Pension taxation changes

Barratt Group Pension and Life Assurance Scheme

August 2011

Changes to the amount of pension savings that you can make and benefit from tax relief have now been passed in legislation. This leaflet summarises the changes and contains important information for members who may be affected by the new rules.

Summary

- The complicated "anti-forestalling" rules which had been in place prior to April 2011 and communicated previously no longer apply.
- You can save up to £50,000 each year into your pension fund tax free (the annual allowance).
- From April 2012 you can save up to £1.5 million into your pension fund, tax free over your lifetime (the lifetime allowance). The previous lifetime allowance was £1.8 million.
- If you are affected by the reduction in the lifetime allowance **you have until 5 April 2012 to apply for fixed protection** and retain a lifetime allowance of £1.8 million, subject to conditions.

Tax charges apply if you exceed either the annual allowance or the lifetime allowance limits. If you are likely to approach either of these limits you should read this leaflet carefully. There are things you can do to avoid or reduce any charges you might face. We explain what these are over the page.

It is important that you seek independent financial advice before making any changes to your pension arrangements. A list of regulated advisers can be found at www.unbiased.co.uk. Depending upon the arrangements you agree with your independent financial adviser you may have to pay for the advice provided.

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Annual allowance

Overview

The annual allowance is the maximum amount that can be saved into your pension in any year without incurring a tax charge. It includes contributions to all registered pension arrangements including the Barratt Group Pension and Life Assurance Scheme – Money Purchase Section (the Scheme).

The annual allowance is now £50,000. Any contributions over this limit will be treated as income and taxed at your marginal rate of tax. You will continue to receive full tax relief at source on pension contributions up to the annual allowance.

If you have not exceeded the £50,000 annual limit in the previous three years (i.e. from 2008/09, 2009/10 and 2010/11) you can carry forward the unused annual allowance. (i.e. the unused carry forward from 2008/09 tax year must be used in the 2011/12 tax year).

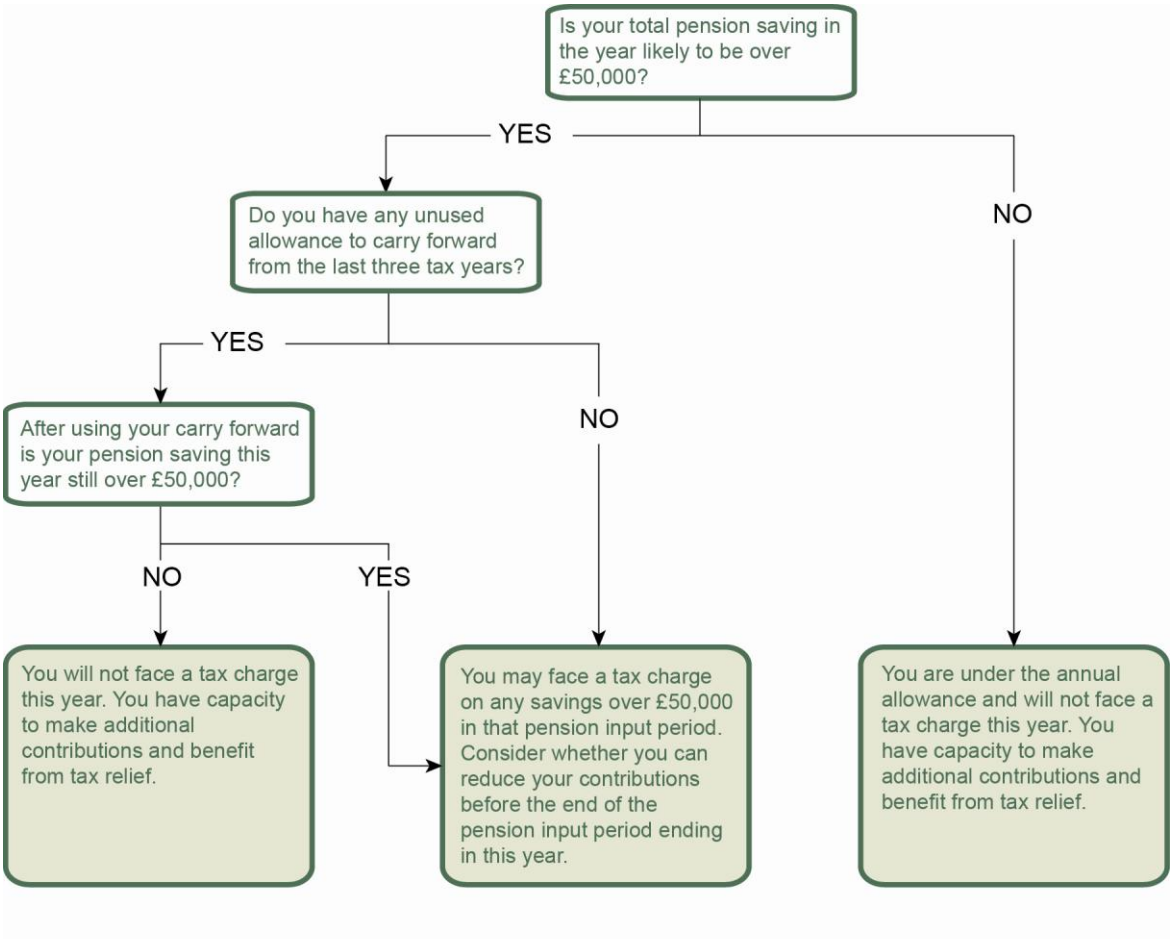
The Pension Input Period

To work out whether you exceed the annual allowance limit, your pension savings are looked at over a period known as the Pension Input Period (PIP). Your PIP in the Scheme is 1 December to 30 November unless you have previously nominated a different PIP with the administrators. For any tax year the relevant PIP, is the PIP ending in that tax year.

