Business Services Organisation
HSC Pension Service

Reduced Annual Allowance Example Calculations

How is the annual allowance calculated for 1995 Section membership?

Here is an example of how the annual allowance is calculated from April 2011:

On 1 April 2011 the member's pensionable pay is £60,000 and they have been a member of the Scheme for 14 years.

On 31 March 2012 the member's pensionable pay has risen by 5% to £63,000 and by then they have built up 15 years of Scheme membership.

The annual allowance is calculated by deducting the opening value of the member's benefits (after allowing for inflation) from the closing value of the member's benefits.

Working out the opening value

On 1 April 2011 the value of the member's benefits (the opening value) is calculated as:

1. amount of annual pension 14/80 x £60,000 = £10,500
2. multiply annual rate of pension by a factor of 16: £10,500 x 16 = £168,000
3. add amount of separate lump sum £168,000 + (3 x £10,500) = £199,500
4. increase by CPI* (in this case 3.1%) £199,500 x 1.031 = £205,684.50

The opening value is £205,485.00

Working out the closing value

On 31 March 2012 the value of the member's benefits (the closing value) is calculated as:

1. amount of annual pension 15/80 x £63,000 = £11,812.50
2. multiply annual rate of pension by a factor of 16: £11,812.50 x 16 = £189,000
3. add amount of separate lump sum £189,000 + (3 x £11,812.50) = £224,437.50

The closing value is £224,437.50.

Working out the Pension Input Amount

The Pension Input Amount is £18,753 (£224,437.50-£205,684.50). As this is less than the annual allowance of £50,000, the member will not have an annual allowance charge (assuming no pension contributions are being paid by the member elsewhere).

*The opening value is increased by the Consumer Prices Index (CPI) before it is deducted from the closing value (for this example at the rate of 3.1% for 2011/12). You can read more about CPI at: www.statistics.gov.uk.

Note: The annual pension used in the calculations is the final pensionable pay i.e. the best year's pensionable pay in the last 3 years of employment.

How is the annual allowance calculated for 2008 Section membership?

Here is an example of how the annual allowance will be calculated from April 2011.

On 1 April 2011 the member's pensionable pay is £80,000 and they have 31 years pensionable service.

On 31 March 2012 the member's pensionable pay has risen by 5% to £84,000 and they have built up 32 years pensionable service.

The Pension Input Amount is the increase in the value of the member's pension saving over the Scheme year. This is the difference between the opening value (after allowing for inflation) and the closing value of the benefits.

Working out the opening value

The member's opening value is calculated as:

1. find amount of annual pension 31/60 x £80,000 = £41,333.33
2. multiply annual rate of pension by flat factor of 16: £41,333.33 x 16 = £661,333.28
3. increase by CPI* (in this case 3.1%) £661,333.28 x 1.031 = £681,834.61.

The member's opening value is £681,834.61.

Working out the closing value

The member's closing value is calculated as:

1. find amount of annual pension 32/60 x £84,000 = £44,800
2. multiply annual rate of pension by flat factor of 16 £44,800 x 16 = £716,800

The closing value is £716,800.

If you have any mandatory lump sum, then you will need to include this in the calculation and your pension should be increased to take account of this, when calculating the annual allowance used up. Any mandatory lump sum would **not** be valued as lump sum for annual allowance purposes, but would be valued as a pre-commutation pension.

Working out the Pension Input Amount

The Pensions Input Amount is £34,965.39 (£716,800.00-£681,834.61) As this is less than the annual allowance of £50,000 the member will not have an annual allowance charge, (assuming no pension contributions are being paid by the member elsewhere).

*The opening value is increased by the Consumer Prices Index (CPI) before it is deducted from the closing value (for this example at the rate of 3.1% for 2011/12). You can read more about CPI at: www.statistics.gov.uk.

Reduced Annual Allowance Example Calculations

Note: The annual pension is the final pensionable pay i.e. the average of the best 3 years in the last 10 years of employment

How is the annual allowance calculated for 1995 Section practitioner membership?

On 1 April 2011 the member's career dynamised earnings are £4,500,000.

Working out the opening value

On 1 April 2011 the value of the member's benefits (the opening value) is calculated as:

1. amount of annual pension
1.4% x £4,500,000 = £63,000

2. multiply annual rate of pension by a factor of 16
£63,000 x 16 = £1,008,000

3. add amount of separate lump sum
£1,008,000 + (3 x £63,000) = £1,197,000

4. increase by CPI (in this case 3.1%*)
£1,197,000 x 1.031 = £1,234,107

The opening value is £1,234,107.

*The opening value is increased by the Consumer Prices Index (CPI) before it is deducted from the closing value (for this example at a rate of 3.1%). You can read more about CPI at: www.statistics.gov.uk.

Working out the closing value

On 31 March 2012 career dynamised earnings have increased to £4,801,500**. The member has a further pensionable income of £200,000 in 2011/12. The members total career dynamised earnings are therefore £4,801,500 + £200,000 = £5,001,500.

****Career dynamised earnings have increased by 6.7% from 1 April 2011 to 31 March 2012 (5.2% CPI for dynamisation purposes + 1.5%)**

5. amount of annual pension
1.4% x £5,001,500 = £70,021

6. multiply annual rate of pension by a factor of 16
£70,021 x 16 = £1,120,336

7. add amount of separate lump sum
£1,120,336 + (3 x 70,021) = £1,330,399

The closing value is £1,330,399

Working out the pension input amount

The pension input amount is £96,292 (£1,330,399 - £1,234,107). As this is more than the annual allowance of £50,000, the member may have an annual allowance charge. However, “Carry Forward” may reduce or eliminate any tax charge. Pension contributions to other registered pension schemes should be added if these are being paid by the member elsewhere.

Please note that the above example ignores additional pension and added years contracts and the existence of officer appointments, which can increase the value of benefits.