

NHS Pension Scheme :

Pension Tax Changes - Annual Allowance and Additional Pension (AP)

The Annual Allowance has been reduced from £255,000 to £50,000 from 6 April 2011. The Annual Allowance is the maximum tax-privileged amount of growth and contributions you can have in all your pension arrangements (excluding State pensions) in a tax year.

The value for Annual Allowance purposes in an AP arrangement is the amount of AP purchased multiplied by 16. Survivor's and dependants pensions do not count toward the Annual Allowance and therefore any AP value attributable to these pensions should be excluded for Annual Allowance purposes.

If AP of £2,000 is purchased by a single payment, its value for Annual Allowance purposes under the rules for 2011/12 is $£2,000 \times 16 = £32,000$ in the year of purchase. This amount will count towards the Annual Allowance of £50,000. Therefore the Annual Allowance remaining is $£50,000 - £32,000 = £18,000$ in this example*.

AP may also be purchased by payment of instalments deducted from pay. In those circumstances the AP accrues on a pro-rata basis during the period the instalments are paid. For example, AP of £2,000 purchased over a four-year period that begins at the start of a tax year, will accrue at the rate of £500 a year. The value for Annual Allowance purposes will be $£500 \times 16 = £8,000$, in each of the next four years*.

AP is re-valued by any increase in the rate of inflation between the month when the application to buy AP was received, and the second month before the pension is due for payment. The increase counts towards the Annual Allowance used in the year.

*The above examples assume that there is no increase in the rate of inflation and that no survivors or dependants pension has been purchased.

The growth is calculated differently under the main NHS Pension Scheme than it is for AP. Growth in the main NHS Pension Scheme also needs to be taken into account as do any other pension contributions, for example, to personal pensions.

More information on the Annual Allowance in the main NHS Pension Scheme can be found at:

www.nhsbsa.nhs.uk/Pensions/3126.aspx

When you are considering purchasing AP, you should consider whether you may be affected by the Annual Allowance limit.