

Pension Legislation Update – Understanding the new tax treatment of pensions

The purpose of this communication is to outline the changes the Government is making to the tax treatment of UK pensions. The changes, which come into effect from 6 April 2011 and 2012, are mandatory for UK pension schemes and may influence how you save for retirement.

KEY ISSUES:

Annual Allowance

The Annual Allowance is the total value that can be paid into your pension arrangement(s) in any given year and still benefit from full tax relief at your marginal rate. Should the total value paid into your pension arrangement(s) exceed the Annual Allowance limit a tax charge, at your marginal rate, will be levied. The attached annex illustrates how this calculation is carried out.

With effect from 6 April 2011 the Annual Allowance, assessed over a twelve month Pension Input Period (PIP), will reduce from £255,000 to £50,000. The timing of the PIP can be different according to the scheme(s) to which you are a member. If you contribute to more than one scheme then you are subject to more than one PIP and must comply to each one to be eligible for full tax relief.

The PIP end dates for the various Thales pension arrangements are as follows:

The Thales UK Pension Scheme (TUPS): the PIP end date is 6 April.

The Thales UK Pension Savings Plan (The Legal & General Stakeholder Pension Plan): the PIP end date is determined by the day preceding the date that your first contributions were credited to the plan after 6 April 2006. Members can contact L&G for confirmation of the PIP end date that will apply to them.

The Railways Pension Scheme: the PIP end date is 5 April.

Each of the above pension scheme administrators will notify you of how much AA you have used during the PIP via your annual benefit statement.

Please be aware that you are responsible for monitoring your Pension Input against the new AA limit of £50,000, as any breach of the AA results in a personal tax liability.

Lifetime Allowance

The Lifetime Allowance is an allowance on the total value of pension benefits that you can build up tax-efficiently during your lifetime.

With effect from 6 April 2012, the value of your total pension savings will be assessed against the new Lifetime Allowance, which will be reduced from £1.8m to £1.5m. The Lifetime Allowance will take into account the benefits that you have built up in all pension schemes, not just your Thales pension. Benefits built up above the Lifetime Allowance will be subject to further taxation at retirement.

Finding out more

After considering the changes and any affects on your pension saving plans, you may wish to speak to an independent financial adviser to help decide what is best for you.

By law neither Thales nor the Trustees of the various Thales pension arrangements can give you financial advice. Details of **Independent Financial Advisers** (IFAs) can be found by contacting IFA Promotion Ltd:

Phone: 0330 303 0025

Website: www.unbiased.co.uk

After reviewing the sources of information suggested above, if you still have questions, you can contact the Thales Pensions Team:

If you have pension benefits with **The Thales UK Pensions Scheme**, please contact Xafinity Paymaster:

Phone: 01293 603060

Email: Thales@xafinitypaymaster.com

If you have pension benefits with **The Thales UK Pension Savings Plan**, please contact Legal & General:

Phone: 0845 070 8686 enter PIN 28 when prompted

If you have pension benefits with **The Railways Pension Scheme**, please contact RPMI:

Phone: 0800 2343434

APPENDIX 1

How is the Annual Allowance calculated for a Defined Benefit Scheme

In a Defined Benefit (DB) scheme, the Pension Input is the increase in your pension entitlement during any given year. This is calculated on two elements:

- **Revaluation of accrued benefit;** the amount your accrued benefits have increased during the PIP in excess of the Statutory Revaluation.
- **Pension accrued during the year;** this is the additional pension built up during the year.

The total of any increase in your pension entitlement is calculated against the AA such that for every increase in £1 of pension equals £16 towards the AA. For example, an increase in £100 of pension results in £1600 towards your AA.

Statutory Revaluation is currently measured using the Consumer Price Index (CPI).

How is the Annual Allowance calculated for a Defined Contribution Scheme

In a Defined Contribution (DC) scheme, which includes any DC Additional Voluntary Contributions paid by a member of a DB scheme, the Pension Input is the value of employee and employer contributions paid during any given year. Investment return is exempt from the total value used when calculating the Pension Input.

Examples of Annual Allowance calculations can be found on the HM Revenue & Customs website below:

<http://www.hmrc.gov.uk/pensionschemes/annual-allowance/examples.htm#8>

Primary and Enhanced Protection

Those who had pension benefits valued at £1.5m as at 5 April 2006, and applied to HM Revenue and Customs for protection on or before 6 April 2009, for either Primary or Enhanced Protection will continue to benefit from this protection.

If you would like further information on either Primary or Enhanced Protection, please click on the following HM Revenue & Customs link below:

<http://www.hmrc.gov.uk/pensionschemes/lifetime-allowance/protection.htm>

Transitional Rules

The Government has allowed any shortfalls against the new £50,000 AA from the preceding three years to be carried forward to reduce any possible tax charge. This provision means that those members that have Pension Inputs exceeding the AA may be able to increase their AA and reduce or eliminate any potential tax charge by carrying forward shortfalls from previous years.

Some individuals may have built up pension entitlement in excess of the £50,000 AA during their PIP ending in 2011/12. Under transitional rules, entitlements that were built up before 14 October 2010 will not be included in the Pension Input for the purpose of the new £50,000 AA.

During the transitional period, the Government has allowed those who may be affected by the change in LTA to protect themselves by applying for Fixed Protection. In order to benefit from the protection, you must cease accruing benefits and be treated as a leaver before the 5 April 2012.

For further guidance on Fixed Protected, please go to the following HM Revenue & Customs website:

<http://www.hmrc.gov.uk/pensionschemes/lifetime-allowance/savings.htm>

If I breach the Annual Allowance how is the tax charge collected

Any tax charge can be collected from the individual through their Self-assessment Tax Return. On 3 March 2011 the Government introduced a method called “scheme pays” that will help people meet any applicable tax charges. It is a mechanism by which the member can request their pension scheme to pay the AA charge on their behalf, by reducing pension their entitlement. This is only available to those whose AA tax liability exceeds £2,000 in any tax year.

If you think this may apply to you please contact your **scheme administrator**.