Are you affected by the tax-free limits for retirement savings?

Experian Retirement Savings Plan
January 2018

Although many members of the Experian Retirement Savings Plan (ERSP) are unlikely to be affected by the limits for tax-free retirement savings, you're responsible for your own tax position, so it's important that you understand them.

This document details the various limits for tax-free retirement savings and should help you understand:

1. More about the limits and any action you may need to take now or in the future if you're affected by the Annual Allowance (AA) or Lifetime Allowance (LTA)
2. How to work out if you're likely to be affected by the AA
3. The options available to you
4. Where to get further help

1 More about the limits

The Annual Allowance (AA)

What is the AA?

The AA is the maximum amount of tax-free retirement savings you can make in each tax year. For a Defined Contribution (DC or Money Purchase) plan such as the ERSP, it's simply the amount you and Experian can contribute to the Plan each tax year without incurring a tax charge. Any contributions you make to external retirement savings arrangements, such as a personal pension or SIPP, count towards the AA.

If you're a member of a Defined Benefit (DB or Final Salary) plan, the AA calculation is more complex and is based on the value of the DB pension you've earned over the tax year.

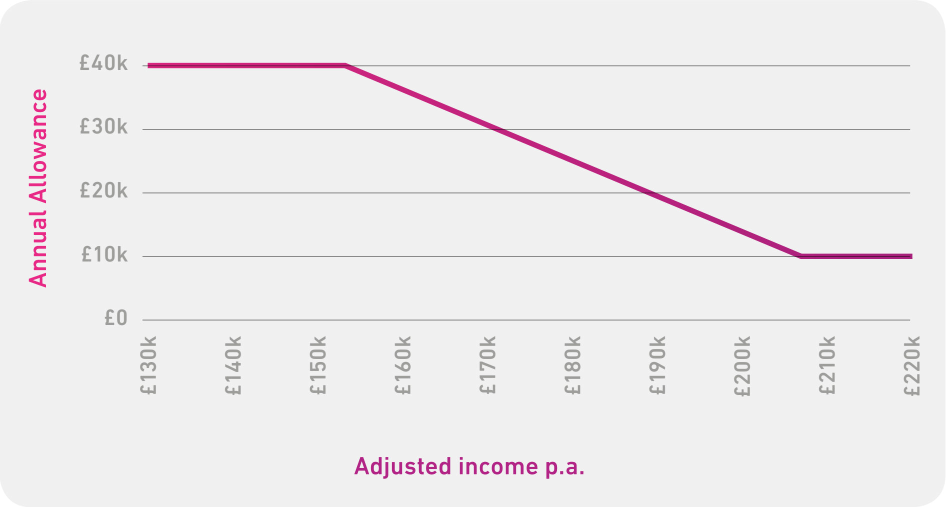
How has it changed?

Over recent years the AA has gradually been reduced by the government from its peak of £255,000 in 2010/11 down to £40,000 from 2014/15.

On 6 April 2016, the government announced a further restriction, by introducing a tapered reduction to the AA if your total annual 'adjusted income' exceeds £150,000.

The change means that, for every £2 your adjusted income exceeds £150,000, your AA will be reduced by £1, down to a minimum level of £10,000 for those with an adjusted income of £210,000 or more.

If you're affected by this restriction and exceed the AA, you may be liable for a tax charge at your highest marginal rate on any excess retirement savings.



You'll therefore need to consider **each tax year** whether your adjusted income is likely to exceed £150,000 and, if so, ensure your total retirement savings don't exceed the appropriate level of AA, unless you decide, after careful consideration, that it's in your interests to exceed the AA and pay the additional tax charge.

Find out about what adjusted income means and if you're likely to be affected on page 6.

The Money Purchase Annual Allowance (MPAA)

A different AA limit applies to your DC savings if you take (or have already taken) some of your retirement savings with Experian, a previous employer or personal pension plan using the flexibilities introduced by the government in April 2015. Read more about the changes at: **https://retirementplan.experian.co.uk/en/news/2016/01/changes-to-your-experian-retirement-savings**.

