



Unilever UK pensions April 2011 pensions tax changes

Summary

From 6 April 2011, the Annual Allowance (the yearly amount of pension savings you can build up in registered pension schemes before a tax charge arises) reduced from £255,000 to £50,000. The value of any registered pension scheme savings (ie, tax approved pension savings) in excess of this Allowance will be taxed at the employee's marginal rate of income tax.

Note: It is a member's own responsibility to account for any tax due in their self-assessment tax return.

How will pension savings be valued against the Annual Allowance?

For defined benefit plans (for example, the Unilever UK Pension Fund Final salary or Career average plans), the value of the pension savings for Annual Allowance purposes will be the increase in the pension during the relevant pension input period (see below) multiplied by a factor of 16. This means that members of defined benefit plans can build up their pension by up to £3,125 (£50,000/16) each year tax efficiently. There will, however, be an adjustment for inflation to protect benefits built up in previous years, so in practice the level of tax efficient increase in defined benefit pension will be higher.

For defined contribution plans (for example, the Unilever Investing plan and other Unilever Additional Voluntary Contribution (AVC) plans), the value of the pension savings is the total contributions made by the member and their employer.

To calculate your total annual pension savings for Annual Allowance purposes, you will need to add together the contributions to your defined contribution plans and the value of the increase in your defined benefits across all the registered pension schemes of which you are a member

In addition, the Lifetime Allowance (the total amount of registered pension scheme benefits you can build up over your working life before a tax charge arises) is being reduced from £1.8 million to £1.5 million from April 2012. The government is introducing a facility for members who expect to have registered pension scheme benefits above £1.5 million to protect those benefits.

For further details on the changes please see Appendix 1.

Pension Input Period

Pension savings are measured against the Annual Allowance over a time period called the “pension input period” or PIP for short. The PIP for all the Unilever pension arrangements, including the Investing plan, is 1 April to 31 March. Please note that the PIP for the Unilever pension arrangements is not the same as the tax year. Also, if you are a member of any other non-Unilever pension arrangements, those pension arrangements may have different PIP dates. Your pension savings made during each PIP are measured against the Annual Allowance for the tax year in which that PIP ends.

How might the new reduced Annual Allowance affect you?

Generally, you will only be affected by the reduced Annual Allowance if, for example, you make significant voluntary contributions (to Unilever or non-Unilever registered pension arrangements); have long service in one of the Unilever defined benefit arrangements and receive significant future pay increases. Note: some Unilever employees are not building up pension benefits in a registered plan because, for example, they are already above the Lifetime Allowance or are working in the EU.

If you exceed the Annual Allowance in a pension input period, then it will be possible to use any unused Annual Allowance carried forward from the previous three tax years to offset the excess pensions savings. (This is measured at the reduced Annual Allowance rate of £50,000)

Please note, that if a member of the Unilever UK Pension Fund (UUKPF) builds up benefits in excess of the Annual Allowance over the pension input period, the member’s benefits will be restricted to the Annual Allowance under the Rules of the UUKPF. The Trustees, after consulting the Company and the member, will determine how the benefits will be restricted.

Examples

Please see Appendix 2 for details of how two different members of the Fund would be affected by the new reduced Annual Allowance.

Further information

If you have any questions on this, please contact the Expert Administration Team on 01372 945688 or via email at: expertadminteam@unilever.com.

Remember that no-one involved in running the Fund can give you individual financial advice. Please consider taking independent financial advice if you need help with any decisions about your finances. This website, run by IFA promotion, can help you find an independent financial adviser in your area: www.unbiased.co.uk.

This leaflet confers no rights to benefits. Rights to benefits are conferred solely on the terms and subject to the conditions of the Unilever UK Pension Fund Trust Deed and Rules as from time to time in force.

This document also contains references to the Trustees. These are the Directors of the Unilever UK Pension Fund Trustees Ltd.

Anything in this leaflet about legal or tax issues is based on Unilever's understanding of these issues at the date of issue. Any changes in the laws or HM Revenue and Customs may affect this information.

Appendix one:

Background to the changes

In the Emergency Budget on 22 June 2010, the Chancellor announced a review of the changes to pensions taxation set out by the previous Government in the Finance Act 2010, to take effect from April 2011.

The new Government stated that it will continue with plans to restrict pensions tax relief for certain, generally higher paid, individuals, and still wishes to raise revenue from these restrictions. However, it felt that the previous Government's approach could have "unwelcome consequences for pension saving" and was therefore looking to replace that approach with an alternative.

