

NHS Pensions - Exemptions from the Annual Allowance charge

There are a number of circumstances from which you can be exempt from the Annual Allowance charge. These are set out in this factsheet.

If a member:

- meets HMRCs Severe Ill Health Condition (SIHC)
- dies or
- is a deferred member for the full pension input period

during the relevant tax year then their pension input amount for that tax year will be nil.

From 6 April 2011 having Enhanced Protection, Primary Protection, Fixed Protection 2012, Fixed Protection 2014 or Individual Protection will not protect a member from potential Annual Allowance charges.

The Severe Ill Health Condition is where a member either:

- becomes entitled to a serious ill health lump sum because their life expectancy is less than one year, or
- NHS Pensions receives evidence from a registered medical practitioner that the member is unlikely to be able to do any type of gainful work, other than in an insignificant way, before State Pension Age

Members who retire on ill health grounds are not automatically excluded from Annual Allowance charges. If they retire on this basis they are more likely to be affected if they are eligible for benefits that provide an uplift to their pension and lump sum. This normally happens when they are awarded Tier 2 ill health retirement benefits.

HMRC have stated that the severe ill health condition is different to the conditions required to receive Tier 2. As part of the ill health application the member will be asked to consent in order for the Schemes Medical Advisors to assess whether they meet the Severe Ill-Health Condition.

The severe ill health condition is where the member either:

- becomes entitled to a Serious Ill Health lump sum because their life expectancy is less than one year, or
- NHS Pensions receives evidence from a registered medical practitioner that the member is unlikely to be able to do any type of gainful work, other than in an insignificant way, before state pension age.

Exemption from Annual Allowance – FAQs

Q. I have a protection certificate from HMRC; does this affect my Annual Allowance Charge?

A. No. From 6 April 2011 having Enhanced Protection, Primary Protection, Fixed Protection 2012, Fixed Protection 2014 or Individual Protection will not protect you from potential annual allowance charges.

Q. Are there any exclusions from potential Annual Allowance charges?

A. Yes. If a member:

- meets HMRC's Severe Ill Health Condition (SIHC),
- dies, or
- is a deferred member (for the full pension input period)

during the relevant tax year then their pension input amount for that tax year only will be nil.

Q. I am retiring on ill health grounds, how do I know if I will be affected?

A. Members who retire on ill health grounds are not automatically excluded from Annual Allowance charges. If you are retiring on ill health grounds, you are more likely to be affected if you are eligible for ill health benefits which provide uplift to your pension and lump sum.

This normally happens when you are awarded "Tier 2" ill health retirement benefits..

HMRC have stated that their "Severe Ill Health" Condition must be met in order for an individual to be exempt from the annual allowance in the tax year they retire on ill health grounds.

HMRC's Severe Ill Health Condition is different to the conditions required to receive Tier 2. As part of your ill health application you will be asked to consent in order for our medical advisers to assess whether you meet HMRC's severe ill health condition. This test can help to establish whether or not you are exempt from any annual allowance charge in the tax year you retire.

Remember, any growth in excess of the Annual Allowance may be partially or fully offset if you have any unused annual allowance that you are able to carry forward.

Q. I am not an active member of the NHS Pension Scheme will I have a Pension Input Amount?

A. If you have been a deferred member for the whole of the input period (or a deferred member for part of the pension input period and retired) then you will have no pension input amount.

Q. I am receiving a pension from the NHSPS will I have a pension input amount?

A. This depends when you went on pension and if you have paid any growth in your NHSPS benefits in a pension input period:

- If you retired from employment and took your benefits you will have a pension input amount for the time you accrued benefits in the NHSPS for that pension input period;

and

- If your benefits are revised to take account late payments or extra membership, then this growth will be included in the pension input period the extra benefits are paid; or
- If your benefits were paid in an earlier pension input period and there were no revisions to your benefits then you will be a “pensioner member” and your pension input amount will be nil in any pension input period where there is no growth in benefits.