

Use it or lose it.

An important key message to communicate to your high earners before April 2019.



In a nutshell.

In April 2016, the government introduced a restriction on tax relief on pension contributions for certain high earners. This is known as the [Tapered Annual Allowance](#) (TAA).

Anyone who meets the definition of a '[high income individual](#)' will see their Annual Allowance (AA) reduced, or 'tapered' and could face a tax charge if their total pension contributions exceed their Tapered Annual Allowance.

But some good news.

Anyone affected by the AA or the TAA can **carry forward** any unused AA from the three previous tax years **and add it to their AA for the current tax year.**

And currently there's a 'use it or lose it' message to communicate.

The AA in 2015/16 was not subject to tapering and for most people was £40k. This means that high earners may have more unused allowance sitting in the 2015/16 tax year than in subsequent tax years.

This tax year (2018/19) is the last opportunity to carry forward any unused AA from 2015/16.

After 5 April 2019

... the opportunity to carry forward any unused AA from 2015/16, which might have helped to avoid a tax charge, will be lost.



Quick technical pause.

Annual Allowance

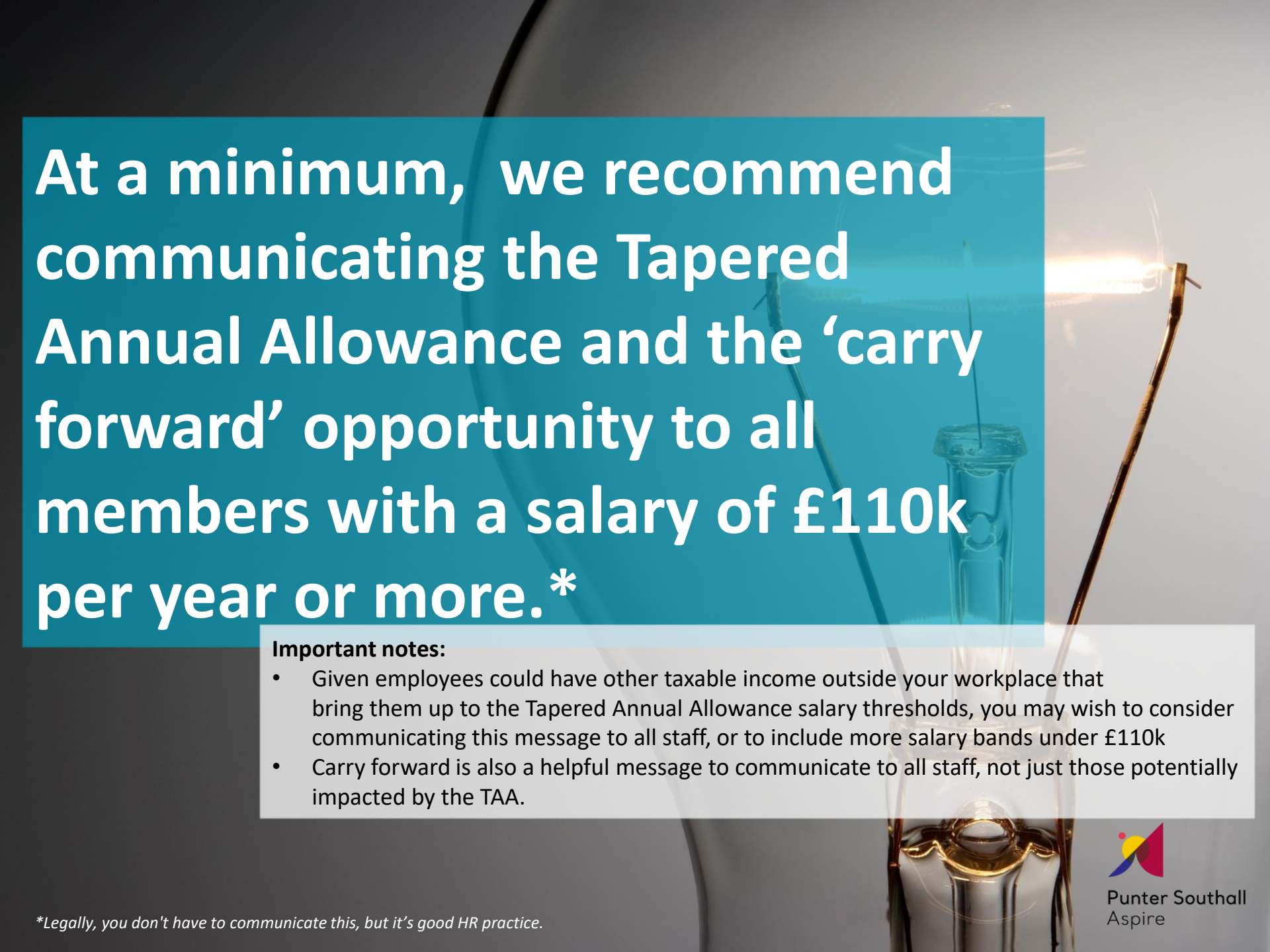
- This is the total pension contributions that can be paid in a tax year without incurring a tax charge. The standard AA is £40k
- Pension contributions over the AA may be taxed up to 45% in the UK (except for Scotland where it's 46%)
- **Pensions Contributions** = the total pensions contributions from all sources (not just individual contributions).