The 14 October and 9 December 2010 announcements

On 14 October 2010 the Government announced details of the changes to pensions tax relief, to start from April 2011. Further proposals and guidance were released on 9 December 2010. The key changes to the pension tax changes announced are outlined below:

Annual Allowance

- The Annual Allowance (the yearly amount of registered pension scheme savings you can build up before a tax charge arises) has been reduced. From April 2011 the Annual Allowance will be £50,000 (reduced from £255,000). This will be fixed until at least 2015/16.
- Where individuals exceed the Annual Allowance in a given year, unused Allowance from up to three previous years (calculated at the reduced rate of £50,000) will be available to offset against the excess pensions savings.

Tax charge

- Pension savings in excess of the Annual Allowance will be taxed at an individual's marginal rate of tax.
- Pension savings are measured over a pension input period, which may be different for different registered pension schemes. (The pension input period for all Unilever pension arrangements is 1 April to 31 March.) Pension savings are assessed against the Annual Allowance for the tax year in which a pension input period ends.
- The intention is to collect any additional tax payable by individuals via self-assessment each year (more details are to be provided by the Government in the coming months).

- It should be noted, however, that if Unilever UK Pension Fund benefits built up over the relevant period exceed the Annual Allowance, Fund benefits are automatically restricted so that they remain within the Annual Allowance.

Value of defined benefit pensions

- Defined benefit pensions (like the UUKPF's Final salary and Career average plans) will be valued at a rate of 16:1 for Annual Allowance purposes, regardless of the member's age or sex. This means that if a member builds up £1,000 of additional pension this would be deemed to be worth £16,000 (against the Annual Allowance).
- The defined benefit pension savings that count towards the Annual Allowance are assessed by comparing the value of the pension built up as at the end of a pension input period with the value of the pension accrued at the start of that period (adjusted for inflation) and multiplying that figure by the 16:1 rate referred to above. Note however that inflation protection for past service benefits is capped at the rate of inflation as measured by the Consumer Prices Index in the September preceding the relevant tax year.

Value of defined contribution pensions

- The value of pension savings in defined contribution pension schemes (like the UUKPF's Investing plan) is simply the amount of contributions made during the year by a member and their employer.

Lifetime Allowance (LTA)

- From April 2012 the standard Lifetime Allowance on registered pension scheme savings that can be built up tax-efficiently will be £1.5 million (reduced from £1.8m in 2011/12).
- Existing enhanced and primary protection provisions will be retained in relation to the LTA.
- For those with no existing protection, but who expect the value of their registered pension savings at retirement to exceed £1.5 million, they may be able to apply for a new type of protection, to be known as fixed protection. This will allow them to keep the LTA of £1.8 million, provided they do not build up any further registered pension scheme savings after 5 April 2012.

Appendix two - examples:

Member A

At the start of the 2011/12 pension input period, Member A has 10 years' service in the Final salary plan and had pensionable earnings of £190,000 over the previous 12 months. At the start of the pension input period, Member A has built up a pension of £31,036.17 a year in the Final salary plan.

This is worked out as follows:

$$(10/60 * £190,000) - (10/80 * £5,044) = £31,036.17$$

(Note: the way in which your Final salary plan pension is worked out is explained in more detail in the Final salary plan guide, or at www.uukpf.co.uk.)

By the end of the 2011/12 pension input period, Member A's pensionable earnings over the previous 12 months have increased to £195,000, and they now have 11 years' pensionable service.

The additional pension Member A has built up by the end of that pension input period is therefore £35,020.70.

$$(11/60 * £195,000) - (11/80 * £5,304) = £35,020.70$$

The pension that Member A built up to the start of the 2011/12 pension input period is also 'protected' by an adjustment for inflation during that year. For the purposes of this example, we have assumed inflation to be 2%.

So to work out the amount of pension built up during the pension input period for Annual Allowance purposes:

Calculate the pension built up to the start of the pension input period as adjusted for inflation:

$$£31,036.17 * 1.02 = £31,656.89$$

Calculate the difference between the pension built up at the end of the pension input period and the pension from the start of that period (as adjusted for inflation):

$$£35,020.70 - £31,656.89 = £3,363.81$$

Calculate the "value" of the pension built up during that period. (As a reminder, the Government has set a fixed rate of 16:1 for valuing defined benefit pensions):

$$\text{£3,363.81} * 16 = \text{£53,820.96}$$

As the pension savings made during the pension input period are over the £50,000 Annual Allowance, the excess £3,820.96 would normally incur a tax charge at the member's marginal rate of tax. However, the Rules of the Unilever UK Pension Fund, restrict benefits built up in the pension input period to the amount of the Annual allowance. The Trustee, after consulting the Company and the member, will determine how the benefits will be restricted.

