

## Example Annual Allowance calculation

### – NHS Staff membership (1995 Section)

At the start of the pension input period (1 April) the member has 20 years 119 days membership and pensionable pay of £41,246.00. At the end of the pension input period (31 March) membership and pensionable pay have increased to 21 years 119 days and £42,278.00 respectively. The member is not paying any pension contributions elsewhere.

To work out the AA used up, the 'opening value' and 'closing value' of a member's benefits must be calculated.

To find out the opening value (the value at the beginning of the pension input period), the pension and lump sum have to be calculated as normal:

#### Start of pension input period (1 April)

$$\text{Pension} = \text{pensionable pay} \times \text{pensionable membership}^* \times 1/80$$

$$£41,246.00 \times 20 \text{ years } 119 \text{ days} \times 1/80 = 10,479.59 \text{ per year}$$

(All membership is after 24.03.1972 so the lump sum is three times the annual pension)\*

$$\text{Lump Sum} = \text{pension} \times 3$$

$$\text{Lump Sum} = £10,479.59 \times 3 = £31,438.77$$

The capital value is calculated like this:

(pension x 10) + lump sum

$$\text{Capital value} = (10 \times £10,479.59) + £31,438.77 = \mathbf{£136,234.67}$$

#### End of pension input period (31 March)

The closing value of the NHS benefits also has to be calculated. Firstly the pension and lump sum amounts are calculated.

$$\text{Pension} = £42,278.00 \times 21 \text{ years } 119 \text{ days} \times 1/80 = £11,270.27 \text{ per year}$$

For the NHSPS, the opening value is 10 times the pension plus the lump sum at 5 April 2006:

$$\text{Lump Sum} = \quad \quad \quad \pounds 11,270.27 \times 3 \quad \quad = \pounds 33,810.81$$

The capital value is then calculated

$$\begin{array}{l} \text{Whilst the closing value is 10 times} \\ \text{the pension plus the lump sum at} \\ \text{31 March 2007:} \end{array} \quad \quad \quad (\pounds 11,270.27 \times 10) + \quad \quad = \pounds 146,513.51 \\ \quad \quad \quad \pounds 33,810.81$$

$$\begin{array}{l} \text{The amount of Annual Allowance} \\ \text{used by NHS benefits for this} \\ \text{member is:} \end{array} \quad \quad \quad \pounds 146,513.51 - \pounds 136,234.67 \quad \quad = \pounds 10,278.84$$

The amount of the annual allowance used is £10,278.84 so this member will not have to complete the Annual Allowance section on any HMRC self-assessment tax return.

*This document reflects current law and practice as at July 2010*