

## **NHS Pensions - The money purchase Annual Allowance and the alternative Annual Allowance**

The government introduced pension flexibilities from 6 April 2015 to give savers the ability to access their money purchase pension savings flexibly, as best suits their needs.

Once you have accessed a money purchase pension arrangement flexibly, if you wish to make any further contributions to a money purchase arrangement, this includes defined contribution arrangements such as the NHS Money Purchase Additional Voluntary Contribution (MPAVC) scheme and any pension tax-relieved pension savings are restricted to a specific money purchase Annual Allowance.

If the money purchase Annual Allowance limit is exceeded, you will have a reduced alternative Annual Allowance for any remaining defined benefit pension savings, which includes the 1995/2008 Scheme and the 2015 Scheme.

### **Members of the NHS Money Purchase AVC scheme**

When you flexibly access your money purchase arrangement the Scheme Manager must provide you with a flexible access statement within 31 days.

If you are a member of the NHS MPAVC scheme you must notify NHS Pensions that you have flexibly accessed a money purchase arrangement, this could be in the NHS MPAVC scheme or with another money purchase arrangement.

Please write to the Annual Allowance Team, NHS Pensions, PO Box 2269, Bolton, BL6 9JS. Your notification should include the following information:

- your name and address;
- National Insurance number;
- NHS Pension Scheme membership number;
- the name of the money purchase arrangement that has issued you with a flexible access statement;
- the date you flexibly accessed benefits.

If you flexibly accessed with another money purchase arrangement then you must also notify your NHS MPAVC scheme provider(s).

You must send the notification within 91 days of receiving the flexible access statement.

Flexibly Accessed Money Purchase Scheme	Notify NHS Pensions <sup>1</sup>	Notify NHS MPAVC Scheme Provider
NHS MPAVC Scheme	✓	✗
Another Money Purchase Pension Scheme	✓	✓

<sup>1</sup>on behalf of the NHS Business Services Authority, Scheme Administrator of the NHS MPAVC Scheme

## The money purchase Annual Allowance

The money purchase Annual Allowance for tax year 2016/2017 onwards is currently £10,000 and will start to apply from the day after you have taken flexible benefits; this means that any previous savings are not affected by the money purchase Annual Allowance.

Where you become liable to the money purchase Annual Allowance during the period 6 April 2015 to 5 April 2016 then a money purchase Annual Allowance of £10,000 will permanently apply from 6 April 2016 onwards.

NHS Pensions will provide you with a pension savings statement where:

- growth in the NHS MPAVC scheme exceeds the Annual Allowance; or
- you have flexibly accessed a money purchase arrangement and you may be subject to the money purchase Annual Allowance and growth in the NHS MPAVC Scheme may exceed the money purchase Annual Allowance.

For tax year 2015/2016 only the money purchase Annual Allowance for the pre-alignment tax year was £20,000. The post-alignment tax year money purchase Annual Allowance depended on your individual circumstances.

More information about the money purchase Annual Allowance for the 2015/2016 tax year can be found in page PTM058090 of HMRC's Pensions Tax Manual.

**Important note:** If you are subject to the money purchase Annual Allowance the Finance Bill September 2017 introduces a reduction to the money purchase Annual Allowance from £10,000 to £4,000 for the tax-year 2017/18 and subsequent tax-years.

## The alternative Annual Allowance

If the money purchase Annual Allowance is exceeded in the NHS MPAVC scheme or other defined contribution Scheme then your defined benefit pension savings with either the 1995/2008 NHS Pension Scheme and/or the 2015 NHS Pension Scheme must be tested against a reduced alternative Annual Allowance of £30,000.

NHS Pensions will issue a pension savings statement if growth in your NHS benefits exceeds the Annual Allowance of £40,000. You are responsible for calculating whether you are subject to the alternative Annual Allowance. If you think you may be affected by the money purchase Annual Allowance and alternative Annual Allowance and your NHS pension growth may exceed £30,000 but not £40,000 you should consider requesting an 'On Demand' pension savings statement from NHS Pensions.

Your alternative Annual Allowance for a tax year is nil if the tapered Annual Allowance, applying for the same tax year, means your reduced Annual Allowance is £10,000.

For tax year 2015/2016 only the alternative Annual Allowance for the pre-alignment tax year was £60,000. Available unused Annual Allowance from 2012/2013, 2013/2014, 2014/2015 can be carried forward to the pre-alignment tax year and added to the £60,000 alternative Annual Allowance.

## What does accessing a pension flexibly mean?

Accessing a pension flexibly means taking benefits, on or after age 55, from a money purchase (cash balance or defined contribution) arrangement through:

- a flexi-access drawdown fund (whether or not having also taken a tax-free lump sum, which can be either:
  - income withdrawal, as and when required;
  - a short-term annuity;
- a lifetime annuity that allows actual or possible decreases in the amount of annuity payable;
- a one-off payment, known as an uncrystallised funds pension lump sum is paid for the first time – 25% of which is tax-free.

There are other less common circumstances where defined contribution pension savings are also considered to have been accessed flexibly, these are where:

- a stand-alone lump sum payment is made where the person has primary protection and a protected tax-free lump sum right greater than £375,000;

- a pension scheme delivers the defined contribution pension directly and there are fewer than 12 individuals receiving a scheme pension;
- payment of one of the types of benefits listed above is from an overseas pension scheme that has benefited from UK tax relief.

