FAQs Pension Plan Changes from April 2016

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Capita, on behalf of Adobe Systems UK Limited ('Adobe UK') has produced these Questions and Answers (Q&A) to help guide you in recognising whether you may be affected by the changes introduced in the 2015 Summer Budget to the Annual Allowance and Pension Input Periods. There is a separate guide covering the Lifetime Allowance.

Neither Capita or Adobe UK can give you advice as to how these changes may affect you and we recommend you seek professional financial advice for your own situation if you need to.

**What is the Annual Allowance?**

The Annual Allowance is the maximum amount of pension savings that can be paid into a pension arrangement each year with the benefit of tax relief. This includes contributions made by you and anyone else into your pension arrangement, such as your employer. If your total pension contributions exceed the Annual Allowance limit, (and you don't have sufficient carry forward) you'll have to pay tax on the excess amount.

**What is changing?**

There will be three Annual Allowance's from 6th April 2016, one of which will affect you:

- **Standard Annual Allowance (AA)**. This has been £40,000 since 2014/2015 tax year, but special arrangements applying for the current 2015/16 tax year (as explained below).

- **Tapered Annual Allowance (TAA)** is calculated as a reduction to the Annual Allowance (£40,000) of £1 for every £2 of income you receive over £150,000. Income is specifically defined within the Finance Act (No.2) 2015 Act, and encompasses all income you receive; it is not just salary and bonus but also other income such as investment and property income. If your total income is over £210,000 your Tapered Annual Allowance will be £10,000.

- **Money Purchase Annual Allowance (MPAA)**. This is triggered for all those individuals who from April 2015 have started to access income from their money purchase pension arrangements using the new ‘pension flexibilities’. This was introduced to stop people from accessing income accumulated tax efficiently and then reinvesting it back into another pension arrangement to obtain additional tax relief. The MPAA is £10,000 per annum.

**How much tax will I have to pay if I exceed the Annual Allowance?**

The amount in excess of the Annual Allowance is taxed as income. It is added to your other income and the relevant income tax rate will then apply. Therefore, your tax charge will depend on your taxable income. You must disclose any payments in excess of the Annual Allowance when completing your self-assessment tax return.

All pension providers/schemes issue HMRC with data on individuals who have exceeded any of the Annual Allowance thresholds. They also send out Pension Savings Statements to members where this applies. A member accruing pension benefits under more than one scheme needs to take care as they may not receive a Pension Savings Statement from any one scheme but the total pension accrual under all schemes may exceed their annual allowance.

If your Annual Allowance charge is over £2,000 you can choose to have it paid by the pension scheme in return for reduced benefits.
I have not paid the full annual allowance in the past few tax years – what can I do?

If the levels of your pension savings have not exceeded your full Annual Allowance in the three previous tax years, you have the opportunity to ‘carry forward’ this unused relief to the current tax year and use it then. To be eligible, you must have been a member of a registered pension scheme at some time in that previous tax year.

For example, during 2015/2016 tax year you can carry forward unused relief for tax years 2012/2013 (when the Annual Allowance was £50,000); 2013/2014 (Annual Allowance of £50,000) and 2014/2015 (where the Annual Allowance was lowered to £40,000).

When looking at using carry forward and maximising your Annual Allowance, you have to take into account the amount paid in the past. This is worked out using a Pension Input Period – known as a PIP – see below.

What is a PIP?

A Pension Input Period (PIP) is the time period used for measuring the contributions paid and accrual of benefits in registered pension schemes. Both employer and member contributions are counted.

The PIP end date determines the tax year in which pension savings should be measured.

Individuals joining a pension scheme after April 2011 will automatically be defaulted to a PIP that is aligned to tax years (so it will end on 5 April each year), unless the pension scheme informs them otherwise. Individuals joining a pension scheme before April 2011 will be defaulted to a date set by when the first contribution was received (or accrual) after April 2006.

What changed in the 2015/16 tax year?

All PIPs that were open on the 8 July 2015 ended on that date, and the next PIP is fixed to run from 9 July 2015 to 5 April 2016.

This means that all existing arrangements as at 8 July 2015 will have two or up to three PIPs ending in tax year 2015/2016, depending on the start date of the open PIP.

