PENSIONS CASE STUDY

RUPERT & NIGELLA
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LEARNING OBJECTIVES

To consider and understand the implications of:

- The application of the Lifetime Allowance (LTA), including the impact of pre commencement pensions.

- A consideration of the various forms of LTA protections - dealing with pension rights when a person exceeds the LTA - understanding the meaning of adjusted income and planning for employees who have adjusted income of more than £100,000.

- To consider and understand the tapered annual allowance and carry forward of unused allowances.

- To consider and understand death benefits payable from money purchase arrangements in relation to IHT planning.
PERSONAL DETAILS

Rupert (63)  
Nigella (52)

2 children 18 and 20 both at university
## ASSETS

<table>
<thead>
<tr>
<th></th>
<th>Rupert</th>
<th>Nigella</th>
<th>Joint</th>
</tr>
</thead>
<tbody>
<tr>
<td>House</td>
<td></td>
<td></td>
<td>750,000 (1)</td>
</tr>
<tr>
<td>Contents</td>
<td></td>
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<tr>
<td>Stocks and shares ISAs</td>
<td>40,000</td>
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<td>Cash ISAs</td>
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<td>75,000</td>
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<tr>
<td>SP Bond</td>
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<td>108,000</td>
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</tbody>
</table>

(1) No mortgage  
(2) Excludes value of pensions
PENSIONS - RUPERT

• Age 63

• Retired from BA in 2003 aged 50 with pension of £34,000

• Pension at A Day (5 April 2006) £38,000 pa

• Current pension £50,000 pa. from age 50. Increases at 3% pa. 50% WID death after retirement

• PCLS of £120,000 taken in 2003

• S/E consultant to flying club

£20,000 earnings p.a. since 2008/09
£25,000 in 2016/17

• Since 1 May 2008, saving £250 pm to a SIPP, value £35,000
Concerns

- Will LTA affect his BA pension and SIPP?
- Are there any points he needs to consider in relation to his State Pension?
- What are his options on drawing benefits from the SIPP?
Now it’s your turn
• BA pension – pre-commencement pension (pre 6 April 2006)

• Not tested against Lifetime Allowance at A Day

• Crystallisation of SIPP benefits – deemed BCE test utilising some or all of LTA

• Could impact on taxation of SIPP benefits
DEEMED BCE OF B/A PENSION

- Reporting requirement on SIPP Provider
- Ascertain value of BA pension at time of BCE
- £50,000 pension x 25 = £1.25 million
- Ignore value of pre-A day PCLS
- All SIPP fund subject to LTA
- No PCLS from SIPP allowed
SAFEGUARDING SIPP FUND

- Fixed protection 2016? But contributions paid to SIPP since 5 April 2016

- Individual protection 2016? Fund value at 5 April 2016 between £1 million and £1.25 million is protected

- Individual protection 2014? Fund value at 5 April 2014 between £1.25 million and £1.5 million is protected. However no protection for:

  - increase in scheme pension since 5 April 2014
  - increase in SIPP since 5 April 2014
INDIVIDUAL PROTECTION 2016

• No restrictions on paying contributions

• Can pay to top-up a fund that has gone down in value

• When would IP14 not apply?

• Deadlines for election

• How can you apply?
• State Pension at age 65 in 2018

• Should obtain a SP forecast (BR19)

• Will need 35 qualifying years/NI credits to receive maximum pension of £155.65 pm (2016/17)

• Care if contracted-out

• SP will not impact on Lifetime Allowance
• Take SIPP as lump sum
  - subject to a 55% Lifetime Allowance charge
  - £35,000 fund - £19,250 to HMRC
  - Net amount in estate for IHT purposes
RUPERT’S SIPP

• Designate SIPP to drawdown

• S/A deducts 25% LTA charge and pays to HMRC

• Pension fund can be held in flexi-access drawdown – payments subject to income tax

• Income payments on death are tax-free – death under 75. Taxable when drawn on death at 75 or over

• No IHT on drawdown funds on death
• No tax charge until Rupert crystallises the SIPP fund - earlier of his election, age 75 and his death.

• The fund can remain invested to provide death benefits – but Lifetime Allowance test on payment

• If death before age 75, delay payment of death benefits or designation to drawdown for 2 years. No LTA – benefits taxed on beneficiary
• Age 53

• Earnings £120,000; bonus £23,000

• Retires in 3 years

• DC GPP. 10% employer contribution. 5% employee contribution

• Pension plan worth £900,000

• Thinks she has a £100,000 pension term assurance
Concerns

• Is she affected by the tapered annual allowance?

• Wants to maximise pension provision

• What carry forward provision exists?

• Is she affected by LTA?

• Can she continue contributions to employer’s GPP?
Now it’s your turn
Threshold income

More than £110,000?

Yes

Adjusted income more than £150,000?

