



## Your NHS Pension Choice Annual Allowance Frequently Asked Questions

**Q. If a member moves to or has already moved to the 2008 Section as part of the NHS Pension Choice Exercise, will this mean that they are more likely to be affected by the revised annual allowance tax limit?**

**A.** The annual allowance restricts the amount of tax relief that a member is entitled to receive on their pensions savings.

In the 1995 Section members build up an annual pension equal to  $1/80^{\text{th}}$  of their final year's pensionable pay for each year or part year of membership; and they receive a lump sum, which is normally three times their annual pension. For those who move to the 2008 Section as part of the Choice exercise, they build up an annual pension equal to  $1/60^{\text{th}}$  of their reckonable pay for each year or part year of membership. However, this is then adjusted to take account of the amount needed to pay for the minimum lump sum, which is paid in addition to their pension.

The rate at which a member's pension accrues in the 2008 Section is faster than the 1995 Section. In addition, members who retire after the age of 65 in the 2008 Section have late retirement factors applied to their pension, which increases the pension payable. As such, it may be considered that some members who move to the 2008 section **will** possibly increase the chance of their NHS pension benefits exceeding the revised annual allowance.

However, it is anticipated that the majority of members will not be affected by the changes proposed by HMRC. Early indications are that the changes may primarily affect high earners (those earning over around £150,000 a year). Although other members may also be affected if they earn less but; receive a significant pay rise or are promoted to a higher paid role; or have a long period of pensionable service, or earn pension at a higher rate than the normal Scheme accrual.

Members should also be aware that they might be more likely to exceed the annual allowance in the year they switch to the 2008 section under Choice than they would be in a normal year of 2008 Section membership. This is because HMRC places a higher value on 2008 Section benefit entitlements at the end of the year than it does on the 1995 section entitlements that the member had at the start of the year. Members earning in excess of £90,000 a year and who have received significant pay rises in the past 3 years (see below) are likely to be affected, while members earning in excess of £50,000 a year and who have received significant pay rises, and have long service, could also be affected. Members without pay rises in the past three years should only be affected if earning in excess of £100,000 a year.

For those limited number of members who do exceed the annual allowance there will be a facility to “look back” up to three previous years to see if there is any unused allowance. If there is, it may be possible to “carry forward” the unused allowance and add this to the allowance in the current year. This may mean that no extra tax will be payable. The maximum amount that can be carried forward is £50,000 for each of the three previous years.

Scheme members must also remember that the annual allowance restricts the amount of tax relief that a member is entitled to receive on their total pension savings, not just their NHS pension benefits. As such, when a member looks at the growth of their pension benefits in any one year to see whether the annual allowance limit has been exceeded, **all** pension savings, except the State pension, must be taken into consideration, including Additional Voluntary Contributions or any personal pension they may have in addition to their NHS pension.

For more detailed information about how your annual allowance is calculated, please go to the member section of our website at [www.nhsbsa.nhs.uk/pensions](http://www.nhsbsa.nhs.uk/pensions) and look for Pensions and Tax – Your Questions Answered. Alternatively, you can go direct to HMRC at [www.hmrc.gov.uk/pensionschemes](http://www.hmrc.gov.uk/pensionschemes). **You may also wish to consider seeking independent financial advice.**

**Q. Will the reduction in the pension tax relief ‘annual allowance’ affect my Choice decision?**

**A.** The majority of NHS staff will be unaffected by this change in the tax rules which affects all pension schemes. The new tax treatment applies to persons whose total capital value of their pension benefits increase in value by more than the new £50,000 annual allowance in any year from April 2011. This is most likely to affect you if:

- your scheme membership and pensionable pay are high and either,
- your pensionable pay increases significantly or
- your scheme membership is increased significantly (for example on ill health retirement)

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This can affect high earners in both sections of the NHS Scheme but the bigger pension benefits in the 2008 ‘normal pension age 65’ Section make it more likely that your benefits will increase by more than the new annual allowance and lead to a tax bill. This is more likely to happen in the year that you switch to the 2008 section. Members earning in excess of £90,000 a year and who have received significant pay rises in the past 3 years (see below) are likely to be affected, while members earning in excess of £50,000 a year and who have received significant pay rises, and have long service, could also be affected. Members without pay rises in the past three years should only be affected if earning in excess of £100,000 a year.

Remember that most members will not be affected by this new tax. Even if you do pay more tax, you will want to compare the amount of the tax with the bigger pension benefits you and any dependants will receive, for life, from age 65. **As with other tax related matters it is prudent if you are in any doubt about this, to speak to an independent financial advisor.**

