Ladbrokes Pension Plan

June 2014

How Scheme Pays works

Ladbrokes Pension Plan ("the Plan")

This guide has been prepared to help you understand the "Scheme Pays" process for paying any tax due as a result of your pension savings in a tax year being higher than the tax-free amount allowed by the Government.

Key points

- Each year you are allowed to make a certain level of pension savings tax free: £40,000 from 2014/15 tax year (previously £50,000). This amount is called your Annual Allowance. Unused Annual Allowance from the three previous years can be carried forward.
- Any savings above this level are subject to a tax charge at your marginal rate of income tax.
- If the tax charge due in any year is greater than £2,000, you may be able to ask the Trustees of the Plan to pay the charge for you, which they will then recoup from your benefits at a later date.

Introduction

Members may face large upfront tax charges, called an Annual Allowance charge, on any significant pension savings, however, they may not be able to draw benefits in time to pay the tax charge when it falls due.

In order to help you to pay this tax charge if it is applied to you, the Plan has set up a facility (as allowed under tax law) which allows it to pay some or all of the Annual Allowance charge on your behalf, with the Trustees then making an appropriate reduction to your Plan benefits to recoup the charge. This facility is called "Scheme Pays".

How do I know if I can use Scheme Pays?

You are only able to request the Trustees of the Plan to pay some or all of your Annual Allowance charge if, for a particular tax year:

- your pension savings in the Plan count as using up more than the Annual Allowance for that tax year; and
- your Annual Allowance charge (across all your pension savings) for that tax year exceeds £2,000.

If you have pension savings in other schemes that also count as using up Annual Allowance in that tax year, then the Plan is only responsible for paying the part of the Annual Allowance charge in respect of your benefits in the Plan.

What do I need to do to use Scheme Pays?

If you wish to use Scheme Pays, it is your responsibility to:

- Complete your Self-Assessment Tax Return to determine your Annual Allowance charge. The Trustees will provide you with a Pension Saving Statement with the information you need for this (in respect of your savings in the Plan) if your pensions savings in the Plan are more than the Annual Allowance over a tax year.
- Complete a Scheme Pays Election form and return it to the Trustees by the deadline for that tax year. For 2011/12 the deadline was 31 December 2013. For 2012/13 and beyond the deadline is 31 July, 16 months after the end of the tax year. Please note that the deadlines are different if you wish to start drawing your benefits.

How do the Trustees of the Plan recoup the Annual Allowance charges they pay?

Members have three choices for how Trustees recoup any Annual Allowance charges:

1. If a member has Additional Voluntary Contributions (AVC) funds in the Plan, they may use these to immediately meet the tax charge.
2. If a member has AVC funds outside of the Plan, they may transfer the AVC funds into the Plan to meet the tax charge.
3. Set up a "loan account" (which interest is applied to), which is then converted to a pension reduction at retirement. What this means is that, when you retire, we work out how much your pension should be reduced by to pay the loan account off (using the same calculation we use to work out how much cash lump sum your pension could give you in retirement). The reduction does not apply to the pension payable to your dependants after your death.

If you have AVC funds you can still choose to set up a loan account for the Trustees to recoup the Annual Allowance charge, and either use the AVC funds to repay this at a later date, or receive a reduced pension in retirement.

If you choose to transfer in AVC funds from outside to the Plan in order to meet the Annual Allowance charge, interest will be charged on the period between election and the date the AVC funds are received. Any excess AVC funds will be invested with the Plan's AVC provider, currently Prudential, and used to purchase an annuity at retirement.

If the loan account option is chosen, how is the interest calculated?

Interest on the loan account will be calculated as the increase in the Retail Prices Index ("RPI") over the period to retirement, plus 2% per year.

The period used to calculate the interest rate is from:

- The end of the month, two months prior to the date you return the election form to the Trustees; to
- The end of the month, two months prior to date of retirement, or earlier date of repayment.

This rate is subject to review by the Trustees from time to time and is not guaranteed.

What happens if I have a loan account and wish to transfer my benefits out of the Plan before I retire?

If you choose to transfer your benefits out of the Plan and have chosen to use the "loan account" method of Scheme Pays, the Trustees will deduct any outstanding loan accounts from the transfer value of your benefits.

What happens if I have a loan account and die before I retire?

If you die before you retire and have chosen to use the "loan account" method of Scheme Pays, then the Trustees of the Plan will deduct any outstanding loan accounts from your AVC funds. Any remaining outstanding loan accounts will be cancelled.

What impact does choosing the "loan account" option have on my tax-free cash lump sum allowance?

If you have chosen to use the loan account method of Scheme Pays then on retirement your maximum tax-free cash lump sum will be calculated after your pension has been reduced to pay off your loan account.

What impact does choosing the "loan account" option have on the Lifetime Allowance test at retirement?

If you have chosen to use the "loan account" method of Scheme Pays then the Lifetime Allowance test will be applied after your pension has been reduced to pay off your loan account.

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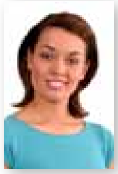

Example: Jane

Tax charge payable and eligible for Scheme Pays

Pension Jane earned during the year: **£3,500**

HMRC pension value (£16 x £3,500): **£56,000**

Annual Allowance charge due assuming 40% income tax rate ([£56,000 – £40,000] x 40%): **£6,400**

As the tax charge is greater than £2,000, Jane may ask the Trustees to pay the tax for her under Scheme Pays.

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Example: John

Scheme Pays used with AVC option

Annual Allowance charge due from John: **£3,000**

John's AVC funds: **£10,000**

John has sufficient AVC funds to pay the Annual Allowance charge and chooses for the Trustees to withdraw the money from his AVC funds to pay the charge.

Example: Ben

Scheme Pays used with "loan account" option

Annual Allowance charge due from Ben in respect of 2011/12 tax year: **£10,000**

Ben is due to retire, at age 65 on 31 December 2015, with a pension of £40,000 per year.

Ben returned his Scheme Pays form in December 2013, electing for the Trustees to pay his Annual Allowance charge and set up a loan account in respect of this amount.

Start of period for interest calculation: **31 October 2013**

End of period for interest calculation: **31 October 2015**

Period over which interest is calculated: **2 years**

Assumed increase in the RPI from 31 October 2013 to 31 October 2015: **6%**

Interest factor applied (RPI factor plus 2% per year): **(1 + 6%) x [(1 + 2%) x (1+2%)] = 1.103**

Value of loan account at retirement (£10,000 x 1.103): **£11,030**

Current factor for converting pension to cash lump sum at age 65: **£19.46 of lump sum for each £1 of pension**

Reduction in pension at retirement (£11,030 / 19.46): **£567 a year**

Where can I find more information?

If you believe that you may need to pay an Annual Allowance charge, you should consider taking financial advice, taking into account your personal circumstances.

Neither Ladbrokes plc, the Trustees nor Hymans Robertson LLP (the Plan Administrator) are authorised to give you financial advice.

HMRC has published draft guides for individuals on their website at the following links:
http://www.hmrc.gov.uk/pensionschemes/calc-aa.htm