

## NHS Pensions - Process for calculating the Annual Allowance

The Annual Allowance is calculated by deducting the opening value of a members benefits, adjusted for inflation, from the closing value of the members benefits in any tax year.

The opening value is the value of a members benefits at the beginning of the pension input period converted into a capital value, which is increased by the CPI from the previous September.

The closing value is the value of a members benefits at the end of the pension input period converted into a capital value.

The pension input period (PIP) is the period over which growth in a members pension saving is assessed; the pension input period for both the NHS Pension Scheme and NHS AVC Scheme is 1 April to the following 31 March until 31 March 2015. From 1 April 2015, the PIP was changed to end on 5 April 2016 and subsequent PIP's will run from 6 April to the following 5 April.

The pension input amount (PIA) is the monetary amount a members savings have grown by in the pension input period and is calculated by determining the difference between the opening and closing values.

### **Pension Input Amount Calculations**

The pension input amount is the increase or growth in the value of a member's benefits over the pension input period. The amount of benefit growth in the NHS Pension Scheme is not based on the amount of employee or employer contributions paid but is the difference between the value of benefits at the start of the pension input period (the opening value) compared with the value at the end of the pension input period (the closing value).

The relevant tax year is the year in which the pension input period ends.

A member has a pension input amount if they were active for all or part of the pension input period. This includes if they cease active membership during the pension input period, for example, where they leave the Scheme to defer, to retire or transfer out their NHS benefits.

## The opening value

The opening value is determined as follows.

1. Calculate the member's NHS benefits up to the day before the beginning of pension input period.
2. Multiply the annual pension by 16.
3. For a 1995 Section member calculate their lump sum and add this to the amount at step 2.

For a 2008 Section member there will be no lump sum calculated, even if they made the Choice to move from the 1995 to the 2008 Section. For a 2015 Scheme member there is no lump sum.

4. Increase the total after step 3 by the Consumer Price Index (CPI).

Below is a table of the CPI increases used for Annual Allowance.

<b>Tax year of Pension Input Period</b>	<b>CPI</b>
2008/09	1.8%
2009/10	5.2%
2010/11	1.1%
2011/12	3.1%
2012/13	5.2%
2013/14	2.2%
2014/15	2.7%
2015/16	2.5%*
2016/17	0.0%
2017/18	1.0%
2018/19	3.0%
2019/20	2.4%
2020/21	1.7%

\* HMRC confirmed that the increase on the opening value for 2015/16, only, was 2.5% and not CPI.

## **The closing value**

The closing value is determined as follows.

1. Calculate the member's NHS benefits up to the end of the pension input period.
2. Multiply the annual pension by 16.
3. For a 1995 Section member calculate their lump sum and add this to the amount at step 2.  
For a 2008 Section member there will be no lump sum calculated, even if they made the Choice to move from the 1995 to the 2008 Section. For a 2015 Scheme member there is no lump sum.

## **Calculating the pension input amount**

To find the growth in NHS benefits simply subtract the opening value from the closing value.

If the difference is a negative amount then the pension input amount is nil.

## Further Considerations

### Adjustment to the closing value

Certain events can cause the closing value of the member's benefits to be bigger or smaller than they would otherwise be. These events include where:

- a transfer payment has been made or received or,
- following a pension share order (because of divorce) there is a pension debit or credit attached to the member's benefits, or
- the member leaves active membership and retires.

In these circumstances an adjustment must be made to the amount of the closing value in the pension input period during which the event occurred.

#### **If there has been a transfer in during the pension input period from a non-Club Scheme**

The transfer in membership credit is ignored when calculating the closing value for the pension input period during which the transfer in payment was received. The transfer in membership credit will be included in both the opening and closing values for the next pension input period.

#### **If there has been a transfer in during the pension input period from a Club Scheme from 28 January 2015**

The transfer in membership credit is ignored when calculating the closing value for the pension input period during which the transfer in payment was received. The transfer in membership credit will be included in both the opening and closing values for the next pension input period if the transfer was completed before 28 January 2015.

If the transfer was completed on or after 28 January 2015 the transfer in membership credit will be included in the calculation of the pension input amount in the pension input period the transfer was received.

#### **If there has been a transfer out during the pension input period**

Where there has been a transfer out then the pension input period ends on the last day of pensionable membership.

### **If there has been a pension debit during the pension input period**

The pension debit is ignored when calculating the closing value for the pension input period during which the pension share order became effective i.e. the opening and closing values will be calculated on the members unreduced benefits. The pension debit will be deducted from NHS benefits when calculating both the opening and closing values for the next pension input period.

### **If there has been a pension credit during the pension input period**

The pension credit is a separate deferred arrangement and is therefore ignored when calculating the opening and closing value for the pension input period.

### **If there has been a crystallisation of NHS benefits during the pension input period**

Where an active member retires the pension input period ends on the benefit crystallisation event (BCE) date.

## **Pension input amount of nil**

### **The pension input amount is nil if during the pension input period a member:**

- dies;
- retires because of ill health and meets HMRC's severe ill health condition;
- has been deferred for the whole of the pension input period;
- has been deferred for part of the pension input period who then retires;
- leaves the scheme and has a refund of contributions;
- has pension credit benefits only.

### **Or may be nil in circumstances where there is a negative amount either because:**

- the pensionable pay used to calculate benefits for the opening value is higher than that used to calculate benefits for the closing value, and/or
- the growth in CPI, used in the opening value outweighs the actual growth of the NHS benefits.