**

Lifetime ISAs
Key facts

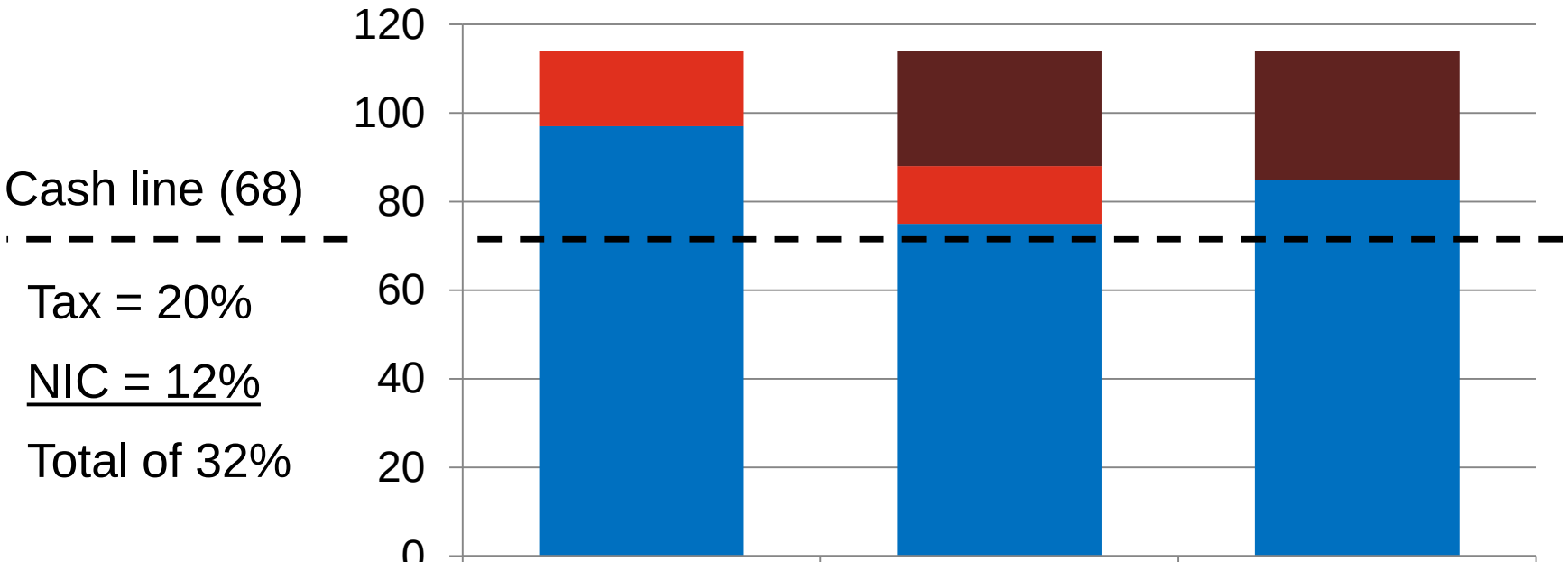
- To be introduced from April 2017 for under 40s
- Separate to normal ISAs,
  increased total £20,000 ISA limit applies to both
- Pay up to £4,000 pa until age 50, and get a 25% savers bonus on top
- Draw on the money tax-free at age 60 or earlier to purchase first property (costing no more than £450,000)
- Draw on the money at any other time, but lose the bonus (and its returns) and suffer a 5% penalty
- LISA savings will effectively be completely free of income tax for basic rate tax payers, although National Insurance will have been paid

Lifetime ISAs
For whom?

- A very attractive product for (own contributions) for many basic rate tax payers under age 40
- And even better for non tax payers under age 40
  (£3,600 becomes £5,000?)
- And those (under 40) who have already used up their Tapered AA
- Some higher rate payers worse outcome (cannot defer tax bill to retirement if retire as basic rate taxpayers) but more flexibility
- Employer contributions – National Insurance worsens the comparison
- Employer response
  - offer pension contributions as a cash payment to a "Corporate LISA" (care re auto-enrolment/incentivisation)?
  - move away from pension matching designs?

