

Important - Pensions Lifetime Allowance

Recap on Lifetime Allowance:

The Lifetime Allowance is the total value your pension savings from all sources can reach at retirement and be paid out tax efficiently. Generally, if the total value of your pension benefits from all sources (not just the ITB Scheme) is more than the Lifetime Allowance, you will be taxed on the excess. If your pension from the ITB Scheme takes you over the Lifetime Allowance, then the ITB Trustees will recover this tax from cash in exchange for part of your pension at retirement. The current rate of tax on pension savings over the Lifetime Allowance is 55%.

What is changing?

From 6 April 2012 the Lifetime Allowance will reduce from the current £1.8 million to £1.5 million.

There is an opportunity, up to that date, for a member who might be affected by this, to apply to HMRC for "fixed protection" which will allow that member to retain the current Lifetime Allowance of £1.8m. **Applications for fixed protection must be made on or before 5 April 2012.**

Once fixed protection has been granted, it will be lost if "benefit accrual" occurs at any time after 5 April 2012. This means that pension and lump sum rights under defined benefits arrangements, like the ITB Scheme currently is, cannot grow by more than the annual percentage increase in the Consumer Prices Index (CPI) over the 12 months to the previous September and no further contributions can be made to a defined contribution arrangement.

Note that the test for "benefit accrual" is an ongoing, day-by-day test – it is not just tested at the tax year end or any other fixed date.

Your current Lifetime Allowance position – ITB Scheme pension

You are able to complete some estimates of your ITB Scheme Lifetime Allowance by using the MyITB modeler on www.myitb.com

The modeler broadly assumes your Pensionable Salary increases between now and retirement from the ITB Scheme by 3% pa, which may or may not be the case and that you remain an active member of the section of the ITB Scheme in which you participate. If your Pensionable Salary increases at a different rate or if you switch sections or leave pensionable service, then that will impact your Lifetime Allowance position.

The ITB Scheme estimates take no account of any pension savings you may have outside the ITB Scheme. Such pension savings also need to be taken into account when assessing your position with respect to the Lifetime Allowance. The MyITB modeler will also allow you to add in the Lifetime Allowance value of other benefits accrued outside of ITB in order to arrive at an overall broad estimate of the £1.5 million Lifetime Allowance.

The majority of ITB members should not be affected by this change in the Lifetime Allowance as, generally, to exceed the new Lifetime Allowance of £1.5m will require an individual to be

entitled to pensions from all sources totalling greater than around £75000 per annum (before exchanging any pension for a cash sum at retirement).

The government has announced that the Lifetime Allowance will remain at the £1.5m level at least for the lifetime of the current parliament. However, after the 2015/16 tax years there is no indication of what is likely to happen.

Can I protect myself from the change in the Lifetime Allowance?

If you expect your pension savings overall (under the ITB Scheme and any other pension arrangements you may have) to be more than £1.5 million at any time on or after 6 April 2012 you may be able to register with HM Revenue & Customs (HMRC) for a special form of protection, called fixed protection, which will allow you to maintain the current pre 5 April 2012 Lifetime Allowance of £1.8m.

If I apply for Fixed Protection can I continue to accrue pension in the ITB Scheme after 5 April 2012?

You may be able to continue to accrue pension but you will lose fixed protection if your ITB pension goes up in a year by more than the annual percentage increase in the CPI for the month of September in the previous tax year. If your benefit accrual under the ITB Scheme exceeds that increase, you will lose fixed protection.

You will also lose fixed protection if you make further contributions into a defined contribution arrangement, such as a personal pension plan or an additional voluntary contribution scheme (AVC), or start or open new pension arrangements. If you do lose fixed protection, you must inform the HMRC. You will also face certain restrictions on when and how you may transfer existing pension benefits.

What about opting-out of the ITB Pension Funds in order to register for Fixed Protection?

You may conclude that in order to elect for fixed protection you need to opt-out of the ITB Scheme but you will need to take independent financial advice on this as opting-out of the Scheme is not a decision to be taken lightly. You would need to consider the benefits you would forgo against any advantage gained by having a higher Lifetime Allowance.

By opting-out you would no longer be an active member of the ITB Funds and therefore accrue no further pensionable service in the Scheme. Effectively, you would become a deferred member, which would adversely impact your spouse's pension accrual and life assurance cover under the Scheme and also any disability pension benefits (the latter depends on whether this benefit is available to you under your section of membership).

If you do decide that it is necessary for you to opt-out of the ITB Scheme you must ensure that your opt-out form is received by the Trustees on or before 5 April 2012. [The Trustees have agreed that for those seeking fixed protection, they will waive the normal requirement to give a month's notice to opt-out of the Scheme.]

How will Fixed Protection work in practice?

Much will depend on individual circumstances. Please see the attached appendices that provide two examples of how fixed protection works.

What happens when fixed protection has been lost?

Once fixed protection is lost, all subsequent events that result in the payment of a benefit to you from a registered pension scheme are tested by reference to the prevailing standard lifetime allowance.

Is Fixed Protection suitable for me?

Because of the level of the Lifetime Allowance, fixed protection will not be necessary for the vast majority of active ITB Pension Scheme members and it all very much depends on individual circumstances, such as the age you plan to retire and how close you are to your planned retirement date, as well as how near you are to the new £1.5m Lifetime Allowance based on your pension from all sources, not only the ITB Scheme.

Generally speaking it means that fixed protection is normally only suited to those with significant pension pots and decisions about applying for fixed protection should be taken very carefully.

For most this can prove to be a very complex area and whilst wishing to save paying tax on any excess pension may be important to you it is not the only factor in making your retirement planning decisions. It is only by understanding all of your options and your current pension position will you be able to make an informed decision. Unfortunately, there is no 'rule of thumb' applicable when it comes to fixed protection and it is recommended that you should seek guidance from a financial adviser who specialises in this area of pensions.

Financial Advice

The Funds' Office is not registered to give financial advice and if you feel you are likely to be affected by the change in the Lifetime Allowance you should seriously consider taking independent financial advice from an adviser who specialises in this area of pensions.

You may find the following websites helpful.

IFA Promotions: www.unbiased.co.uk

If you would like to explore the Lifetime Allowance position more for yourself the following HMRC site is informative:

HMRC website: www.hmrc.gov.uk/pensionschemes/lifetime-allowance

The form to apply for Fixed Protection: www.hmrc.gov.uk/pensionschemes/apss227.pdf

| We hope you find this note helpful.

ITB PENSION FUNDS' OFFICE