Taper AA applies
• Earnings from employment, self-employment/partnerships
• Most pensions income
• Interest
• Dividend income
• Rental income
• Personal pension contributions deducted
• Salary sacrifice under arrangements set up on or after 9 July 2015 are included
Adjusted income is income:

- With no deduction for individual pension contributions
- Plus all employer contributions
### TAPER ALLOWANCE & NIGELLA

- **AA reduced by amount equal to**
  \[
  (\text{Adjusted income} - £150,000) \div 2
  \]
- **Her threshold income exceeds £110,000**
- **Adjusted income is**

<table>
<thead>
<tr>
<th>Income Type</th>
<th>Amount</th>
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<tr>
<td>Salary</td>
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<tr>
<td>Bonus</td>
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<tr>
<td>Employer contribution</td>
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<td>Dividends</td>
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\[
\text{AA} = £40,000 - £3,500 = £36,500
\]
UNUSED RELIEF IN 2015/16

• Pre and post-alignment period

• Carry forward = £40,000 less contributions in post-alignment period

• Contributions in post-alignment period = £13,500

• C/f from 2015/16 = £26,500
## Carry Forward of Unused Relief

<table>
<thead>
<tr>
<th>Year</th>
<th>Employers Cont (£)</th>
<th>Employees Cont (£)</th>
<th>AA £</th>
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<td>2016/17</td>
<td>12,000</td>
<td>6000</td>
<td>36,500</td>
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<td>2015/16</td>
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<tr>
<td>Pre A/Y</td>
<td>3,000</td>
<td>1,500</td>
<td>80,000</td>
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<tr>
<td>Post A/Y</td>
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<td>2014/15</td>
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<td>50,000</td>
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<td>Total 99,000</td>
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MAXIMISE PENSION CONTRIBUTIONS FOR NIGELLA

• Pay maximum for 2016/17 - £36,500 (an additional £18,500) first

• Carry forward of £80,500 available

• Use 2013/14 carry forward of £32,000 if possible as lost after 5 April 2017

• Need relevant UK earnings in the year the contribution is paid

• Reduce threshold income below £110,000 – AA now £40,000
NIGELLA & Lifetime Allowance

- GPPP value is £900,000

- Further contribution for carry forward will cause fund to near £1 million (LTA)
NIGELLA’S PENSION TERM POLICY

- No IHT
- No LTA protection available
- 55% tax charge (depending on whether the term assurance proceeds are paid after other death benefits)
LTA & PROTECTIONS

• Fixed protection 2016?  N/A

• Individual protection 2016?  N/A

• So needs to manage value of fund withdrawals
CONTINUING CONTRIBUTIONS BY NIGELLA

- Risk of LTA

- Is employer’s scheme based on “matching contributions”? If not, employer’s contributions could continue

- Does employer offer alternative to 10% contribution?

- Does she care about LTA charge?

- Monitor position in run up to age 55
ADVICE REQUIRED FOR RUPERT & NIGELLA

• What is their IHT position?

• What death benefit options exist under their pension plans?

• Do pension death benefits affect IHT position?

• What planning can they undertake with pension death benefits?
Now it’s your turn
## RUPERT & NIGELLA - ASSETS

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<td><strong>Total</strong></td>
<td>40,000</td>
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First death:

All to survivor.
No IHT (spouse exemption)

Second death:

£1,216,000

IHT liability assumes second death occurs after 5 April 2020 so nil rate band and residence nil rate band (including transferable nil rate bands) is £1 million.

IHT on current values and rates of IHT = £86,400.
IMPACT OF PENSION DEATH BENEFITS ON IHT

• If lump sums paid to survivor, will swell value of survivor’s taxable estate for IHT purposes

• Should Nigella predecease Rupert, IHT liability on his death could increase by up to £360,000

• Pensions Term Assurance
  - who receives proceeds?
  - could swell estate for IHT but probably paid under trust
  - will it be subject to the LTA?
Rupert’s SIPP and Nigella’s GPPP

- Lump sum payment
- Flexi-access drawdown
TAXATION OF DEATH BENEFITS

Death pre age 75

• No inheritance tax

• No income tax

• But if lump sum paid to survivor, that will increase the value of the survivor’s estate for IHT purposes if cash not spent during survivor’s lifetime

• By-Pass Trust?
IHT Planning when they retire in 3 years’ time

Pension Fund

- Maximise growth

Non-pension investments

- Draw and use
  - Cash ISAs
  - Unit trusts
  - SP Bond
RUN UP TO AGE 75

• Review planning options
• Lump sum death benefits or flexi-access drawdown
• By-Pass Trust?
LEARNING OUTCOMES

Considered the implications of:

- The application of the Lifetime Allowance (LTA), including the impact of pre commencement pensions.

- The various forms of LTA protections
  - dealing with pension rights when a person exceeds the LTA
  - understanding the meaning of adjusted income and planning for employees who have adjusted income of more than £100,000.

- Understand the tapered annual allowance and carry forward of unused allowances.

- Understand death benefits payable from money purchase arrangements in relation to IHT planning.
Financial Planning with Trusts
2016-17

John Woolley
TECHLINK PROFESSIONAL

All you need to:

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- Research the answers you need to your technical questions
- Secure business generation ideas
- Carry out, automatically track, record and test your technical CPD