For example, if you are only contributing to the Adobe UK pension and you joined on or after 6 April 2011 you will for the current 2015/16 tax year have two PIPs. The first will run from 6 April 2015 to 8 July 2015, and the second will run from 9 July 2015 to 5 April 2016.

If you are only contributing to the Adobe UK pension and the first contribution was received on the 19 August 2010 then for the current 2015/16 tax year you again would have two PIP’s. The first will run from 20 August 2014 to 8 July 2015, and the second from 9 July 2015 to 5 April 2016.

What does this mean?

To ensure no one is penalised, the Annual Allowance for pension savings in tax year 2015/16 has been changed.

For PIPs that end between 6 April 2015 and 8 July 2015, the Annual Allowance increased to £80,000, plus any available unused Annual Allowance carried forward from the previous three tax years.

For pension savings made during the period that runs from 9 July 2015 to 5 April 2016, the Annual Allowance is nil, but up to £40,000 of any unused allowance from PIPs up to 8 July 2015 is added to this, plus any remaining carry forward from the previous three tax years.
Is Carry Forward still available?

Yes, once you have exhausted the Annual Allowance in the current tax year you can still sweep up the unused Annual Allowance from the three previous tax years in strict order. The oldest unused allowance is used first.

Does that mean contributions to my pension arrangements can be at least £80,000 for 2015/2016?

Possibly not; it depends on the timing of your PIPs prior to 8 July 2015 and what contributions were made before then as only a maximum of £40,000 will be available in the period from 9 July 2015 to 5 April 2016 (before any carry forward is taken into account).

If you are making contributions to any other pension and wish to maximise contributions this tax year please refer to your professional adviser or pension provider, as the above is only a brief summary of the changes.

Tapered Annual Allowance (TAA)

Will the TAA apply to me?

Yes, but only from 6 April 2016 (2016/17 tax year), and only if BOTH of the following conditions apply to you:

- Your 'threshold income' exceeds £110,000; and
- Your 'adjusted income', which includes pension savings, is more than £150,000.

How is 'threshold income' worked out?

If 'threshold income' for the tax year is £110,000 or less, then you will retain the Annual Allowance of £40,000 and not be affected by the TAA.

To work out your threshold income, take the following steps:

- Add up all your aggregate income from all sources, including all your employment income (such as salary, bonus, commission, etc.) and other income such as dividends, rental income, savings income, etc. Income from pensions in payment such as annuities or final salary pensions must also be added on.
- From this total income you can deduct certain tax reliefs allowed by law. Also, if you are a recipient of certain lump sum death benefit payments from a pension scheme then these may also be excluded from the calculation.
- If you make any member contributions to a personal pension then you can deduct these contributions (but grossed up for 20% basic rate tax relief – i.e. if you put in £80 net of tax then gross up for the 20% basic rate tax relief to £100). However, if you set up or increase a salary sacrifice arrangement on or after 9 July 2015 that results in an increase in employer contributions to your pension scheme then the sacrifice should be added onto your income to work out your threshold income.

How is 'adjusted income' worked out?

'Adjusted Income' is a new definition of income that will determine if a 'high-income individual' is affected by the TAA. Essentially the aim is to add in the pension contribution element, all employer pension contributions are also included in 'adjusted income'. This is to avoid individuals using or increasing their personal pension contributions via salary sacrifice to reduce their taxable income below the £150,000 threshold.
To work out your ‘adjusted income’, take the following steps:

- **Add** all your aggregate income from all sources as in the above ‘threshold income’ calculation.
- From this total income you can **deduct** certain tax reliefs allowed by law as in the above ‘threshold income’ calculation.
- Now **add** on all your member contributions, if any, paid in via salary sacrifice and **all** contributions by your employer.

Please note that as neither your employer nor the scheme administrators or providers will have all the necessary information on your personal arrangements, it will not be possible for them to determine if you exceed the ‘adjusted income’ level of £150,000 and by how much. The above steps are only an overview of how the adjusted income is arrived at and not a detailed breakdown.

This is your personal responsibility, so if you are in any doubt you should take professional financial advice.

