

How is the tapered annual allowance impacting pensions?

LCP FTSE 100 pensions tax survey
May 2017



Introduction

In April 2016, significant changes to the UK pensions tax regime took effect, with the introduction of the tapered annual allowance and further reduction to the lifetime allowance.

Now, more than one year on, the changes driven by this have been revealed in our survey of FTSE 100 companies. We found that the annual allowance is impacting more and more employees, no longer just those at executive level.

Many companies have made changes to their pension options as they seek to mitigate the effects of the new rules and avoid their employees paying unnecessary tax. Others have chosen to reinforce the message that tax is a personal issue.

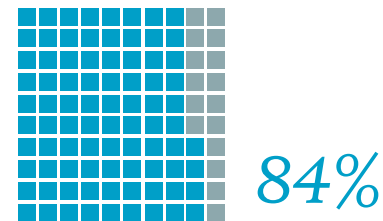
The findings of our survey should help you benchmark your own company's pension options as more and more employees are hit by the tapered annual allowance.



*Alasdair Mayes
Partner*



of the FTSE 100 companies surveyed changed their policy on pension provision following the pensions tax changes in April 2016.



of companies now offer a cash alternative to pensions to employees with lifetime or annual allowance issues.



Average percentages of basic salary offered where cash is offered instead of pension - our survey shows how they vary by earnings.

Alternatives to pensions

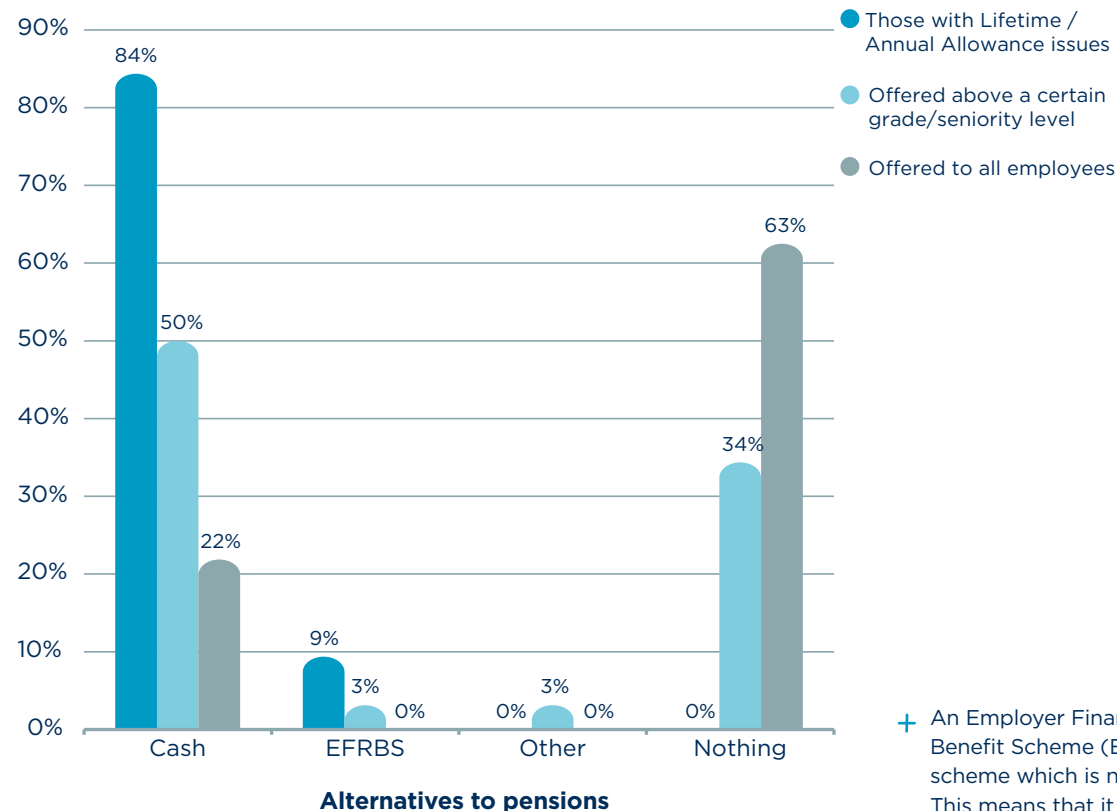
Companies continue their move toward flexible forms of pension compensation

What is made available to employees?

The option of an alternative to earning benefits in a tax registered pension plan is much more widespread than before.

Reductions in tax allowances, and an increased focus on flexibility, mean it is becoming common for employees at many levels to have the option of cash as an alternative to some or all of their standard pension package.

1 in 5 FTSE 100 companies surveyed now offer cash as an alternative to pensions to all their employees.