This is known as the MPAA, and is the amount of tax-free retirement savings you can make to a DC scheme in a tax year if you fall into this category. Irrespective of your earnings, if the MPAA applies then your DC retirement savings must be restricted to £4,000 p.a. (£10,000 p.a. before April 2017) to avoid a tax charge.

If the MPAA applies to you, you'll need to provide us (and any other DC retirement plans that you're a member of) with certain information within a specified period, otherwise you'll be subject to a fine from HMRC.

The carry forward rule described on page 10 does not apply to the MPAA and there are no alternatives to incurring a tax charge if you exceed the MPAA.

The Lifetime Allowance (LTA)

What is the LTA?

The LTA is the total value of retirement savings you can have on retirement without incurring a tax charge, and applies to all of your retirement savings (including previous employments and personal pension plans).

How has it changed?

The LTA reduced from £1.25 million to £1 million from 6 April 2016. It will increase to £1.03 million from April 2018 and is expected to increase each year thereafter in line with the Consumer Prices Index (CPI).

Am I affected?

Most ERSP members are unlikely to be affected, but the reduced LTA is likely to affect you if you've already built up substantial savings from all of your retirement arrangements. Any retirement savings you have in excess of the LTA will be subject to a tax charge at the point of your retirement. Currently this charge is 55% if you take your excess benefits as a lump sum, or 25% on top of your marginal tax rate if you take the excess benefit in any other form, such as an annuity.

In order to determine if you're likely to be affected by the LTA, you'll need to add together the expected value at retirement of all of your retirement savings in DC schemes, as well as the value of any benefits you have built up in DB schemes. In a DB scheme, the value of your benefits at retirement for LTA purposes is the amount of your annual pension at retirement multiplied by a factor of 20 plus any cash sum at retirement.

What can I do if I am affected?

If you had £1 million or more in retirement savings, as at 5 April 2016, you can apply to HMRC for some protection against the change by registering for 'Individual Protection 2016'. 'Fixed Protection 2016' may also be available but only if you stopped accruing retirement benefits from 5 April 2016.

If you're impacted by the LTA, you may wish to consider opting out of future membership of the ERSP. A monthly cash payment in lieu of the employer contributions to the ERSP would be paid directly to you, subject to deductions for income tax and National Insurance contributions. This is only available to you if you're opting out of the ERSP for LTA or AA purposes.

Applications for 'Protection' should be made online to HMRC at **www.gov.uk/guidance/pension-schemes-protect-your-lifetime-allowance**.

You should contact the Experian Pensions team at Capita if, having taken appropriate advice, you're considering opting out of the ERSP.

Visit **www.hmrc.gov.uk** for further details. If you already have some form of protection following previous tax changes you should seek professional advice as to how the current limits may affect you.

Does the LTA only relate to my retirement savings?

Under current tax rules, any lump sum benefits payable (such as your death in service cover of two or four times salary) may be added to the total amount of retirement savings for assessment against the LTA.

The reduction in the LTA is aimed at higher earners, so you're more likely to exceed the LTA in the event of your death before retirement if your earnings are high and you also have substantial retirement savings.

2 How to work out if you're likely to be affected by the AA

Is your total income excluding the value of retirement savings over £110,000 p.a. ('threshold income')?

Work out your likely **threshold income** for the relevant tax year, as this will initially determine whether you may be impacted.

Threshold income is broadly your total earned and unearned taxable income for the tax year, bearing in mind any adjustments that may be made over the year, such as the impact of pay reviews, promotion etc. It includes all taxable income you receive from Experian, such as your basic salary excluding any SMART contributions (unless you started making SMART contributions for the first time or changed your existing SMART contributions on/after 9 July 2015). This also includes any car allowance, bonus, overtime, commission payments and maturing long term incentive share plans, and other external sources such as rental income, investment income, other remunerated employment etc.