**How will the Tapered Annual Allowance (TAA) work?**

For every £2 you receive in ‘adjusted income’ above £150,000 you will lose £1 of Annual Allowance. Therefore, if adjusted income is £180,000 (so £30,000 above the threshold of £150,000) your Annual Allowance would reduce by £15,000 to £25,000. This is your Tapered Annual Allowance for the tax year.

To enable ‘high-income individuals’ to continue to fund contributions/accrual into a pension scheme, there is a minimum Annual Allowance of £10,000 which is permitted regardless of income.

**What does this mean for levels of the TAA?**

The table below illustrates how the Tapered Annual Allowance will reduce once ‘adjusted income’ exceeds £150,000:

<table>
<thead>
<tr>
<th>Adjusted annual income</th>
<th>Tapered annual allowance</th>
</tr>
</thead>
<tbody>
<tr>
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<td>£35,000</td>
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<tr>
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<td>£200,000</td>
<td>£15,000</td>
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<tr>
<td>£210,000 and above</td>
<td>£10,000</td>
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</tbody>
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Changes to the Lifetime Allowance from April 2016

Capita, on behalf of Adobe Systems UK Limited (‘Adobe UK’) has produced these Questions and Answers (Q&A) to help guide you in recognising whether you may be affected by the changes introduced in the 2015 Summer Budget to the Lifetime Allowance, the Annual Allowance and Pension Input Periods (see separate guide).

Neither Capita or Adobe UK can give you advice as to how these changes may affect you and we recommend you seek professional financial advice for your own situation if you need to.

What is the Lifetime Allowance?
The Lifetime Allowance is the maximum amount of benefits which can be drawn from all pension plans in your lifetime, without incurring a tax charge.

If you have more than one pension, you have to add up the value of all your pension benefits. With a Defined Contribution plan like the Adobe UK Group Personal Pension Plan it is the value of your pension pot, but a different calculation is used for final salary/defined benefit schemes.

What is changing?
The limit is £1.25 million for the 2015/16 tax year, but this will reduce to £1 million from 6 April 2016. It will increase annually by rises in Consumer Prices Index (CPI) from 2018.

I am/will soon be close to the limit, what can I do?
If the value of all your pension funds already exceeds £1.25 million and you do not already have any existing form of tax protection from HM Revenue & Customs (HMRC), you may be subject to a tax charge in the future when you draw your benefits. Applications for Individual Protection 2014 will be open until 5 April 2017 for those who se pension savings exceeded £1.25 million on 5 April 2014.

If your combined pension fund values already exceed £1 million, you will need to take action. The Government have confirmed there will be two forms of protection available:

What are the protections I can apply for?

**Fixed Protection 2016** - Keeps your Lifetime Allowance at £1.25 million but from 6 April 2016 onwards you must stop all contributions to all Defined Contribution pension arrangements, not have any relevant benefit accrual in any other pension scheme and not enter into any new pension arrangements.

**Individual Protection 2016** – If the value of all your pension plans on 5 April 2016 exceeds £1 million you can obtain a Lifetime Allowance based on the value of your benefits on 5 April 2016 up to a maximum of £1.25 million. You do not have to stop pension contributions to be able to apply.

How do I apply for protection?
Applications for both these forms of protection need to be made online with HMRC, although this service is not expected to be available until July 2016.

If you expect to need to take your benefits on or before July 2016 then HMRC are putting in place an interim process for affected persons to make a temporary application for Individual Protection 2016 and/or Fixed Protection 2016 so that you could initially rely on those protections when you take your pension benefits. Once the new online system goes live in July 2016 you would then need to make a full online application so that your pension savings can continue to be protected against the lifetime allowance tax charge.
I will be affected – do I need to tell anyone at Adobe UK?

If you are affected by the new Lifetime Allowance, you will need to 'opt out' of the Aviva pension plan and ensure no contributions are received after 6 April 2016. You should contact erc@adobe.com by 8 April 2016 at the latest.

What do I need to do?

Opt out of the Pension

You will need to 'opt out' of the Aviva pension plan and ensure no contributions are received after 6 April 2016.

Whether or not to apply for protection is both an individual and a complex decision; for these reasons, we would recommend consulting a professional financial adviser before making a decision.