Tapered Annual Allowance

- Came into effect from 6 April 2016
- Applies to certain higher earners and means their AA is reduced (aka tapered)
- For every £2 of adjusted income over £150k, their Annual Allowance will reduce by £1
- And it can be reduced by a maximum of £30k, so from £40k to £10k
- We have used the term 'high earners' to refer to 'high income individuals' who have '[adjusted income](#)' of over £150,000 for the tax year, and '[threshold income](#)' of over £110k. (Click hyperlinks for definitions.)

Carry forward

- Allows unused AA from the three previous tax years to be carried forward and added to the AA of their current tax year
- Is available to individuals potentially impacted by either the AA or the TAA
- Cannot be used if the individual is subject to the Money Purchase Annual Allowance, having accessed benefits flexibly from a defined contribution pension plan
- To use carry forward, an individual must firstly utilise their full AA in their current tax year



At a minimum, we recommend communicating the Tapered Annual Allowance and the 'carry forward' opportunity to all members with a salary of £110k per year or more.*

Important notes:

- Given employees could have other taxable income outside your workplace that bring them up to the Tapered Annual Allowance salary thresholds, you may wish to consider communicating this message to all staff, or to include more salary bands under £110k
- Carry forward is also a helpful message to communicate to all staff, not just those potentially impacted by the TAA.

**Legally, you don't have to communicate this, but it's good HR practice.*

A bit about the £110k+ population*

- | | |
|------------|--|
| 63% | are saving for their retirement in a workplace pension. |
| 81% | want their employer to keep them up to date on new and important things. |
| 73% | want to be proactively educated about their pension by their employer. |
| 73% | will respond to a communication if it makes them feel like there is value for money. |
| 78% | want their employer to speak to them about pensions at the end of the tax year. |

*Based on the results of a survey conducted by PS Aspire in the summer of 2018, PS Aspire surveyed over 2,000 employees, 4% of the population had salaries of £110,000 or more

3 simple communication steps.

Generate awareness:

because knowledge is power

- ✓ Simple email and briefing note. (Or, letter version sent home.)
- ✓ And/or learning modules

Key tactic:

Send the message home:

77% (of those earning £110k or more) prefer to make pension decisions at home rather than at work*

Offer support:

because we all know it's a tricky topic

- ✓ Open up a two-way conversation with a seminar hosted by our pension professionals
- ✓ Get practical and personal with 1:2:1 sessions

Example client feedback:

"Jon's engaging explanations cut through the jargon and he was effective in getting our people to think about saving for their long term future." Finance Director, Jacopa

Remind:

because busy people forget

- ✓ Email or letter reminding employees of key considerations and next steps
- ✓ Private calendar reminder to ensure action is taken

Key tactic:

Don't be afraid to repeat yourself:

62% (of those earning £110k or more) want to be reminded on what they need to do (even if they don't respond)*



