



A guide to understanding & tackling Pension Allowances

Pension Allowances can be a tricky subject for your members to get their heads around. Nobody wants to be stung with an unexpected tax charge, especially when it could be avoided. Learn the rules and how to communicate them to your members.

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Annual Allowances can be a tricky subject for your members to get their heads around. **Nobody wants to be stung with an unexpected tax charge, especially when it could be avoided.**



DAVID PUGH
Lemonade Reward Managing Partner

PENSION ALLOWANCES

What are the rules?

One of the key benefits of saving into a pension scheme is that you receive tax relief. However, there are limits on the amount of tax relief you can get and these are the pension allowances.

PENSION ALLOWANCES ARE BROKEN DOWN INTO TWO MAIN AREAS

Annual Allowance

£40,000

This is currently the maximum you can pay into a pension each year and get tax relief.

Lifetime Allowance

£1,073,100

This is currently the total amount of money you can have saved into pensions over your lifetime without incurring a tax charge.



A background image showing two women sitting at a table, looking down at documents. The woman on the left is wearing glasses and a white blazer, while the woman on the right is wearing a blue blazer. The image is slightly blurred and has a soft, warm light overlay.

ANNUAL ALLOWANCE

The impact on your high-earners

The rules will not affect the vast majority of workers. However high earners will certainly be impacted.

The reason for this is that once your income goes over a certain amount, your Annual Allowance starts to fall or 'Taper'. [Find out more about Tapering](#)

Your average worker will not be affected by the Lifetime Allowance, but those who have high incomes and have been generously contributing into their pension scheme for years may well do.

The 2020 increases were introduced in an effort to support health consultants and GP's, which also benefits other high earners.

ANNUAL ALLOWANCE

Incomes & Earnings

A key element of Annual Allowance rules is the person's earnings. There are two definitions of earnings you need to be aware of:

THRESHOLD INCOME

Identifies who could have their Annual Allowance reduced.

ADJUSTED INCOME

Is used for the actual calculation.

Adjusted income covers all pension contributions, meaning a person cannot simply sacrifice their salary or bonus payments for pension contributions to avoid the restriction as they will still fall within the high earner bracket.

Workforce Checklist

Here's a simple checklist to see if any of your employees are at risk. If you answer 'yes' to the below you'll need to help them take action!

- Do we have any employees earning over £200,000?
- Do we have any employees who are over or approaching the Lifetime Allowance limit?



ANNUAL ALLOWANCE

What is Tapered Allowance?

Once your employees reach certain income levels, their allowance will start to drop down.

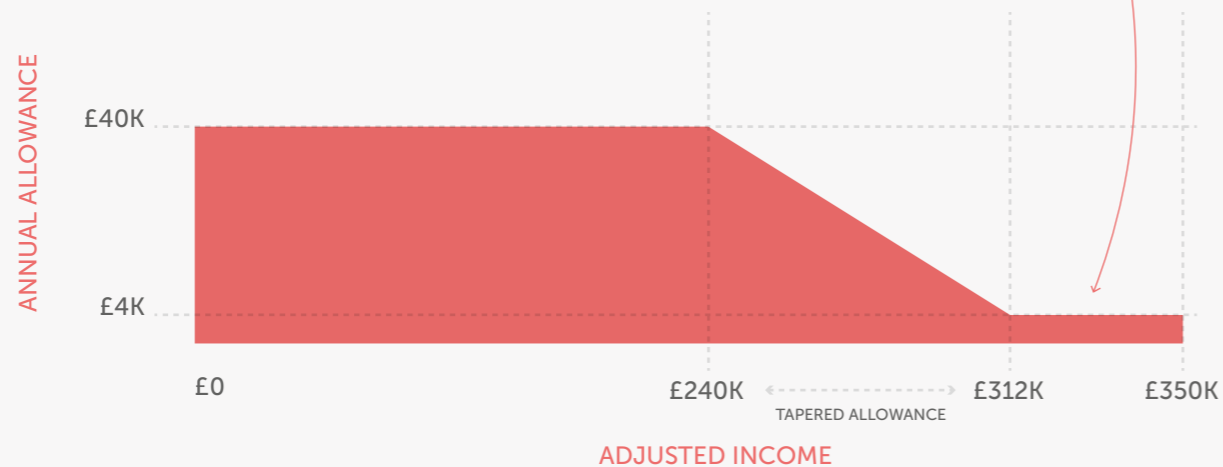
The Annual Allowance is £40,000, but this figure drops down to a minimum of £4,000. So for every £2 you are over the income threshold, your allowance drops by £1.