Tax paid under different options

20% in work and in retirement

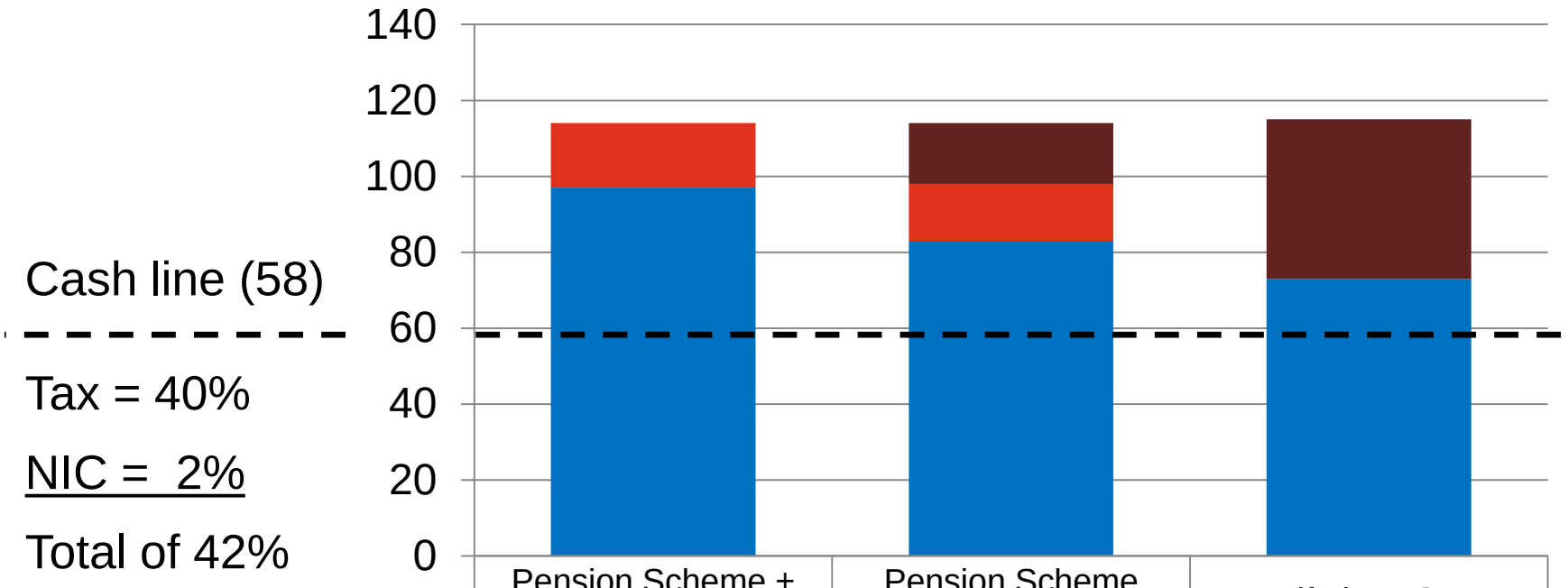


	Pension Scheme + Employer NIC	Pension Scheme Own Contribution	Lifetime ISA
HMRC: Now	0	26	29
HMRC: At Retirement	17	13	0
Member: At Retirement	97	75	85

Considers £114 of employer spend, which (after employer NI deduction) would be £100 of employee gross salary
Assumptions: Many
29 = 14 Employer NIC plus 100 x [1 - (1-32%) (1+25%)]