Other types of pension options do not constitute accessing benefits flexibly, for example:

- payment of funds from a money purchase arrangement as a small lump sum payment;
- where a member was drawing savings through a capped drawdown arrangement before 6 April 2015 and has not taken an amount from that arrangement that exceed their maximum capped drawdown amount.

The money purchase Annual Allowance test applies when you flexibly access a money purchase arrangement in certain circumstances on or after 6 April 2015.

A 'trigger event' determines when you first flexibly access a money purchase arrangement. **If a trigger event occurs, the money purchase Annual Allowance test will apply for the tax year in which the event occurs and in all subsequent tax years for any future money purchase savings.**

You can find more information about flexible access in PTM0565000 and PTM056520 of HMRC's Pension Tax Manual.

## Annual Allowance charge and Scheme Pays

If growth in your money purchase arrangement exceeds the money purchase Annual Allowance you will be subject to an Annual Allowance charge. Normally, up to three years' unused Annual Allowance can be carried forward to increase the Annual Allowance in the current tax year. However, unused Annual Allowance cannot be used to increase the money purchase Annual Allowance. In addition any unused money purchase Annual Allowance cannot be carried forward.

It is important to note that it is not mandatory for NHS Pensions to accept a Scheme Pays election where the growth in your NHS MPAVC Scheme is over the money purchase Annual Allowance but lower than the Annual Allowance of £40,000.

## Tapered Annual Allowance

If you are subject to the tapered Annual Allowance and the money purchase Annual Allowance, the taper is applied to your alternative Annual Allowance amount.

This means that if you are subject to the maximum taper provisions, your alternative Annual Allowance for any defined benefit pension savings will be nil. You would, however, still be able to use carry forward for any unused defined benefit pension savings from the previous three tax years. You would also still have a money purchase Annual Allowance of £10,000.

## Examples

The following examples are taken from PTM056510 of HMRC's Pension Tax Manual.

### Example 1

David has a money purchase arrangement and a defined benefits arrangement and has flexibly accessed his money purchase arrangement in the tax year, which triggers the money purchase annual allowance test in addition to the annual allowance test for that tax year (and subsequent tax years).

David's pension input amount for his money purchase arrangement for tax year 2016/2017 is £6,000. As this amount is less than the £10,000 allowance for money purchase pension input amounts there is no further test against the money purchase Annual Allowance for the tax year concerned.

His total pension input amount for the tax year is therefore tested against the Annual Allowance for the tax year. In this case a £40,000 Annual Allowance, as the tapered Annual Allowance does not apply.

David's pension input amount for his defined benefits arrangement is £32,000. This means his total pension input amount for the tax year is £38,000 (£6,000 + £32,000). As this is less than £40,000, no Annual Allowance charge is due for the tax year.

Also, David has £2,000 unused Annual Allowance to carry forward to the next year.

Assuming David had no other Annual Allowance to carry forward from previous years and the Annual Allowance, money purchase Annual Allowance and alternative Annual Allowance remain at £40,000, £10,000 and £30,000 respectively, the next tax year he will have an available Annual Allowance of £42,000 (assuming the tapered Annual Allowance does not apply).

For the purpose of the money purchase Annual Allowance test, he will have an alternative Annual Allowance of £32,000 but his money purchase Annual Allowance for any money purchase pension input amounts remains at £10,000.

### Example 2

Isobel has a money purchase arrangement and a defined benefits arrangement and has flexibly accessed her money purchase arrangement in the tax year, which triggers the money purchase Annual Allowance test in addition to the Annual Allowance test for that tax year (and subsequent tax years).

The Annual Allowance for the tax year is £40,000 and the tapered Annual Allowance does not apply to Isobel for the tax year concerned.

She has no available unused Annual Allowance to carry forward to the current year.

Isobel's total pension input amount for the tax year is £39,000, which includes a pension input amount for her money purchase arrangement of £11,000.

Isobel's entire money purchase pension input amount occurred after the flexible access which means the £10,000 money purchase annual allowance has been exceeded for the tax year by £1,000.

The pension input amount for Isobel's defined benefits arrangement is £28,000, which is less than the alternative Annual Allowance. The alternative Annual Allowance in this case being £30,000 (the Annual Allowance of £40,000 less £10,000).

As Isobel's money purchase pension input amount has exceeded the £10,000 money purchase Annual Allowance, Isobel must establish whether:

- the 'alternative chargeable amount', which is the total of the excess of Isobel's money purchase pension input amount over the £10,000 money purchase Annual Allowance plus the excess of the defined benefits pension input amount over the alternative Annual Allowance of £30,000,

is greater than:

- the 'default chargeable amount', which is the excess of Isobel's total pension input amount (the money purchase pension input amount plus the defined benefits input amount) over the Annual Allowance of £40,000.

That is if:

- the excess of £11,000 over £10,000 (£1,000) plus the excess of £28,000 over £30,000 (nil) = £1,000 (the 'alternative chargeable amount'),

is greater than:

- the excess of £28,000 plus £11,000 over £40,000 = £0 (the 'default chargeable amount').

If so, the 'alternative chargeable amount' applies. Otherwise the 'default chargeable amount' applies. In Isobel's case, the 'alternative chargeable amount' is greater than the 'default chargeable amount', which means the 'alternative chargeable amount' applies.

Isobel is liable to an Annual Allowance charge on her 'alternative chargeable amount' of £1,000.