Threshold income
£200,000+

Adjusted income
£240,000+

Sound complicated?

See the graph below for an illustration of how the allowance tapers down.



* This graph is not to scale and is created as a visual aid for understand the pension Annual Allowance rules

WHO MIGHT BE CAPTURED...

You may think that an employee with a £180k salary is outside of the scope of the rules and hence will receive his full £40k allowance.

Unfortunately it isn't that simple

Here is where the definitions of income come into play. Even though his salary is indeed below the limits, we need to look at his adjusted income and it might surprise you.



Example of John's Annual Allowance

Salary	£180,000
YOU MIGHT THINK JOHN IS OK WITH THIS SALARY LEVEL	
Employer Pension	£27,000
Annual Bonus	£53,000
P11d Benefit in Kind	£4,000
Rental income	£26,000
TOTAL	£290,000
TAPERED ALLOWANCE	£15,000
TAX CHARGE	£5,400

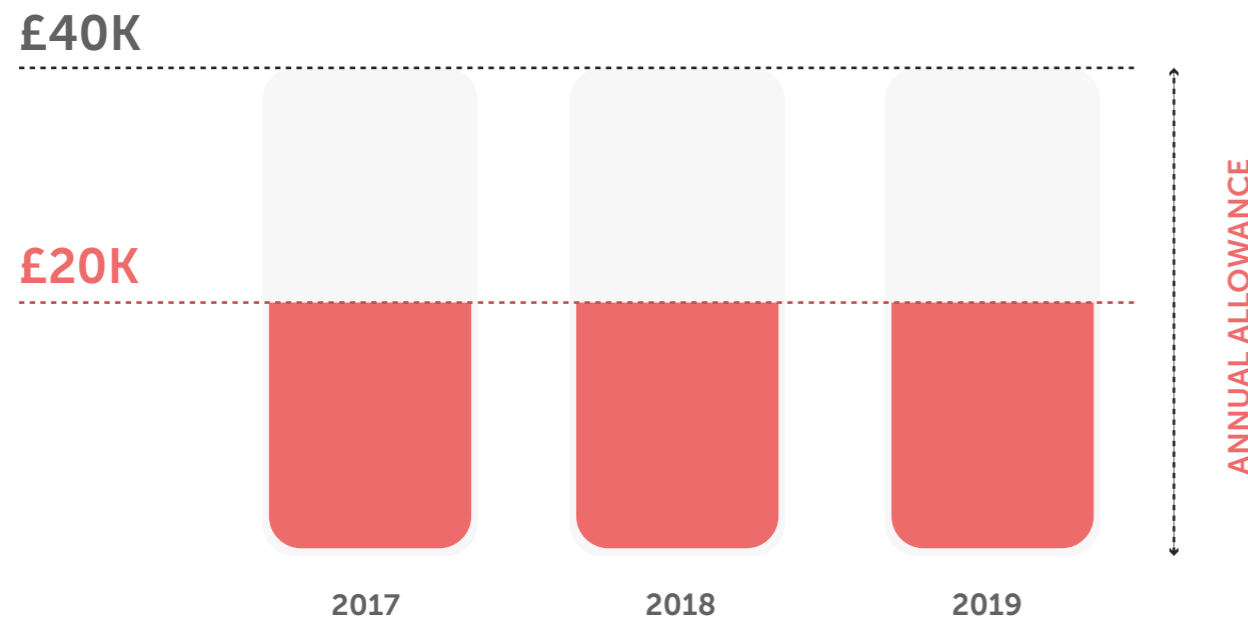
ANNUAL ALLOWANCE

Carry Forward: Utilising unused allowances

If one of your high earners is facing a tax charge then Carry Forward may help.

This is where they can utilise any unused allowances from the last 3 tax years.

Here is an example of what Lucy can do, her last 3 tax year contributions are below and her calculation is opposite.



Example of Lucy's Carry Forward

Salary (at April 2020)	£312,000
TAPERED ALLOWANCE	£4,000
<hr/>	
2019 Pension payment	£20,000
2019 Available allowance	£20,000
2018 Pension payment	£20,000
2018 Available allowance	£20,000
2017 Pension payment	£20,000
2017 Available allowance	£20,000
<hr/>	
Available Carry Forward	£60,000
AMOUNT LUCY CAN CONTRIBUTE	
(tapered allowance + previous unused allowance)	£64,000
TAX CHARGE (IN 2020)	£7,200

LIFETIME ALLOWANCE

What about the Lifetime Allowance?

Lifetime Allowance rules might seem straightforward but things become complicated when people have multiple saving pots.