Tax paid under different options

40% in work and 20% in retirement

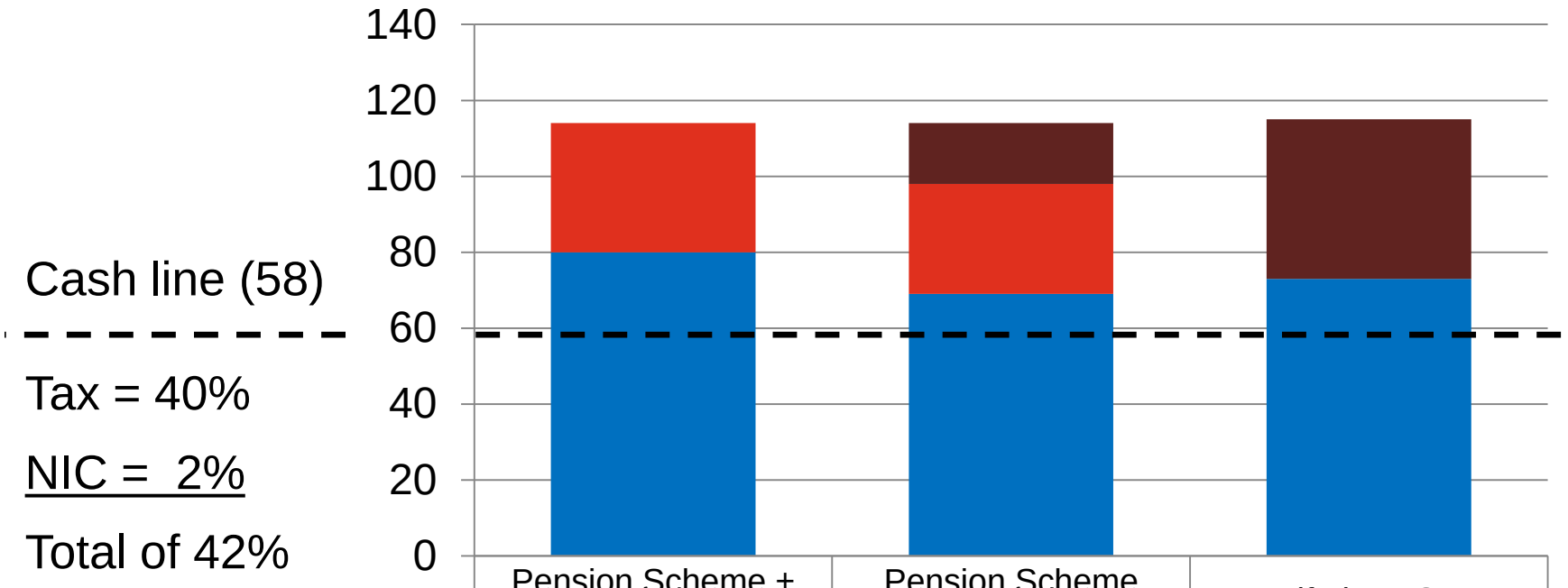


	Pension Scheme + Employer NIC	Pension Scheme Own Contribution	Lifetime ISA
HMRC: Now	0	16	42
HMRC: At Retirement	17	15	0
Member: At Retirement	97	83	73

Assumptions: Many

Tax paid under different options

40% in work and 40% in retirement



	Pension Scheme + Employer NIC	Pension Scheme Own Contribution	Lifetime ISA
HMRC: Now	0	16	42
HMRC: At Retirement	34	29	0
Member: At Retirement	80	69	73

Assumptions: Many

A "clean start"

Simpler to run than pension even though a pension product

- regulatory regime simpler
- required member communications simpler
- no charge cap
- all post tax and post NI
- only one per year and all adjustments (bonus etc) at end of tax year not monthly so a simple "annual allowance" management
- no employer aspect …yet

From the Exchequer perspective

- Indirect move of minimum age from 57 to 60
- NO bandshift advantage
- No NI advantage
- No IHT advantage

New competitors in the retirement space

Lifetime ISAs
How to morph it into a Pension ISA

- Changing auto-enrolment rules to apply to LISAs as well as pensions
- Increase the age 40 constraint, but not the 50 limit unless accompanied by complex rules on bonus
- Distance selling directive?
- Reducing pension tax-relief to make LISAs relatively more attractive for higher rate tax payers?
- Increasing the LISA allowance to (as much as?) £40,000, in line with pensions?

Lifetime ISA
Is this a retirement product or a house deposit product?

- Clearly attractive as a house-deposit product
  - Estate agents will welcome this support for the housing market
- Currently more marginal as a retirement savings product
  - Generous top-up makes it attractive to basic rate taxpayers relative to own AVCs
  - NIC makes LISA worse value than employer pension contributions
  - Slightly beneficial for some high earners who expect to have significant other income in retirement .. but flexibility
  - 18 to 50: lifetime saving of £160,000 incl. £32,000 from the bonus
- But the government may change the goalposts

Meanwhile back in the world of pensions life doesn't get easier…

A raft of new snagging corrections

- "Technical amendments to support Pension Freedom & Choice reforms"
  - "re-aligning the tax treatment of serious ill-health lump sums with lump sum death benefits, so that they can be paid tax-free (when the provider is content to do so) when someone aged under 75 has less than a year to live but has already accessed their pension"
  - "making serious ill health lump sums taxable at an individual's marginal rate when paid in respect of individuals aged 75 and over"
  - "legislating to convert dependants' flexi-access drawdown accounts to nominees' accounts when dependants turn 23, so they do not have to take their funds as a lump sum taxed at 45%"
  - "legislating to allow defined contribution pensions already in payment to be paid as a trivial commutation lump sum, where total pension savings would be under £30,000" [scheme pension from MP funds]
  - making top-ups to fund dependants' death benefits authorised payments [so payment of CB benefits on death that are topped up to meet the promise under the scheme rules will be an authorised payment]"
- Dependant Scheme Pensions (wef 6.4.16)
  - ".. reduce significantly the number of calculations that need to take place to determine whether a dependants' scheme pension exceeds the authorised limit..".