No

Your AA is £40,000 and you're NOT affected.

Yes

Is the value of your total income plus the value of your retirement savings during the tax year, called your pension input amount (PIA), over £150,000 ('adjusted income')?

Adjusted income is your **threshold income** plus any pension/retirement savings made by you and Experian during the tax year (including any savings to retirement plans outside of Experian).

No

Your AA is £40,000 and you're NOT affected.

Yes

The reduced AA applies to you. Your AA is reduced by £1 for each £2 your adjusted income exceeds £150,000. The minimum level of AA is £10,000 and this will apply if your adjusted income is £210,000 or greater.

If your PIA exceeds your AA for the relevant tax year then you may be liable to a tax charge on the excess savings, which should be declared on your tax return.

The main challenge with both **threshold** and **adjusted income** is that they're difficult to accurately predict. Bonus and commission payments in particular could have a material impact, and underestimating these amounts could result in your retirement savings exceeding your AA, which may result in a tax charge. It may be prudent to assume the maximum possible amounts. You're encouraged to seek professional tax or financial advice if you're unsure how the changes will affect you.

How do I know my pension input amount (PIA) for each tax year?

The value of your PIA in a tax year depends on the type of scheme you're a member of. There are two main types of scheme:

- DC (or Money Purchase) scheme, like the ERSP or a personal pension plan. The PIA in a DC scheme is the total amount of savings paid in by you and your employer during the tax year.
- DB (or Final Salary) scheme, where your pension is calculated by a formula using your salary and service. The PIA in a DB scheme is calculated as the increase in your pension from one tax year to the next, allowing for inflation, multiplied by a set factor of 16.

Remember to include any retirement savings you make to retirement plans outside of Experian when determining your PIA.

Pension Savings Statements are available to all members on request from Capita.

So, what would this mean for Sarah?

Sarah receives a basic salary of £90,000 p.a. together with a car allowance of £6,500 p.a. She is a member of the ERSP and contributes 5% of her basic salary via SMART (salary sacrifice). She expects to receive an annual bonus of around £24,000, has long term incentive plan shares maturing of around £15,000 p.a. and also receives rental income of £12,000 p.a.

Total 'earnings' £147,500	–	SMART reduction* £4,500	=	**Threshold income £143,000**

As Sarah's threshold income is above £110,000, she needs to work out her adjusted income. Since she is a member of the ERSP and contributes 5% of her salary, Experian will also contribute a further 10%. Her retirement savings (or pension input amount PIA) will therefore be £13,500 (15% of £90,000).

Threshold income £143,000	+	Retirement savings (PIA) £13,500	=	**Adjusted income £156,500**

As Sarah's adjusted income is over £150,000, the reduced AA applies to her. Her reduced AA is calculated as:

Standard AA £40,000	–	AA reduction (£156,500 – £150,000) / 2	=	**AA for the 2018/19 tax year £36,750**

Based on this adjusted income, Sarah's AA would reduce from £40,000 down to £36,750. Since her PIA is less than her AA, there is no additional tax charge.

	Pre 6 April 2016 AA basis	Post 6 April 2016 AA basis
Annual Allowance (AA)	£40,000	£36,750
Total retirement savings (PIA)	£13,500	£13,500
Excess retirement savings (PIA)	NIL	NIL
Tax charge	NIL	NIL

* If you started making SMART contributions for the first time on or after 9 July 2015, or you changed your existing SMART contributions from that date, no allowance for the SMART reduction can be made when calculating your threshold income.

So, what would this mean for Bob?

Bob receives a basic salary of £90,000 p.a. together with a car allowance of £6,500 p.a. He is a member of the ERSP and contributes 5% of his basic salary via SMART (salary sacrifice). In an exceptional year, he expects to receive commission of £100,000, and has long term incentive plan shares maturing of around £15,000 p.a.