Currently the limit is £1,073,100 and those who take their benefits will get taxed on the amount above at a rate of 55%.



Example of Mo's Lifetime Allowance

Total Pension Value (DB & DC)	£1,200,000
Lifetime Allowance	£1,073,100
Taxable excess	£126,900
Taxed at 55%	£69,795*

(*This could be less depending on how you withdraw the excess in retirement)

*In the case of DB Pensions, you multiply the annual pension by a factor of 20.



How to help your high earners Develop your strategy

In order to effectively help your high earners avoid an unwanted tax charge you need to look into the following areas:

1

IDENTIFY

The first step is to segment your audience and identify who is likely to be affected by either of the rules.

Your employees will broadly fit into 3 categories:

1. **Unaffected**
2. **Potentially effected**
3. **Definitely effected**

From then we want to focus our efforts on categories 2 & 3, while still informing category 1 but they are less of a concern.

2

CALCULATE

Once you have identified those who are affected, you have 2 options:

1. **You** conduct an assessment
2. You ask the **employee** to conduct a self assessment

As you have seen in the previous pages, income can consist of elements which fall outside of the workplace such as individual investments, which will largely be unknown to employers. Hence it may be a quicker exercise to ask your high earners to conduct a self assessment.

3

COMMUNICATE

Due to the complex nature of the allowance rules, you need to carefully communicate to your members of staff.

They need to know:

- **Whether they are affected**
- **What their options are**
- **When the deadline is to make a change**

We would all like to send a blanket email and for members of staff to take action but unfortunately this is seldom the case. We would recommend a thorough communication campaign to ensure your high earners are well informed.

4

ACTION

Each company will have a different solution for their high earners, but whatever you choose to do, you'll need to allow enough time to action those changes before the end of the tax year.

This is particularly critical if employees have unused allowances from previous tax years as once they go into a new tax year, they lose their allowance from 3 years ago.



How we can help you

There's no doubt about it, pension allowances are tricky rules to understand for even the most seasoned pensions professional, let alone the end user who is most likely uninformed to begin with.

We set out to create a solution that takes the load off both the employer and the employee, we removed the jargon and look to engage through simplicity.

We do this by breaking our solution down into four main areas:



ONLINE PORTAL

Our online self-service portal allows the user to enter financial information and see if they are likely to be affected by the allowance limits. If they are affected, we let them know what actions can be taken and signpost them accordingly.

[Learn more](#)



COMMUNICATON

We deliver targeted communications through email, videos, SMS, print and much more - ensuring all your members are aware of their situation.

[Learn more](#)



ADVICE

Our Qualified FCA regulated advisers are ready to run face to face member presentations, helping your members avoid a hefty tax bill by arming them with advice and knowledge.

[Learn more](#)



MANAGEMENT

We can implement and manage an annual allowance portal quickly for a fixed cost. You get a dedicated project manager to ensure smooth operation, with monitoring and reporting to gain meaningful MI.

[Learn more](#)

HOW WE CAN HELP

Simply plug in our Self-assessment portal

Our online self-service portal allows the user to enter financial information and see if they are likely to be affected by the allowance limits. If they are affected, we let them know what actions can be taken and signpost them accordingly.

The portal hosts:



EXPLAINER VIDEOS

helping your employees to understand the rules for themselves



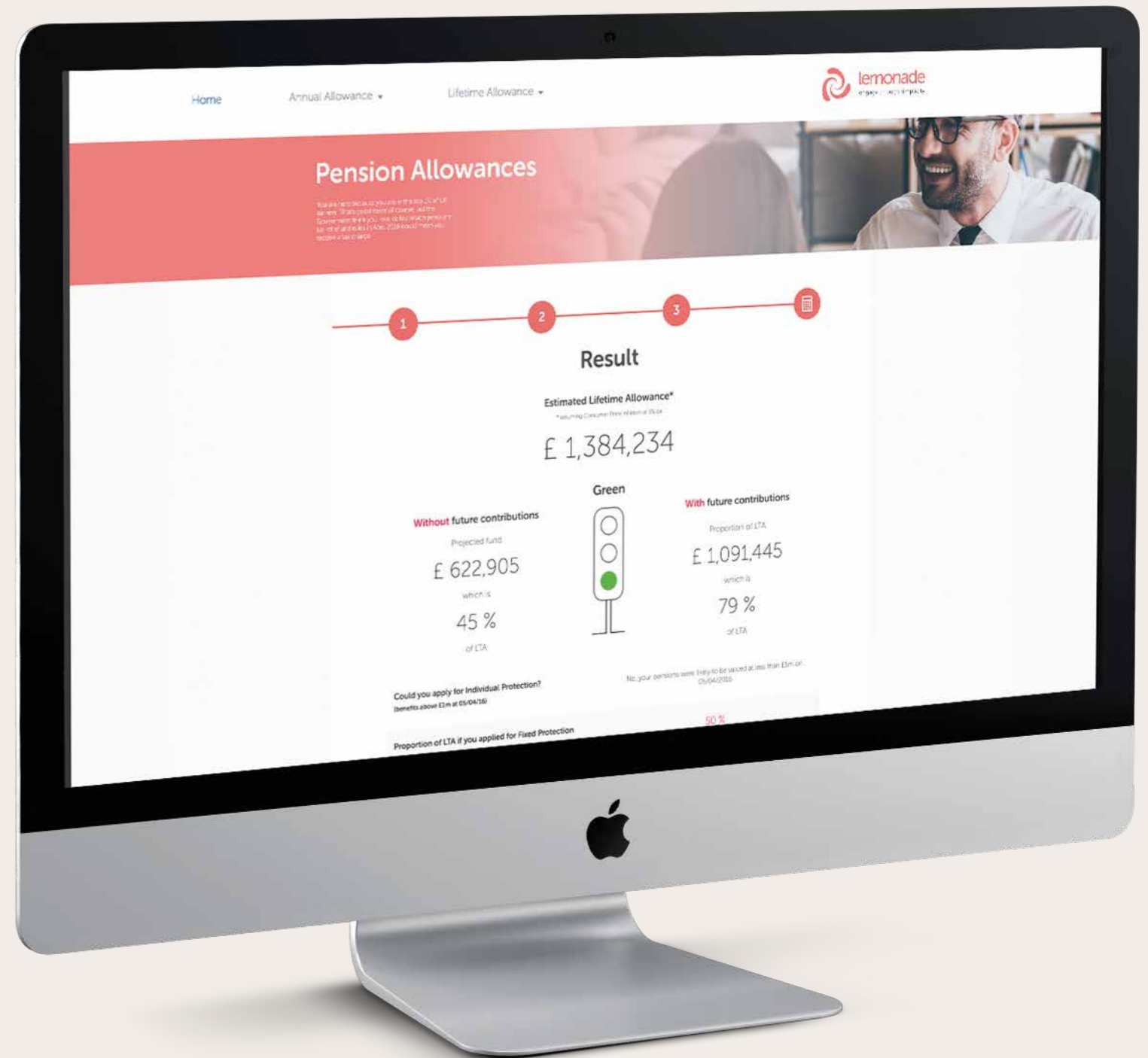
IN-DEPTH CALCULATORS

helping your employees to self assess their current situation



SIGNPOSTS TO HELP

helping your employees to action any change necessary



HOW WE CAN HELP

Communication campaigns

We pride ourselves on designing innovative, creative and engaging communication campaigns that engage members. It's all about standing out and that's what we specialise in. We deliver targeted communications through email, videos, SMS, print and much more - ensuring all your members are aware of their situation.

A well structured communication campaign will not only inform your members about the rules, but also signpost them to useful information for them to complete a self assessment.

PHASE 1 - Inform members about the rules

PHASE 2 - Segmented comms depending on their initial assessment

PHASE 3 - Final reminders

WE TALK LIKE REAL PEOPLE

This doesn't mean we dumb things down or oversimplify, we're still concise, passionate and forward thinking. Instead, we cut down on the pension jargon and connect with people like we're talking face-to-face. We want to engage on a personal, not a corporate, level.



HOW WE CAN HELP

Get **trusted**, qualified financial advice

Often we find that high earners are happy to complete a self assessment but then want to speak with an adviser for peace of mind - we understand that.

Our qualified FCA regulated advisers are ready to run face to face member presentations, 1-1 meetings or conference calls to put your employees' worries at ease.



Excellent service!

Lemonade have provided me with an invaluable service advising on my company pension over the past 15 years. Their expertise and professionalism was second to none and I have complete trust in their advice and direction on investments and future planning for retirement. I would not hesitate to recommend them to anybody!



I thought the advice was first class...

I thought the advice was first class Matthew was very knowledgeable and certainly helped me understand the pension statement and the best way of approaching the future. Thank you very much and hope that the partnership continues with the relationship.



Fantastic pension guidance and support

The Lemonade team were outstanding explaining the intricacies of smart pension planning to meet my needs. Approachable, friendly and always on hand to answer on-going questions and provide ad hoc advice above and beyond the day-to-day. In short, great service and support.



