

NHS Pensions - Annual Allowance – 2015/2016 calculations

HMRC transitional rules

Previously pension schemes had been allowed to choose their own pension input periods and in the NHS Pension Scheme the period was 1 April to 31 March, aligned to the Scheme year.

HMRC introduced transitional rules for tax year 2015/2016 to ensure that all pension input periods are aligned and match the tax year with effect from 6 April 2016. For the NHS Pension Scheme this means a pension input period for 2015/2016 of 1 April 2015 to 5 April 2016.

The transitional rules split the 2015/2016 tax year into two 'mini' tax years for Annual Allowance purposes only:

- 1) the pre-alignment tax year being 6 April 2015 to 8 July 2015, and
- 2) the post-alignment mini tax year being 9 July 2015 to 5 April 2016.
- 3)

This was necessary to ensure that pension savings up to £80,000, made before 9 July 2015, were protected from an Annual Allowance charge. The Annual Allowance for the pre-alignment tax year is £80,000, plus any available carry forward of unused Annual Allowance from the previous three tax years; 2014/2015, 2013/2014 and 2012/2013.

Pension savings from 9 July 2015 to 5 April 2016 have a nil Annual Allowance, but up to £40,000 of any unused Annual Allowance from the pre-alignment tax year can be carried forward to the post-alignment period, plus any Annual Allowance still unused from the previous three tax years.

2015/2016	Start of Pension Input Period	End of Pension Input Period	Days	Annual Allowance
Combined pension input period	1 April 2015	5 April 2016	371 ¹	
Pre-alignment pension input period	1 April 2015	8 July 2015	99	£80,000

Post-alignment pension input period	9 July 2015	5 April 2016	272 ¹	£0.00 ²
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¹ including 29 February 2016

² may carry up to £40,000 of unused Annual Allowance from the pre-alignment pension input period

Calculating the pension input amount

Pension growth in the 1995/2008 NHS Pension Scheme (1998/2008 Scheme) and 2015 NHS Pension Scheme (2015 Scheme) is the increase in the value of your NHS benefits over the pension input period. This increase is the pension input amount. The pension input amount is the difference between the value of your NHS benefits at the day before the start of the pension input period (the opening value) and the value of your NHS benefits at the end of the pension input period (the closing value).

For 2015/2016 the start of the pension input period is 1 April 2015, therefore your NHS benefits for the opening value are calculated to 31 March 2015. The end of the pension input period is 5 April 2016, therefore your NHS benefits for the closing value are calculated to this date.

1 April 2016 to 5 April 2016

Annual collection of membership and salary details

NHS Pensions is dependent on NHS employers to provide us with pension data to hold in our central administrative database. It is important therefore that all NHS employers annually provide accurate membership and salary details about Scheme members within their organisation to NHS Pensions.

This is achieved by them submitting an annual return of membership and salary details for the Scheme year, a period of 1 April to 31 March, by no later than two months or 13 months (medical practitioners) after the end of the Scheme year.

For 2015/2016 your employer should have already updated us with accurate membership and salary details for the Scheme year 1 April 2015 to 31 March 2016, unless you are a medical practitioner. HMRC's legislation places a requirement on employers to provide this information to us by 6 July 2016.

Acceptable pro-rata approach

What we do not know or have is your membership and salary details for the extra five days, from 1 April 2016 to 5 April 2016, if you were in pensionable membership during this period.

HM Treasury have confirmed that it is acceptable for pension schemes to take a reasonable approach and add an additional 5 days pension accrual on a pro-rata basis if they had a pension input period which ran from 1 April to 31 March.

1995/2008 Scheme - Officers

If you had pensionable full time membership in the 1995/2008 Scheme from 1 April 2016 to 5 April 2016, then your membership has been increased by five days.

If you were part time in the 1995/2008 Scheme from 1 April 2016 to 5 April 2016, then your part time membership between 1 April 2015 and 31 March 2016 has been increased on a pro-rata basis to take account of these five extra days.

1995/2008 Scheme – Practitioners

We have uprated your pensionable earnings at 31 March 2016 to cover the additional days for 1 April 2016 to 5 April 2016, unless you left on or before 31 March 2016. The increased pensionable earnings are used to calculate your practitioner pension.

If you have a separate officer employment for the five days in question then your pensionable membership has been uprated (please see 1995/2008 Scheme – Officers).