Total 'earnings' £211,500 – **SMART reduction* £4,500** = **Threshold income £207,000**

As Bob's threshold income is above £110,000, he needs to work out his adjusted income. Since he is a member of the ERSP and contributes 5% of his salary, Experian will also contribute a further 10%. His retirement savings (or pension input amount PIA) will therefore be £13,500 (15% of £90,000).

Threshold income £207,000 + **Retirement savings (PIA) £13,500** = **Adjusted income £220,500**

As Bob's adjusted income is over £150,000, the reduced AA applies to him. His reduced AA is calculated as:

Standard AA £40,000 – **AA reduction (£220,500 – £150,000) / 2** = **AA for the 2018/19 tax year £10,000 (i.e. the minimum level)**

Based on this adjusted income, Bob's AA would reduce from £40,000 down to the minimum possible level of £10,000. Since his PIA is higher than his AA, he will be subject to a tax charge at his marginal rate of 45% on excess PIA.

	Pre 6 April 2016 AA basis	Post 6 April 2016 AA basis
Annual Allowance (AA)	£40,000	£10,000
Total retirement savings (PIA)	£13,500	£13,500
Excess retirement savings (PIA)	NIL	£3,500
Tax charge	NIL	£1,575**

Whilst the situation with Bob may be extreme, it shows that if you have large variable earnings, or income outside of Experian, you may need to consider very carefully whether these could impact your retirement savings.

*If you started making SMART contributions for the first time on or after 9 July 2015, or you changed your existing SMART contributions from that date, no allowance for the SMART reduction can be made when calculating your threshold income.

**This example does not take into account any of Bob's unused AA that he may have from the previous three tax years, which can be used to reduce or eliminate the tax charge. See page 10 for information about carrying forward unused AA.

What is carry forward?

Carry forward lets you take advantage of any unused AA from the last three tax years.

The carry forward rule could allow you to make additional periodic payments to your retirement savings without having to pay an AA tax charge, or could be used to reduce or even eliminate any AA tax charge if you exceed the AA during the tax year.

The carry forward rule applies whether you're subject to the standard AA or the reduced AA of between £10,000-£40,000, in which case the amount available to carry forward will be based on any unused reduced AA.

The carry forward rule is also based on the fact that, for everyone, the AA was £40,000 for the 2015/16* tax year.

The Experian Pensions team at Capita Employee Benefits can confirm your PIA and AA under the ERSP for the previous three tax years. Get in touch by:

0114 229 8273

ExperianPensions@capita.co.uk

*The 2015 Summer Budget statement announced transitional arrangements under which the 2015/16 tax year was split into two tax years for AA purposes. The AA for 2015/16 could be slightly more than £40,000 in practice for some ERSP members.

So, what would this mean for Sarah?

For the last three years, Sarah's salary was £90,000 and her threshold income was £143,000. She also contributed 5%, with Experian contributing 10%. Her retirement savings for each year were £13,500.

Tax year	Threshold income	AA	PIA	Unused AA
2017/18	£143,000	£36,750	£13,500	£23,250
2016/17	£143,000	£36,750	£13,500	£23,250
2015/16	£143,000	£40,000	£13,500	£26,500
TOTAL	N/A	£113,500	£40,500	£73,000

Based on this example, Sarah's total AA for 2018/19 is £109,750 (her reduced AA of £36,750 for 2018/19 plus £73,000). See page 8.

So, what would this mean for Bob?

Bob's salary and threshold income were £90,000 and £207,000 respectively for the last three years, and he contributed 5%, with Experian contributing 10%.

Tax year	Threshold income	AA	PIA	Unused AA
2017/18	£207,000	£10,000	£13,500	(£3,500)
2016/17	£207,000	£10,000	£13,500	(£3,500)
2015/16	£207,000	£40,000	£13,500	£26,500
TOTAL	N/A	£60,000	£40,500	£19,500

Based on this example, Bob's total AA for 2018/19 is £29,500 (his reduced AA of £10,000 for 2018/19 plus £19,500), and he would not have to pay the tax charge on page 9. The above example assumes that Bob had no carry forward available from years prior to 2015/16 with which to offset the excess PIAs for 2016/17 and 2017/18.