Tapered Annual Allowance

"Around 300,000 pension savers are expected to have net incomes of at least £110,000 and could be affected by this measure."

https://www.gov.uk/government/publications/pensions-tapered-annual-allowance



Tapered Annual Allowance

Core process aspects still to be sorted out

- Calculation of Tapered Annual Allowance and guidance
  eg salary sacrifice "made on or after 9 July"
  http://www.aca.org.uk/aca-briefings_and_information__archive-2015.html
- Information provision - *draft regulations issued for consultation*
  Better than "AA statements to all" but flawed/work in progress

- "Scheme Pays" - no draft changes issued yet so..
  - What TAA?
  - Politically essential but unworkable as is; newly key for DC schemes

X has a right to use Scheme Pays in a scheme for all or some of a tax year's AA charge if and only if

- X's pension input amount in the scheme exceeds X's (personal) tapered AA (TAA)
- AND X's overall AA tax charge exceeds £2K
- AND X elects irrevocably before statutory deadlines (accelerated if drawing all benefits from the scheme)

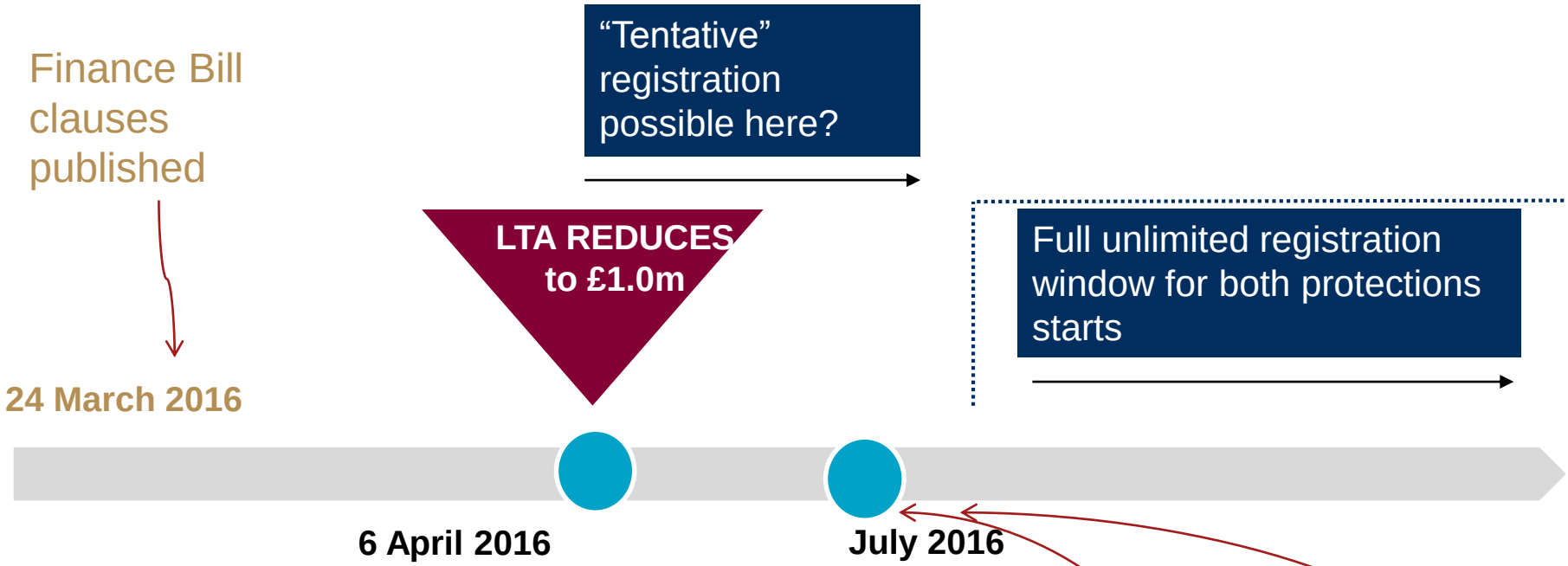
Lifetime Allowance

Reduction to £1m from 6 April 2016: who might be impacted ?

Member A **DB only**	**Member B** **DC only**	**Member C** **DB and DC**
DB pension (starting at any age) **£50,000 pa**	DC total fund £1m delivering eg an annuity of £27,000 pa if age 65	DB £25,00 pa DC fund £500,000

And now 9 forms of Lifetime Allowance protections ALL DIFFERENT

2016 Lifetime Allowance timeline



Real queries around temporary registration and on-going on backdating of protections

"We understand that tax affects behaviour.
So let’s tax the things we want to reduce,
not the things we want to encourage."

George Osborne
Chancellor of the Exchequer
Budget Speech 2016

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