Punter Southall
Aspire

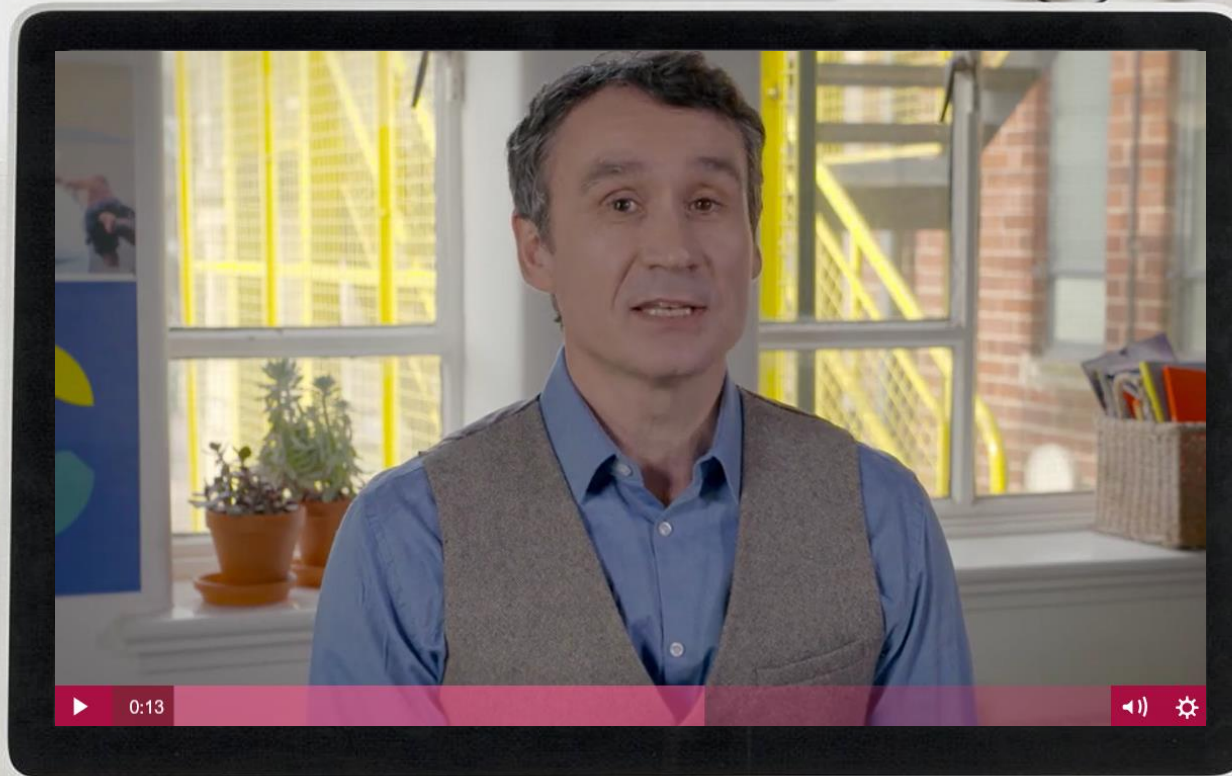


Example email and briefing note, [click to read](#).

Note:

This allows for **message hierarchy** whereby ('the carry forward 'opportunity) is communicated first and foremost, without additional detail diluting key message.

A key message is to consider taking financial advice if impacted.



Example learning module,
[click to watch.](#)

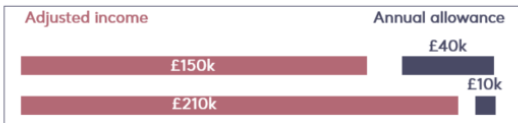
Note:

Everyone learns differently; some talk, some read, some watch. Alternative 'watch-able' solutions maximises your opportunity to engage with more people.

Tapered Annual Allowance

For every **£2** of **adjusted income** that exceeds £150,000,
£1 of **annual allowance** will be lost*

There is a minimum tapered annual allowance of **£10,000**



* Subject to a threshold income check

Targeted face to face presentations or 1:2:1's.

Note:

Face to face solutions open up a two-way communication between your employees and our professional pensions experts. This allows your employees to ask questions and ensure their understanding is correct.

Talk to us.

Our solutions are ready to go,
meaning you can easily respond quickly,
and provide valuable employee support.

Providing valuable employee support, at times that matter
#Knowledgeispower

This is based on our understanding of current legislation
(as at January 2019), which may change in future. It should not be
relied upon as detailed advice.