

HSC Pension Scheme

Annual Allowance – Employer FAQs

Q. What are the changes all about?

A. The Government has proposed changes to the way pensions are taxed. From the 2011/12 tax year the annual allowance will be reduced from its current 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 HSC 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 HSC 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

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 consulting 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. Draft legislation in the Finance Act 2011 requires employers to supply pensionable pay and membership information to HSC Pension Service by 6 July each year. HSC Pension Service 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 year's extension has been given, so that the information needs to be supplied to HSC Pension Service 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. The current annual allowance does not apply in the year in which benefits come into payment or to those members with Enhanced Protection. However, these exemptions will cease from April 2011.

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 HSC Pension Input Period?

A. The Pension Input Period is the period over which the annual allowance is worked out. In the HSC Pension Scheme it is normally run from 31 March in one year to 31 March in the following year.

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 under www.hscpensions.hscni.net/employers/emp-material/emp-material-fs.htm

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

A. Examples of how the annual allowance is calculated can be found under www.hscpensions.hscni.net/employers/emp-material/emp-material-fs.htm

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 usually below the annual allowance, unless they receive an enhancement to their pensionable service. 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 HSC Pension Service 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. HSC Pension Service can only provide information in relation to the HSC Pension Scheme.

HSC Pension Service will send a statement to all those it identifies as over the annual allowance limit in the HSC 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 HSC 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 HSC money purchase AVC's and personal pensions, when calculating the annual allowance.

It is the member's 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 HSC Pension Service by 6 July each year.

This is required in order that HSC Pension Service 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

It is the member's 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. HSC Pension Service is unable to provide advice in this respect. Members can find more information about finding an independent financial adviser at www.unbiased.co.uk

Individuals concerned about the annual allowance should be directed to:

- http://www.hscpensions.hscni.net/annual_allowance_fact_sheet.pdf
- <http://www.hmrc.gov.uk/pensionschemes>

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.

Q. Where can members find out more about the Annual Allowance?

Individuals concerned about the annual allowance should be directed to:

- http://www.hscpensions.hscni.net/annual_allowance_fact_sheet.pdf
- <http://www.hmrc.gov.uk/pensionschemes>

Note: As this information is based on draft legislation it may be subject to change