In reality, it may be that Member A is able to carry over unused Annual Allowance from the previous three tax years. Note: although the reduced Annual Allowance only took effect from 6 April 2011, the Annual Allowance over the previous three tax years is deemed to have been £50,000 in each year for the purposes of calculating any unused Annual Allowance to carry forward.

Effect of no pay increase:

If Member A had **not** had a pay increase during the 2011/12 pension input period, the value of the additional pension built up over the pension input period would not exceed the reduced Annual Allowance. The revised calculation would be as follows:

The pension built up by the end of the 2011/12 pension input period would now be £34,104.03.

$$(11/60 * \text{£190,000}) - (11/80 * \text{£5,304}) = \text{£34,104.03}$$

The pension built up to the start of the pension input period (as adjusted for inflation) remains £31,656.89.

So the Annual Allowance calculation is as follows:

Calculate the difference between the pension built up at the end of the pension input period and the pension from the start of the pension input period (as adjusted for inflation):

$$\text{£34,104.03} - \text{£31,656.89} = \text{£2,447.14}$$

Calculate the "value" of the pension built up during that period for Annual Allowance purposes by applying the valuation rate of 16:1:

$$\text{£2,447.14} * 16 = \text{£39,154.24}$$

As the pension savings made during the pension input period are under the £50,000 reduced Annual Allowance, no tax charge is payable (or restrictions on benefits are necessary) in that pension input period.

Please note, this example assumes Member A is not making pension savings in any other registered pension arrangements. If they were, their total pension savings across all their registered pension arrangements would have to be assessed against the Annual Allowance.

Member B

At the start of the 2011/12 pension input period, Member B has 10 years' service in the Final salary plan and had pensionable earnings of £90,000 over the last year. Member B also makes voluntary contributions to the Investing plan (the Fund's defined contribution arrangement) of £5,000 a year.

At the start of the pension input period, Member B has built up a pension of £14,369.50 a year in the Final salary plan.

This is worked out as follows:

$$(10/60 * £90,000) - (10/80 * £5,044) = £14,369.50$$

By the end of the 2011/12 pension input period, Member B's last year's pensionable earnings have increased to £100,000, and they now have 11 years' pensionable service.

The additional pension Member B has built up by the end of that pension input period is therefore £17,604.03.

$$(11/60 * £100,000) - (11/80 * £5,304) = £17,604.03$$

The pension that Member B built up to the start of the 2011/12 pension input period is also 'protected' by an adjustment for inflation during that year. For the purposes of this example, we have assumed inflation to be 2%.

So to work out the amount of pension built up during the pension input period for Annual Allowance purposes:

Calculate the pension built up to the start of the pension input period as adjusted for inflation:

$$£14,369.50 * 1.02 = £14,656.89$$

Calculate the difference between the pension built up at the end of the period input period and the pension built up at the start of that period (as adjusted for inflation):

$$£17,604.03 - £14,656.89 = £2,947.14$$

Calculate the "value" of the defined benefit pension built up during that period for Annual Allowance by applying the valuation rate of 16:1:

$$£2,947.14 * 16 = £47,154.24$$

Finally, to calculate Member B's total pension savings to be assessed against the Annual Allowance, we need to take into account their Investing plan contributions as well as the value of the Final salary plan pension they have built up:

Final salary plan pension savings of:	£47,154.24
Investing plan contributions of:	£5,000
Total pension savings:	£52,154.24

As Member B's total pension savings during the pension input period exceed the Annual Allowance, the excess of £2,154.24 would normally incur a tax charge at the member's marginal rate of tax. However, under the Rules of the UUKPF, the benefits built up over the pension input period are restricted to the Annual Allowance. The Trustees, after consulting the Company and the member, will determine how the benefits will be restricted.

In reality it may be that Member B is able to carry over unused Annual Allowance from the previous three tax years. Note: although the reduced Annual Allowance only took effect from 6 April 2011, the Annual Allowance over the previous three tax years is deemed to have been £50,000 in each year for the purposes of calculating any unused Annual Allowance to carry forward.

Please note, this example assumes Member B is not making pension savings in any other registered pension arrangements. If they were, their total pension savings across all their registered pension arrangements would have to be assessed against the Annual Allowance.