



EMPLOYER TECHNICAL UPDATE

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1. Annual Allowance Website Updates

The Annual Allowance section of the HSC Pension Service website <http://www.hscpensions.hscni.net/>

has been updated with information to help members understand Annual Allowance and how it may affect them. The information is useful to employers too, should you get any queries, so we encourage you to familiarise yourself with the content.

The new information is as follows:

- An update to the Annual Allowance FAQs
- An example of a Pension Growth Statement (PGS) (**Please note: the Pension Growth Statement is not an annual benefit statement and will not include an estimate of HSC Pension Scheme benefits.**)
- A link to online estimator tools for members of the NHS Pension Scheme which enable active members to estimate the pension input amount in order to assess whether the growth in their pension savings during the pension input period exceeds the Annual Allowance. Calculators are available for year end 11/12, 12/13 and 13/14 for the 1995 and 2008 sections of the scheme

<http://www.nhsbsa.nhs.uk/Pensions/3376.aspx>

2. HMRC Updates

• The Standard Lifetime Allowance (LTA) is Reducing

In the Finance Act 2013, the Government confirmed that the standard Lifetime Allowance (LTA) will reduce from its current value of £1.5m to £1.25m, effective from the 6 April 2014.

For the purposes of the LTA benefits crystallise on the date the member had an actual right to receive their benefits, this is the Benefit Crystallisation Event (BCE) date. In the HSC Pension Scheme the BCE date is the later of:

- the payable date
- the date benefits are actually authorised by HSC Pension Service.

The reduced LTA will therefore apply to members who become entitled to receive their benefits when they:

- have a payable date on or after 6 April 2014 – and the date the benefits are authorised is before that date
- have a payable date before 6 April 2014 – and the date the benefits are authorised is on or after 6 April 2014.

For those who are affected by the reduced allowance, the percentage of LTA used will be based on £1.25m. In addition, for high earning scheme members any LTA charges that may apply to their benefits will also be based on the reduced allowance. Any delay in claiming benefits may therefore result in:

- a bigger percentage of the LTA being used up – LTA charges may then apply to a later benefit crystallisation because there is insufficient LTA remaining
- high earning scheme members - may become subject to LTA charges or see those charges increase.

The following examples illustrate when the change would apply:

Member A: Benefits are payable from 1 April 2014. The AW6 is received 3 months before retirement, benefits are calculated and authorised on 19 March 2014. Benefits are tested against a LTA of £1.5m because the BCE date is the same as the payable date of 1 April 2014.

Member B: Benefits are payable from 1 April 2014. The AW6 is completed 3 months before retirement but there is a delay before HSC Pension Service receives the form and benefits cannot be authorised until 9 April 2014. Because of the delay the BCE date is 9 April 2014 and must therefore be tested against the lower LTA of £1.25m.

Member C: Benefits are payable from 8 April 2014. The AW6 is received prior to the last day of service, benefits are calculated and authorised on 16 March 2014. The benefits are tested against a LTA of £1.25m because the BCE date is the same as the payable date of 8 April 2014.

It is **important** to note that HSC Pension Service has **no discretion** on the date benefits crystallise and the calculation of the LTA used.

Important action for employers

Members who wish to have their benefits assessed against the LTA of £1.5m must have a last day of membership of 4 April 2014 or earlier and allow sufficient time before that date for their HSC benefits to be authorised in order for the BCE date to occur before 6 April 2014. The completed application form must be sent to HSC Pension Service at least **three months** before the intended retirement date.

This is essential for those members who hold an Enhanced Protection certificate from HMRC as there is a requirement on HSC Pension Service to check for Relevant Benefit Accrual (RBA) before HSC benefits are authorised. Where HSC benefits fail RBA the member may have scope, within the Scheme's Regulations, to 'rearrange' those HSC benefits in order to remain within RBA limits and keep their Enhanced Protection **before they are authorised**.

HSC Pension Service cannot accept responsibility for any delay in authorising benefits if the retirement application form is delayed, incomplete or the member has enhanced protection.

Any revision to benefits (substitute awards) that is authorised on or after 6 April 2014 will be a separate crystallisation of benefits and based on the lower standard LTA of £1.25m.

- **New Lifetime Allowance Protection announced by HMRC**

The majority of members will not have pension savings worth more than the £1.25m lifetime allowance on 6 April 2014. If their pension savings are worth more than £1.25m at retirement then without lifetime allowance protection they will be liable to pay a lifetime allowance charge on any benefits in excess of £1.25m.

The lifetime allowance charge is 55% if the excess is taken as a lump sum, and 25% where it is taken as a taxable pension income.

HMRC is introducing a new form of lifetime allowance protection called fixed protection 2014 to protect individuals who have built up pension pots of more than £1.25m but no more than £1.5m.

Fixed protection 2014

With fixed protection 2014 the member's standard lifetime allowance will be fixed at £1.5m. This means they can take pension savings worth up to £1.5m without paying a lifetime allowance charge.

The conditions for keeping fixed protection 2014 are identical to those for keeping fixed protection 2012, details of which can be located on the Pension and Tax pages on the website at:

<http://www.nhsbsa.nhs.uk/Pensions/3823.aspx>

Members will be able to apply to HMRC for fixed protection 2014 from August 2013; applications should be available soon on HMRC's website www.hmrc.gov.uk. Members will not require a Valuation from HSC Pension Service in order to apply for fixed protection 2014.

Applications for fixed protection 2014 must reach HMRC before 6 April 2014. Late applications to HMRC will be rejected.

Individual protection 2014

As well as fixed protection 2014, the Government has announced that individual protection 2014 will be available. The details of individual protection 2014 will be confirmed following a consultation (closing date 2 September 2013) but it is expected that it will give the member a individual lifetime allowance equal to the value of their pension rights on 5 April 2014 - up to an overall maximum of £1.5m. Any pension savings in excess of their individual lifetime allowance will be subject to a lifetime allowance charge.

Members will be able to apply for individual protection 2014 from 6 April 2014. HSC Pension Service will provide additional information on individual protection when this is disclosed by HMRC.

- **The Annual Allowance is Reducing**

In the Finance Act 2013, the Government confirmed that the Annual Allowance will reduce from its current limit of £50,000 to £40,000 from 6 April 2014. This means that any pension savings for pension input periods starting before 6 April 2014 but ending in tax year 2014/15, will count towards the reduced annual allowance of £40,000.

The first pension input period in the HSC Pension Scheme that will be affected by the reduced annual allowance of £40,000 is 1 April 2014 to 31 March 2015.

HMRC have indicated that their online calculator tools will be updated to help members calculate their annual allowance charge for 2014/15 onwards, including any carry forward that may be available.

3. Contact Details

Can employers please remind staff that when completing the HSCPS forms they should provide a personal email address for communication purposes.

Distribution List:

The Chief Executive of the HSC Board & HSC Trusts
The Director of Finance and Director of Human Resources of the:
HSC Board;
The Business Services Organisation;
The Patient and Client Council;
The Public Health Agency;
HSC Trusts;
Each Special Agency;
GP Practices;
Dental Practitioners;
Out of Hours Providers;
Directional Bodies; and Staff Representative Bodies.

How to Contact Us:

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By Telephone: 028 7131 9111

9.00am to 5.00pm – Monday to Thursday; 9.00am to 12.00pm Friday

If you have any suggestions for the newsletter or would like a particular topic covered in future publications please do not hesitate in contacting us by emailing: hscpensions@hscni.net