2015 Scheme – All members

If you had pensionable membership in the 2015 Scheme from 1 April 2016 to 5 April 2016, then your pensionable earnings between 1 April 2015 and 31 March 2016 has been increased on a pro-rata basis to take account of these five days. Your pension is then $1/54^{\text{th}}$ of your increased pensionable earnings.

How the pension input amount in the 1995/2008 Scheme is calculated

The 1995/2008 Scheme pension savings statement confirms that in order to find the pension input amount during the combined pension input period, the calculation steps are as follows:

1. Obtain the pension at the day before the start of the combined pension input period.
2. Multiply the pension by 16.
3. Add your lump sum to this (1995 Section members only).
4. Revalue the total amount by adding the relevant CPI percentage. **This is your**

opening value.

5. Obtain the pension² at the end of the combined pension input period.
6. Multiply the pension by 16.
7. Add your lump sum to this (1995 Section members only). **This is your closing value.**
8. Deduct the opening value from the closing value. **This is your combined pension input amount.**

² Your pension has been calculated using uprated pensionable membership for the additional days in the combined pension input period unless you left the 1995/2008 NHS Pension Scheme on or before 31 March 2016.

Example 1

Damian was part time during the period 1 April 2015 to 5 April 2016. His NHS employer updated NHS Pensions with membership and salary details for the Scheme year 1 April 2015 to 31 March 2016; they confirm he was pensionable for 1150 hours.

His part time membership is converted to a full time equivalent in order to calculate his pension. This is done using the following calculation:

$$\frac{1150 \times 7}{37.5} = 215 \text{ days}$$

A part time factor is then calculated.

$$\frac{215 \text{ days}}{365 \text{ days}} = 0.5890$$

We then apportion Damian's part time membership based on the part time factor.

$$\begin{aligned} 5 \text{ days} \times 0.5890 &= 2.945 \\ &= 3 \text{ days} \end{aligned}$$

(There would have been no apportionment had he left the 1995/2008 Scheme before 1 April 2016.)

This apportioned membership is then added to his full time equivalent membership at 31 March 2016

$$215 \text{ days} + 3 \text{ days} = 218 \text{ days}$$

This is added to his previous pensionable membership and used to calculate Damian's pension (and lump sum in the 1995 Section) as at 5 April 2016.

This is step 5 (and step 7, if Damian is a 1995 Section member) in the pension input amount calculation.

How the pension input amount in the 2015 Scheme is calculated

The 2015 Scheme pension savings statement confirms that in order to find the pension input amount during the combined pension input period, the calculation steps are as follows:

1. As the 2015 NHS Pension Scheme started on 1 April 2015 the pension at the start of the combined pension input period is £0.00. **This is your opening value.**
2. Obtain the pension at 31 March 2016 and uprate to cover the additional days in the combined pension input period.
3. Add the 2015 Scheme in service revaluation applied to the pension on 1 April 2016.
4. Multiply the total at (3) by 16. **This is your closing value.**
5. Deduct the opening value from the closing value. **This is your combined pension input amount.**

If you left the 2015 NHS Pension Scheme on or before 31 March 2016 your pension has not been up-rated to cover the additional days in the combined pension input period.

Example 2

Anne joined the 2015 Scheme on 1 April 2015. Her employer updated NHS Pensions with salary details for the Scheme year 1 April 2015 to 31 March 2016; and they confirmed she had pensionable earnings of £55,548.18.

Her earned pension on 31 March 2016 is £1028.67; this is 1/54th of her pensionable earnings. The earned pension was revalued on 1 April 2016 when the index adjustment was applied. The index adjustment is made up of a Treasury Order (based on September 2015 Consumer Prices Index (CPI)) plus 1.5%.

The CPI for September 2015 was minus 0.1%, as a result the index adjustment effective on 1 April 2016 was 1.4%

$$£1028.67 \times 1.4\% = £14.40 \text{ (a) (step 3)}$$

This amount is added to the earned pension calculated from pensionable earnings from 1 April 2015 to 5 April 2016. The pensionable earnings of £55,548.18 are increased to account for the additional five days.

$$\frac{£55,548.18 \times 370}{365} = £56,309.11$$

$$\underline{£56,309.11} \times 1 = £1042.76 \text{ (b) (step 2)}$$

Amounts (a) and (b) are added together and multiplied by 16 (in step 4) to calculate the closing value.

