

NHS Pension Scheme : High Earners Factsheet

HMRC (HM Revenue and Customs) pension rules are continuing to change for high earners. This factsheet is aimed at high-earning NHS members who may be affected.

There are 3 main pensions tax areas covered in this factsheet:

- The **Special Annual Allowance** rules relate to people with an income of £130,000 or more
- HMRC's existing **Lifetime Allowance** and **Annual Allowances** may also apply

Lifetime Allowance

The HMRC Lifetime Allowance is a limit on the value you can build up in your pension arrangements without paying extra tax. For the tax years 2010/11 and 2011/12 the Lifetime Allowance is £1,800,000. This limit applies to the overall capital value of the total of all your pension arrangements.

In salary-related schemes such as the NHS Pension Scheme, the capital value is determined by multiplying your annual pension by 20, and then adding any lump sum.

If you have other pensions that were already in payment before 6 April 2006 then you calculate the capital value of these at the date you first take benefits after 5 April 2006, by multiplying the pension in payment at that time by 25.

For example:

	<u>Capital value</u>
Pre 6 April 2006 pension £10,000 per annum x 25 =	£250,000
Annual pension £72,000 per annum x 20 =	£1,440,000
Add lump sum £216,000 =	£216,000
Total capital value =	<u>£1,690,000</u>

The lifetime allowance is reducing to £1.5m from 6 April 2012. More information about the changes can be found at: www.hmrc.gov.uk/pensionschemes

Annual Allowance

In salary-related schemes such as the NHS Pension Scheme, the HMRC Annual Allowance is the maximum amount by which the capital value of your pension benefits may grow in any one tax year, without you having to pay a tax charge. For the tax year 2010/11 the annual allowance is £255,000.

The capital value for the Annual Allowance is worked out by:

- Multiplying the growth in your pension by a factor of 10 and adding any additional growth in the lump sum

To calculate your total amount you must also add:

- Any contributions you make to other registered pension arrangements.
- The Annual Allowance does not apply in the tax year of your retirement.

Example: establishing the capital value

Pension capital value = Growth in Pension £12,000 x 10 = capital value £120,000

Growth in Lump sum £36,000 = capital value £36,000

Total capital value = £156,000

This capital value of £156,000 is under the Annual Allowance of £255,000 and therefore there is no extra tax to pay.

The annual allowance is reducing to £50,000 from 6 April 2011.

You can find more information about the Annual Allowance at:

<http://www.hmrc.gov.uk/pensionschemes>

Special Annual Allowance

From 22 April 2009 high earners with a 'relevant income' of £150,000 or more who increase their pension contributions beyond their regular amount may be subject to a Special Annual Allowance Charge.

The HMRC Special Annual Allowance Charge can apply if:

- You increase the level of your pension contributions on or after 22 April 2009 beyond your normal, regular amount and
- Your total pension contributions are more than £20,000 and
- You have a 'relevant income' of £150,000 or more in the tax year to which the contributions relate, or in the previous two tax years
- The Special Annual Allowance may be increased to a maximum of £30,000 for those paying irregular money purchase contributions.

From 9 December 2009, the level of 'relevant income' at which the Special Annual Allowance begins was reduced to £130,000.

'**Relevant income**' is broadly all income subject to tax, including dividend income and most savings interest.

It also includes the value of your own (employee) pension contributions to the NHS Pension Scheme and the value of any 'salary sacrifice' arrangements.

You can find more information about the Special Annual Allowance and relevant income at:

<http://www.hmrc.gov.uk/manuals/rpsmmanual/RPSM15200000.htm>

The Special Annual Allowance is not applicable from 6 April 2011 onwards.

What should I do if I think I may be affected?

If you are concerned or uncertain of the effects of the above, you may wish to consider discussing this with your accountant, an independent financial adviser or HMRC.

NHS Pensions and NHS Employers are unable to give financial advice.

This document reflects current law and practice as at 20 January 2010.