You will find the value of your Defined Contribution (DC) benefits on your annual benefit statement. If you built up any benefits in the Defined Benefit (DB) scheme during any of the above periods, contact Mercer (see page 4) for the value of your benefits for annual allowance purposes.

If you have been a member of any other pension arrangements in the last three years you will need to check the level of pension saving and the PIP that applies as they form part of your annual allowance.

How do these changes affect me?



Taking action

Take the following steps:

1. Confirm your PIP (1 December to 30 November unless you nominated an alternative)
2. Know the value of your DC benefit (from your annual statement)
3. Know the value of any DB benefit (from Mercer)
4. Know the PIP and benefit value of any additional Pension arrangements you may have
5. Assess your position and seek independent financial advice if necessary

If you wish to make additional personal contributions to benefit from unused annual allowance for past three years you can do this in a number of ways:

- Pay a lump sum personal contribution
- Waive any bonus payment in exchange for extra pension contributions
- Increase your regular personal contributions

If you wish to wish to increase your contributions for this and future years, you can do this in a number of ways:

- Change the Employer's Contributions level – only if you currently take an element of that contribution as a cash allowance
- Change the level of your personal contributions
- Pay a lump sum personal contribution
- Waive any bonus payment in exchange for extra pension contributions

You can do any one (or a combination) of the above options by simply completing the relevant section on the attached Pension Contributions Change Form and returning it to Sarah Dyson at Barratt House.

Remember if you don't use your carry forward capacity from three years ago in this year it is lost (e.g. unused carry forward from 2008/09 tax year is lost after the 2011/12 tax year).

More information on the annual allowance can be found in the previous communication issued and available in the Barratt Pension section on website www.barrattflexiblebenefits.co.uk under Benefits We Give You. **You should discuss this matter with your independent financial adviser.**

Lifetime allowance

Overview

The lifetime allowance is the maximum amount of pension savings you can build up over your lifetime without incurring a lifetime allowance tax charge.

From April 2012 this will be reduced to £1.5 million from the current £1.8 million. If you are approaching or already over this limit, you can retain a lifetime allowance of £1.8 million although strict conditions apply. More details of this option, known as fixed protection, are given below.

For DC pensions, benefits are valued for the purposes of the lifetime allowance as your fund value, at the point you take your benefits.

For any DB pension you have, it is broadly the value of your annual pension at the time you retire, multiplied by a factor of 20. You will need to consider the value of both the DB and the DC parts of the Barratt Scheme if you have paid contributions into both in the past.

In addition, it is important to remember the lifetime allowance relates to all of your pension savings, not just to the benefits from pensions you have through Barratt.

The tax charges on benefits over the lifetime allowance are unchanged. If you exceed the limit there is a charge of:

- 55% where excess benefits are taken as a lump sum benefits; and
- an additional 25% (above your marginal tax rate) where benefits are payable as a pension income.

The Scheme pays these charges on your behalf and reduces your benefits accordingly.

How do these changes affect me?

To help protect those who have already made pension saving decisions based on the current lifetime allowance limit, there is an option to retain the current lifetime allowance of £1.8 million. This is known as fixed protection. This must be applied for before 6 April 2012 and conditions apply; for example no new pension saving can be made into the Scheme.

Assessing whether you are likely to exceed the lifetime allowance and deciding whether it is beneficial to apply for fixed protection is complicated. There are a number of different factors that can affect this. Important considerations when deciding what to do are set out below:

How much are all your pension benefits expected to be worth at your planned retirement age?

If these exceed £1.5 million then a lifetime allowance tax charge may be payable on the excess value. Check your latest benefit statements or contact the Scheme Administrator for an up-to-date projection. The contact telephone numbers are:

Martin Gould at Mercer for DB enquiries	**0113 394 7607**
Legal & General for DC enquiries	**0370 050 0691**

When do you plan to take your benefits?

The earlier you retire, the less time there is for your pension saving to grow through additional savings or investment growth. You may find your projected benefit at age 65 exceeds the lifetime allowance, but if you are actually planning to take your pension at 55 for example, they may not.

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How will the lifetime allowance increase in future?
The Government has said that it will remain fixed at £1.5 million until 2016 and will be reviewed at that point. It has made no commitment as to how (or if) it will change in future. If you are a long way from taking your benefits and expect to exceed the £1.5 million limit, you may find the lifetime allowance is increased over time to reflect increases in living costs etc and you do not ultimately exceed the lifetime allowance.