A great service with a patient, informed and very helpful tone!

A great service. My conversation with Matthew was clear, informed, patient and very useful! I have made a number of changes to my benefit off the back of it, would definitely recommend anyone that can to make use of the service.



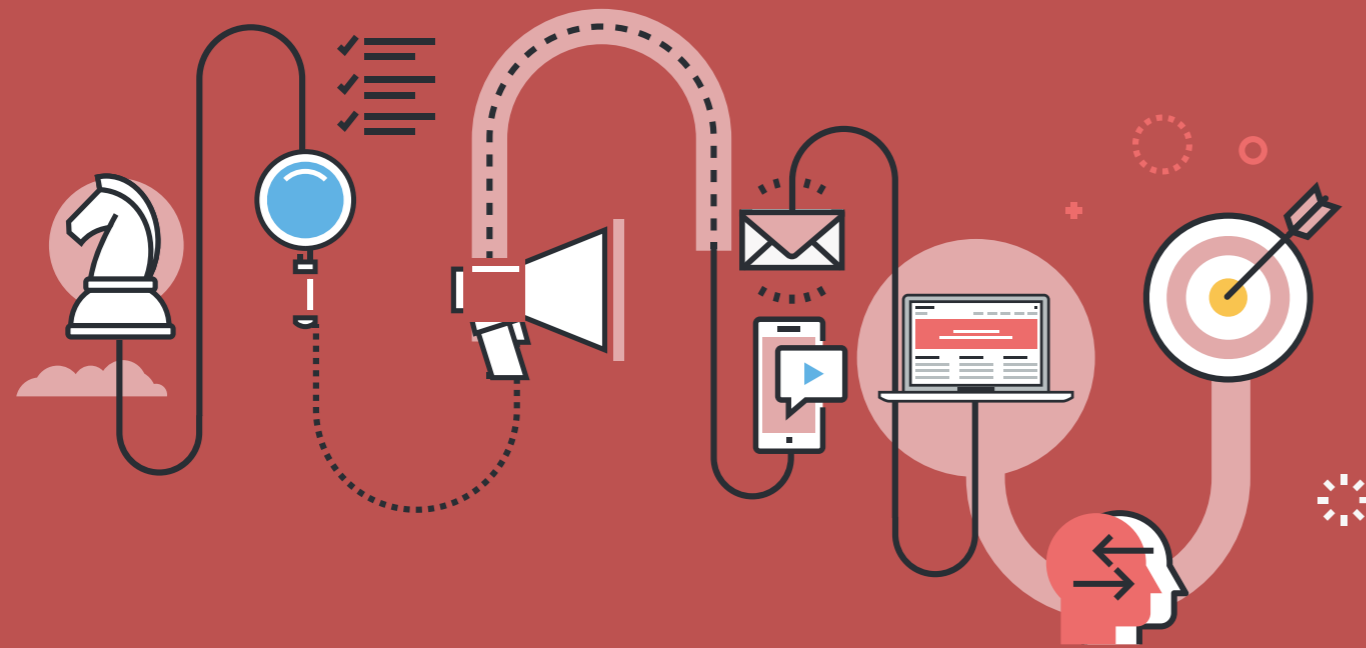
HOW WE CAN HELP

We can support you by managing the whole process

The very nature of pension allowances projects are time critical due to the April end of financial tax year. This is why we have developed our solution to need a very light touch from the corporate account we are working with. Removing the stress and giving you your precious time back.

We will keep you informed throughout the project with bi-weekly catch up calls with your dedicated account manager.

At the end of the project we will provide you with key management information to assess how successful the project has been.



EMPLOYEE OVERVIEW

How many have fallen within scope of the allowance rules.

WEBSITE ENGAGEMENT

How much traffic your website had, who used the calculators, how many watched the videos etc...

EMPLOYEE CALCULATIONS

How many calculations were performed, including carry forward calcs.

COMMUNICATION ANALYSIS

Email interaction rates such as opens, clicks, replies etc... as well as offline materials such as QR code scans.

HELPLINE

How many calls & emails the helpline received (minimising impact on HR/pension managers)

Most importantly, we will show you how much you have saved your high earners in unexpected tax bills - something we are sure they will be most appreciative of!

NEXT STEPS...

It can be overwhelming... here's how to get help.

Lemonade Reward is an employee benefits consultancy specialising in workplace pensions. Our Money Mentors are set up to help HR executives formulate a plan that works for your company.

You can chat with us and get any pension advice you need by giving David a call:



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