Tax changes to retirement savings from 6 April 2016.

The tax limits for retirement savings are changing from 6 April 2016. Many members of the Experian Retirement Savings Plan (ERSP) are unlikely to be affected by the changes, but **you're** responsible for your own tax position, so it's important that you understand them.

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

1. **More about the changes and any urgent action you may need to take before 6 April 2016 if you're affected by the reduced LTA**
2. **How to work out if you're likely to be affected by the Annual Allowance changes**
3. **The options available to you**
4. **Where to get further help**

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1 More about the changes

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.

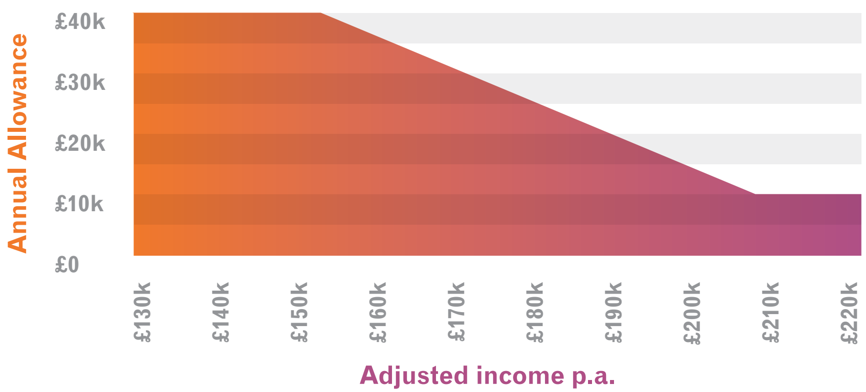
If you're a member of a Defined Benefit (DB or Final Salary) plan, the AA calculation is more complex and is based on the value of the DB pension you've earned over the tax year.

How is it changing?

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.

From 6 April 2016, the government has 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 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 4.

The Money Purchase Annual Allowance (MPAA)

A different Annual Allowance 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 here: **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 future DC retirement savings must be restricted to £10,000 p.a. 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 8 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 amount of retirement savings you can make before reaching retirement without incurring a tax charge, and applies to all of your retirement savings (including previous employments and personal pension plans).

How is it changing?

The LTA is reducing from £1.25 million to £1 million from 6 April 2016 but is expected to increase each year from April 2018 in line with the Consumer Prices Index.

Will I be affected?

Most ERSP members are unlikely to be affected, but the 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 already have more than £1 million in retirement savings, or are likely to when you retire, you can apply to HMRC for some protection against the change by registering for either 'Individual Protection 2016' or 'Fixed Protection 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.

HMRC have advised that applications for protection should be made online **from July 2016**. An interim process is in place for anyone wishing to retire before July 2016 using one of the protections.

If you wish to register for Fixed Protection 2016 you'll need to opt out of the ERSP **before 6 April 2016**, as further contributions will cause your protection to be lost.

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 these latest changes 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 changes

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), 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, 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).

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:

- Defined Contribution (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.
- Defined Benefit (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.

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.

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'	−	SMART reduction*	=	Threshold income
£147,500	−	**£4,500**	=	**£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).

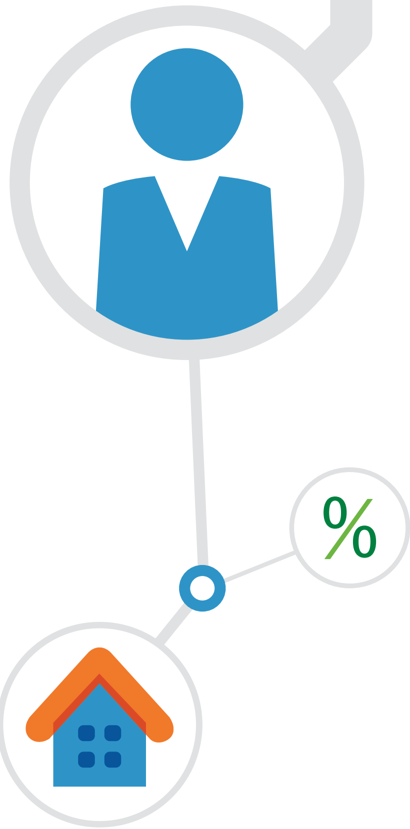
Threshold income	+	Retirement savings (PIA)	=	Adjusted income
£143,000	+	**£13,500**	=	**£156,500**

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

Standard AA	−	AA reduction	=	AA for the 2016/17 tax year
£40,000	−	**(£156,500 – £150,000) / 2**	=	**£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.

	Before 6 April 2016	After 6 April 2016
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'	−	SMART reduction*	=	Threshold income
£211,500		**£4,500**		**£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	+	Retirement savings (PIA)	=	Adjusted income
£207,000		**£13,500**		**£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	−	AA reduction	=	AA for the 2016/17 tax year
£40,000		**(£220,500 – £150,000) / 2**		**£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.

	Before 6 April 2016	After 6 April 2016
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 8 for information about carrying forward unused AA.

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 8 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. Alternatively, if your tax charge exceeds £2,000, you can utilise 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.

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.**

To provide some guidance, in future 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.

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* and 2014/15 tax years, and £50,000 for the 2013/14 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:

Calling: 0114 229 8273

Emailing: ExperianPensions@capita.co.uk

*The 2015 Summer Budget statement announced transitional arrangements under which the 2015/16 tax year is 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 and Bob?

For the last three years, Sarah's and Bob's salaries have been £90,000 and they've contributed 5%, with Experian contributing 10%. Their retirement savings for each year were £13,500.

Tax year	AA	PIA	Unused AA
2015/16*	£40,000	£13,500	£26,500
2014/15	£40,000	£13,500	£26,500
2013/14	£50,000	£13,500	£36,500
Total	**£130,000**	**£40,500**	**£89,500**

Based on this example, £89,500 of unused AA could be carried forward.

Sarah
This means her total AA for 2016/17 is £126,250 (her reduced AA of £36,750 + £89,500).

Bob
This means his total AA for 2016/17 is £99,500 (his reduced AA of £10,000 + £89,500).

In this example, Bob will no longer have a tax charge to pay as shown on page 6, as his total retirement savings fall within the AA available to him.

Where to get further help

You should note that, even if you exceed the AA in any tax year, or are expected to exceed the LTA at retirement, then you shouldn't automatically assume that the best option is to opt out of retirement savings. You should therefore seek professional tax or financial advice.

We will be running some group workshops at different locations over the coming months to explain the changes in more detail, and will also be making available an online modeller tool to help you work out what your new tax-free limits might be based on your expected income and retirement savings. Further details about these will be published on Zoom as they are finalised.

This document has been prepared based on the pensions tax changes announced by the government in 2015 and expected to take effect in their current form on 6 April 2016. It contains a summary of the new 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.

You should also be aware that the government is consulting on further possible changes to the pensions tax system. We will consider the implications of any such changes for ERSP members following any announcement.

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

Calling: **0114 229 8273**

Emailing: **ExperianPensions@capita.co.uk**

In addition, further information is available online at **www.experian.co.uk/retirementplan** ('news' section) or at one of the following websites once they've been updated to reflect the changes:

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)

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