+ An Employer Financed Retirement Benefit Scheme (EFRBS) is a pension scheme which is not tax-registered. This means that it does not share the same tax advantages of a conventional occupational pension scheme but the annual and lifetime allowances do not apply.



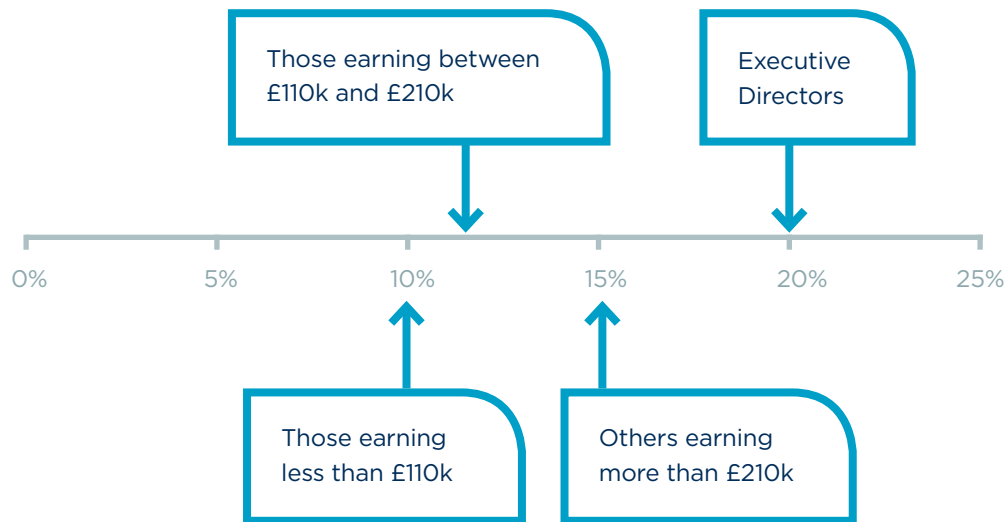
Holly Scott
Consultant

Cash - who gets how much?

LCP benchmarking

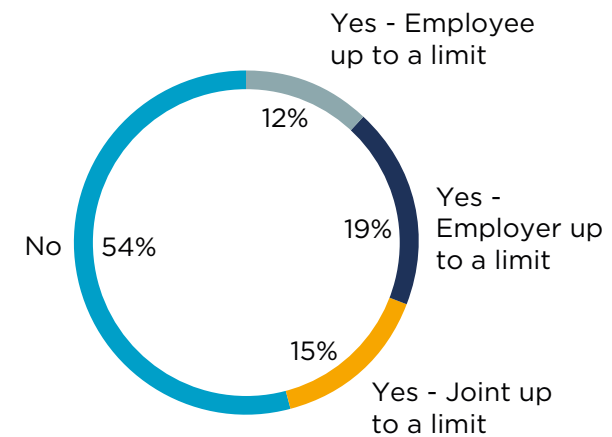
How do you compare?

Below we set out average percentage of basic salary offered where cash is provided as an alternative to pension provision for different groups of employees:



We can provide further benchmarking information, [click here to contact us](#)

Where cash is offered, do companies require some contributions to be paid into a registered pension scheme?



Where cash is offered, 1 in 3 companies adjust the rate to allow for the employer's additional National Insurance (NI) costs

Who is doing what?

A wide variety of communication methods are being used

97% Written communication

53% One-to-one meetings

41% Seminars

22% Tax modeller tool

19% Videos

Our survey covers findings from a sample of one-third of the FTSE 100 companies.

The current tax regime represents an on-going risk for employers and trustees, so how can we help you understand and communicate the new pensions tax rules?

A regular communications plan and changes to existing practices are required to mitigate risk. We can help you take a few simple steps to help employees and members avoid nasty surprises.

Find out more about how we can help with our tax tools

How we can help

Discover our practical solutions

Policy review

We can help you refine and benchmark your policy for alternatives to a standard pension package.



Benefit statements

A proactive approach, a few simple updates and providing annual benefit statements sooner may be a great help to members.

Benefit statements can improve understanding, bypass shortcomings in the disclosure regime, and reduce queries and complaints.



“Scheme Pays”

The pension scheme paying the tax on behalf of the member can be very helpful where tax is due.

Policies and processes may need updating to avoid restrictions in the Statutory framework.



Videos and modellers

Using bite-size videos is a good way to improve member understanding and engagement.

Under the tapered annual allowance only the member has all the information they need to assess their position.

A simple on-line modeller can also be very helpful.



Communication plan

Members may not focus on the issue until it is too late.

We can help you set a plan for regular, timely communications, so members receive nudges at the right times.

We are also happy to support you through member written communications tailored to your arrangements, group seminars and one-to-ones.



Get in touch with our tax experts to discuss how we can help

Contact us

If you would like more information please contact your usual LCP adviser or one of our specialists below.



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