3 The options available to you

The changes are complex and you're encouraged to seek professional tax or financial advice if you need further help. If you're affected by the reduced AA, you have three options:

Do you have any carry forward?

See page 10 for an explanation of carry forward.

Yes

1. You can carry forward any unused AA from the previous three tax years to the current tax year. The amount of the unused AA is then added to your current year's AA to give you a higher total level of tax-free retirement savings.

No

If you believe you don't have any carry forward, you can either:

2. Exceed the reduced AA and pay a tax charge in respect of any excess retirement savings. You can pay the charge directly to HMRC via your annual tax return or use the 'Scheme Pays' option and ask the ERSP Trustees to pay the tax charge on your behalf in return for a corresponding reduction to your retirement savings.

Or

3. Instruct us to limit your retirement savings to what you expect your reduced AA to be. You'll need to advise us what you expect your AA to be and you'll need to review it throughout each tax year to ensure you remain on track. Any unpaid employer contributions would be paid directly to you as a monthly cash payment in respect of the balance (this will be subject to deductions for income tax and National Insurance). This is only available to you if you're affected by the reduced AA or LTA.

As you're unlikely to know your adjusted income figure (and therefore your AA) until later in the tax year, you could choose to carry forward any unused AA to the next tax year to increase your scope for future tax-free retirement savings.

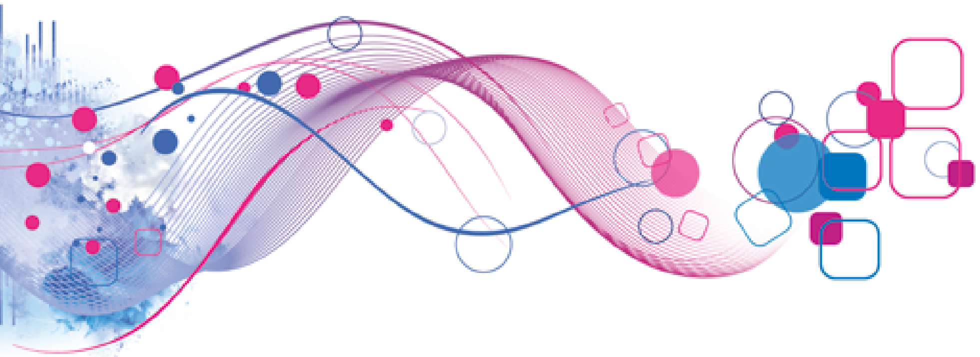
You should contact the Experian Pensions team at Capita Employee Benefits if you want us to limit your ERSP savings to your expected AA. Your contributions will not be restricted in any way unless you instruct us to do so in writing.

The Experian Pensions team at Capita will notify you if your ERSP PIA is approaching the minimum AA limit of £10,000 in each tax year, so you can review your situation and take any necessary action. They can also provide you with more information about the 'Scheme Pays' option.

4 Where to get further help

We will be running further group workshops at different locations during the year to explain the limits in more detail, and have launched an online modeller to help you work out what your new tax-free limits might be based on your expected income and retirement savings. Further details can be found on Zoom.

This document has been prepared based on the pensions tax limits as at December 2017. It contains a summary of the tax limits and explains how members with high levels of total income may be affected. If you're unsure whether you're impacted by these changes, you should seek professional tax or financial advice. Neither Experian, the ERSP Trustees or Capita can provide you with such advice.



The Experian Pensions team at Capita Employee Benefits can provide further generic information about the changes, and can be contacted by:

0114 229 8273

ExperianPensions@capita.co.uk

www.experian.co.uk/retirementplan
('news' section) or at one of the following websites:

www.hmrc.gov.uk
('tax on your private pension contributions' section)

www.pensionsadvisoryservice.org.uk
('saving into a pension' section)

www.moneyadviceservice.org.uk
('saving for retirement' section)