What Salary Supplement do you receive for not being in the Scheme?
If you decide to take fixed protection and leave the Scheme, Barratt will pay an agreed percentage of your salary as a cash supplement at the appropriate level for your job grade. You will pay tax and national insurance on this supplement.

You will need to assess the value of this supplement (after all taxes) relative to the value of the additional pension saving after allowing for the lifetime allowance tax charge and the one-off reduction in the lifetime allowance.

Will there be an impact on any ancillary benefits from leaving the Scheme?
Life assurance is linked to membership of the Scheme. However Barratt will ensure life cover continues to be provided irrespective of whether you remain in the Scheme or take fixed protection and leave the Scheme. Life cover will remain subject to the terms of the policy, eligibility conditions, and the Company's right in its absolute discretion to amend, vary or terminate the cover irrespective of whether you participate in the pension Scheme or not.

This means there should be no impact on ancillary benefits provided within the Scheme should you opt to take fixed protection and leave.

Taking action

After considering these factors there are two decisions that you need to make:

1) Should I apply for fixed protection to retain a lifetime allowance of £1.8 million?

2) Should I amend the amount of pension saving I make and how might I invest my pension savings to better manage my benefits to the lifetime allowance?

If you want to apply for fixed protection you must complete a form and ensure your application has been received by HM Revenue and Customs by 5 April 2012. No applications will be accepted after this date and your lifetime allowance will be set at £1.5 million. It is your responsibility to obtain the form and return it to HMRC. A copy has been placed on the Barratt pension website.

Remember to retain fixed protection you must not receive any further contributions into the Scheme or any other registered pension arrangement. Increases in your existing fund value due to investment gains are allowed. If you breach this condition you automatically lose fixed protection and your lifetime allowance reverts to £1.5 million (or the standard level at that point in the future, if higher).

In summary

Annual allowance: If you wish to make additional personal contributions complete the relevant section on the attached Pensions Contributions Change Form and return it to Sarah Dyson at Barratt House.

If as a result of these changes you wish to change the rate of the Employer's contribution to the DC section of the Scheme, complete the relevant section on the attached Pensions Contributions Change Form and return it to Sarah Dyson at Barratt House.

Fixed protection: If you wish to apply for fixed protection the relevant forms will be placed on the Barratt benefits website once available. Remember, if you apply for fixed protection you must also notify Barratt that you no longer wish any contributions to be made to the Scheme, by completing the relevant section on the attached Pensions Contributions Change Form and returning it to Sarah Dyson at Barratt House.

The legislation and specific impact on each individual is complicated. Any changes and particularly the fixed protection registration is your personal responsibility as a member of the Scheme. You should seek independent financial advice before changing your pension arrangements.

Finally, a brief note on tax relief

Below is an extract from the Pensions Advisory Service about tax relief on your pension contributions. It is not intended to be taken as tax advice.

Contributions paid by you to an occupational pension scheme (i.e. final salary, career average and money purchase) deducted through your employer's payroll and attract tax relief.
The contribution is deducted from your gross pay before Income Tax is deducted. This gives you tax relief on your contribution 'at source'. If you're a basic rate tax payer, the tax relief is 20% on the whole of your contribution. If you're a higher rate tax payer, you get 40% tax relief on your contribution. If you are an additional rate tax payer then you may get 50% tax relief on your contributions.
Some higher rate tax payers will receive two rates of tax relief on their contributions. This happens when earnings are just above the threshold moving someone into the higher rate. For example, your higher rate threshold is £45,000 and you earn £46,000. £1,000 of your contribution attracts tax relief at 40% and the excess at 20%. Additional rate payers may get up to 50% tax relief.

For more information you should discuss this matter with your independent financial adviser or consult the Pensions Advisory Service at **www.pensionsadvisoryservice.org.uk** or 0845 601 2923.
To benefit from any tax relief applicable to any lump sum payments into the Scheme paid by cheque rather than through payroll, you would have to declare the payments on your HMRC Self Assessment.

Pension Contributions Change Form

Name: _____

Job Title: _____

Employer pension contribution change

I would like to take my Employer Pension Contribution in the following way with effect from _____ (date).

(Please tick and complete as appropriate)

○ Take as a total Employer Pension Contribution into the Money Purchase/Defined Contribution Scheme

○ As a Cash Allowance paid into my salary

○ Split between the Money Purchase/Defined Contribution Scheme and Cash Allowance in the following proportions

- ___ % Money Purchase/Defined Contribution
- ___ % Cash Allowance

Employee personal pension contribution

I would like to change my personal pension contribution in the following way(s):

(Please tick and complete as appropriate)

○ Pay___% of my salary with effect from _____ (date) into the DC arrangement

○ Waive any bonus payment in exchange for extra payment contributions to the value of £_____

○ Pay a lump sum Personal Pension Contribution to value of £_____ and I enclose a cheque for this purpose, made payable to Barratt Developments PLC.

I understand that any contributions made under the salary sacrifice arrangement will reduce my salary in return for an equivalent pension contribution made on my behalf by my employer. This request is subject to the approval of my employer.

Signature: _____ **Date:** _____

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