

NHS Pensions - Annual Allowance - Employer FAQs

Q. What are the changes?

- A. The Government has confirmed changes to the way pensions are taxed. From the 2011/12 tax year the annual allowance has reduced from its level of £255,000, to £50,000.

Q. What is the annual allowance?

- A. The Annual Allowance is the amount of tax privileged pension savings a person can make in any one tax year.

Q. What pension savings are relevant for the annual allowance?

- A. The annual allowance limit covers all pension savings, except State pensions, so any pension savings such as the NHS Pension Scheme and AVCs or personal pensions will need to be included.

Q. How is the annual allowance calculated?

- A. In defined benefit schemes such as the NHS Pension Scheme the annual allowance is not based on the contributions that are paid into the Scheme, but is based on the growth in the value of the member's benefits.

Q. Which members are at risk of exceeding the annual allowance?

- A. The vast majority of members will not be affected. Early indications are that the changes will primarily affect some high earners (those earning over £150,000 a year).

Members may also be affected if they earn less than £150,000 but:

- receive a significant pay rise or are promoted to a higher paid role; and/or
- have a long period of pensionable service, and/or
- earn pension at a higher rate than the normal scheme accrual, for example if they take ill-health retirement that involves an enhancement to their benefits

Members on lower salaries can be affected if they receive a large increase in pensionable pay.

Q. What should employers be doing in relation to the Annual Allowance?

- A. The annual allowance is an individual tax matter, and as such members who are concerned about the annual allowance may wish to consider consult either their accountant or an independent financial adviser.

Employers should be careful not to provide any financial advice in relation to the annual allowance.

New statutory deadlines for employers are to be introduced in relation to the annual allowance. The Finance Act 2011 requires employers to supply pensionable pay and membership information to NHS Pensions by 6 July each year. NHS Pensions will then supply a statement to members over the annual allowance by 6 October each year (provided it has all the information it needs from employers).

For 2011/12 and 2012/13 a years extension has been given, so that the information needs to be supplied to NHS Pension by 6 July 2013. The deadline date for employers will be 6 July each year thereafter.

Employers should ensure that their systems are geared up to provide pensionable pay information in line with the statutory requirements.

Q. Are there any exemptions for members?

- A. There are some cases where the annual allowance restrictions will not apply, for example, due to death, terminal ill health or with some tier 2 ill-health retirements.

Q. What is “carry forward”?

- A. If a member exceeds the annual allowance in any one tax year they may be able to “look back” up to three previous years to see if they have any unused allowance from these years. If they do, they may be able to “carry forward” any unused allowance and add this to their annual allowance in the current year. This means that if their pension growth exceeds £50,000 in any one year, say due to a promotion, for example, they may not have any extra tax to pay, depending upon their individual circumstances. The maximum amount that can be carried forward for 2008/09, 2009/10 and 2010/11 is £50,000.

Q. What is the NHS Pension Input Period?

- A. The Pension Input Period is the period over which the annual allowance is worked out. In the NHS Pension Scheme it is normally runs from 1 April to 31 March.

Q. What is the Pension Input Amount?

- A. The Pension Input Amount is the amount that is measured against the annual allowance. Further information on how the Pension Input Amount is worked out can be found in this section. Please select the relevant link from the list provided.

Q. Do you have any examples of annual allowance calculations?

- A. Examples of how the annual allowance is calculated can be found in this section. Please select the relevant link from the list provided.

Q. How will members who are being made redundant know if they will be affected?

- A. Members will not be affected by being made redundant if their pensions' growth is below the annual allowance. Any growth in excess of the annual allowance resulting from an enhancement may be partially or fully offset by the 'carry forward' allowance.

Other redundancy payments which do not affect the member's pension or lump sum are not included in the annual allowance test.

Q. Will NHS Pensions let members know if they are over the annual allowance?

- A. It is each individual's responsibility to ascertain whether they are over the annual allowance. NHS Pensions can only provide information in relation to the NHS Pension Scheme.

NHS Pensions will send a statement to all those it identifies as over the annual allowance limit in the NHS Pension Scheme, for 2011/12 and 2012/13, by 6 October 2013, (providing it has received all the relevant information it needs from employers by 6 July 2013). This statement will show how much of the annual allowance has been used up in the NHS Pension Scheme only.

Members may have pension savings elsewhere and the member is responsible for calculating and paying any overall tax liability due under the annual allowance.

Members will then need to include any other relevant pension savings, including any NHS money purchase AVC's and personal pensions, when calculating the annual allowance.

It is the members responsibility to report and pay any tax due via self assessment.

Q. What are the employer responsibilities?

- A. To ensure that members receive a statement employers must:

- Deliver timely and accurate pay and membership information to NHS Pensions by 6 July each year.

This is required in order that NHS Pensions can calculate the annual allowance usage for the member and will also be a statutory requirement (draft Finance Act 2011)

- NOT provide financial advice to those concerned about the annual allowance

HMRC have published fines for Employers and others who are responsible for providing information to scheme administrators. These are:

- Up to £300 for each case where information has not been provided
- An additional maximum of £60 per day once the initial fine above has been levied, if the information remains outstanding.

It is the members responsibility to ascertain their annual allowance position. They may wish to consult an independent financial adviser or tax specialist for advice regarding their tax position. NHS Pensions is unable to provide advice in this respect.

Q. Can employers calculate the annual allowance themselves?

- A. It is the individuals responsibility to calculate their own annual allowance used, and employers should not attempt to calculate the annual allowance on behalf of members.

Additional relevant information can be found at:

www.hmrc.gov.uk/pensionschemes

www.nhsbsa.nhs.uk/Pensions