Pension Tax Relief Changes

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Areas for Discussion

- Annual Allowance
- AA examples
- Life Time Allowance
- LTA Examples
- Responsibilities
- Questions

Annual Allowance

- Effective from April 2011
- Reduced to £50,000
- Factor of 16 to value increase in DB accrual
- 3 yr carry forward of unused allowance

PIPs and PIAs

Accrued Pension at end of previous PIP:

Based on Final Salary and Pensionable Service at that date

Increase in pension growth x 16 = "Pension Input Amount"

Accrued Pension at end of current PIP:

Based on new Final Salary and Pensionable Service at that date

Start ——————————— End

" Pension Input Period"

Exemptions are:

• Deferred members

• Benefits in year of death

• Serious ill-health retirement

• *Unlikely* for normal ill-health

Example 1

- 20 years pensionable service at March 2011

- Salary of £110,000

- Promotion to £140,000

- CPI @ 2%

Start of PIP

Pension = (£110,000 x 20/80) + 2% = £28,050
Lump sum = £28,050 x 3 = £84,150

End of PIP

Pension = £140,000 x 21/80 = £36,750
Lump sum = £36750 x 3 = £110,250

Growth in Pension = (£36,750 – £28,050) x 16 = £139,200
Lump Sum = £110,250 - £84,150 = £26,100
Total = £165,300

Allowance exceeded by £115,300

Example 2

- Tier 2 ill health retirement

- 31 yrs old with 11 yrs service

- Pensionable pay of £50,000 at start of PIP

- Pensionable pay of £51,000 at end of PIP

- CPI @ 2%

Start of PIP
Pension = (£50,000 x 10/80) + 2% = £6,375
Lump sum = £6,375 x 3 = £19,125

End of PIP
Service = 11 + (60 – 31) x 2/3 = 30.33 yrs
Pension = £51,000 x 30.33/80 = £19,337.50
Lump sum = £19,337.50 x 3 = £58,012.50

Growth in pension = (£19337.50 - £6,375) x 16 = £207,400
Lump sum = £58,012.50 - £19,125 = £38,887.50
Total = £246,287.50

Allowance exceeded by £196,287.50

Carry forward annual allowance from previous years assuming pay increased with inflation

Year X = 1 unused AA = £38,125

Year X = 1 unused AA = £38,357.84

Year X = 3 unused AA = £38,586.12

Total = £115,068.96

Allowance still exceeded by £81,218.54

Options to pay tax charges may include: -

• Self assessment

• Scheme pays and reduces member's benefits

• Deferred until retirement

Changes to Lifetime Allowance

• Reduced to £1.5m from April 6th 2012

• LTA valuation factor maintained at 20

• Transitional Protection to be put in place

• Views to be sought on detail

Calculation of benefits for LTA

Salary   = £150,000

Service   = 25 yrs

Pension   = £150,000 x 25/80 = £46,875

Lump sum   =£46,875 x 3 = £140,625

(£46,875 x 20) + £140,625 = £1,078,125

This is < LTA £1,500,000

Business Services Organisation

Responsibilities: -

•Employers will be required to deliver pay and service information to HSC Pensions by July 6th

•HSC Pensions will be required to issue statements to all members who have exceeded the AA by October 6th

•Independent financial advice should be sought

•HSC Pensions and HR staff *cannot* provide financial advice

HSC Business Services Organisation

Questions?