How the pension input amount in the 1995/2008 Scheme is calculated if you are an officer transition member

Joined 2015 Scheme on 1 April 2015

If you moved to the 2015 Scheme on 1 April 2015 your 1995/2008 Scheme membership ended on 31 March 2015.

Your 1995/2008 Scheme pension benefits have been calculated using membership at 31 March 2015 and pensionable/reckonable pay at 31 March 2016, unless you left pensionable NHS employment before this date.

Joined 2015 Scheme after 1 April 2015

If you moved to the 2015 Scheme after 1 April 2015, because your tapered protection in the 1995/2008 Scheme expired, your 1995/2008 Scheme pension benefits have been calculated using membership up to the day before you joined the 2015 Scheme and pensionable/reckonable pay at 31 March 2016, unless you left pensionable NHS employment before this date.

How the pension input amount in the 1995/2008 Scheme is calculated if you are a practitioner transition member

We uprate your pensionable earnings at 31 March 2016, or later, if you moved to the 2015 Scheme on or after 1 April 2015 to take account of the additional days, 1 April 2016 to 5 April 2016, unless you left on or before 31 March 2016. It is this increased pensionable earnings that are used to calculate your practitioner pension.

There are no practitioner flexibilities in the 2015 Scheme as a practitioner transition member you any Officer membership flexibility rights are protected up to the point of leaving the 1995/2008 Scheme or the day before you became a practitioner, if this is later.

A Flexibility Value Earnings Credit (FVEC) pension is calculated for the protected Officer membership flexibility rights not converted to practitioner membership. The FVEC pension has been revalued to 31 March 2016 by a FVEC factor, provided by the scheme actuary.

At 5 April 2016 a comparison calculation of the Officer membership is undertaken to see which pension is more beneficial.

A factsheet 'The Flexibility Value Earnings Credit and the Annual Allowance' is available on the website.

How the pension input amount in the 2015 Scheme is calculated if you are a transition member

If you had pensionable membership in the 2015 Scheme from 1 April 2016 to 5 April 2016, then your pensionable earnings between 1 April 2015 and 31 March 2016 have been increased on a pro-rata basis to take account of these five days.

Your pension is then $1/54^{\text{th}}$ of your increased pensionable earnings.

See example 2.

Apportioning the combined pension input amount

The pension input amount for the combined period is apportioned, to determine the percentage portion of the pension input amount relating to the pre-alignment tax year and the portion relating to the post-alignment tax year, by using the following:

For the pre-alignment tax year portion:

$$\frac{D^1 - 272^2}{D^1} \times 100 = \%$$

Combined pension input amount x % = pre-alignment pension input amount

For the post-alignment tax year portion:

$$\frac{272^2}{D^1} \times 100 = \%$$

Combined pension input amount x % = post-alignment pension input amount

¹ D is the number of days in the combined period and includes 29 February 2016 because 2016 is a leap year.

² 272 is the number of days from 9 July 2015 to 5 April 2016, including 29 February 2016.

Example 3

Sarah's pension input amount for the combined period is £79,581.00.

The pre-alignment pension input amount is calculated as:

$$\frac{371 - 272}{371} \times 100 = 26.68\%$$

$$£79,581 \times 26.68\% = £21,232.21$$

The post-alignment pension input amount is calculated as:

$$\frac{272}{371} \times 100 = 73.32\%$$
$$£79,581 \times 73.32\% = £58,348.79$$

Although her combined pension input amount is less than £80,000, Sarah will automatically receive a pension savings statement because the post-alignment pension input amount is more than £40,000.

As the £21,232.21 pension input amount for the pre-alignment tax year is less than £80,000, she has unused Annual Allowance from that tax year of £58,767.79. In this case Sarah can carry forward a maximum of £40,000 from the pre-alignment tax year to the post-alignment tax year.

For the post alignment tax year Sarah has a pension input amount of £58,348.79. She therefore has excess pension savings of £18,348.79 in respect of the post-alignment tax year (£58,348.79 less £40,000).

Sarah must now check to see if she has any unused Annual Allowance from 2014/2015, 2013/2014 or 2012/2013 to carry forward in order to reduce the excess amount.