

## Annual Allowance: Estimating the Cost of Scheme Pays

This factsheet provides further information to those considering using the Scheme Pays facility to pay their Annual Allowance Charge. In particular it explains the impact that Scheme Pays will have on your future Pension Benefits.

### What will happen if the scheme pays my annual allowance tax charge?

If you elect for the Scheme to pay all or part of your annual allowance charge the benefits that you receive when you retire will be reduced in order for the Scheme to recover the tax paid. The Scheme will pay the annual allowance charge on your behalf and will charge you interest on the amount paid at the rate of 3% each year plus Consumer Price Index (CPI) until you retire. The amount then owing will be converted, using age related factors provided by the Scheme Actuary, into a reduction in the benefits you receive when you retire. This is explained further below.

### What benefits will be reduced?

At retirement a reduction will be applied to your benefits before they are paid to you. If you are in the 1995 section both your pension and lump sum will be reduced proportionately. If you are in the 2008 section only your pension will be reduced, this includes members who moved to the 2008 section under Choice.

No reduction will apply to the benefits payable to a surviving partner or dependant on your death, whenever that occurs.

### How much will my benefits be reduced?

The reduction to your benefits will depend on when and why you retire. However, you may obtain an indication of what the reduction might be by using the factors in the tables enclosed in Appendix A.

Your reduction in benefits can be estimated as follows:

Reduction to pension = annual allowance charge paid by the Scheme ÷ Factor  
from table 1 or 2

Reduction to lump sum (1995 section members only) = 3 x reduction in pension

The reduction is calculated in current day terms and will increase in line with inflation up to retirement. Examples are enclosed in Appendix B.

Table 1 is for male members, and Table 2 is for female members. The relevant factor for you depends on your current age and your normal pension age.

These factors are for guidance only and may be reviewed and revised before you actually retire, resulting in a different benefit reduction.

For example, if you are male and are currently aged 45 with a normal pension age of 60 the factor you would use is 14.3, and the estimated reduction to your pension at age 60 would be:

Annual allowance charge paid by the Scheme ÷ 14.3

### **Does the amount of reduction depend on when I retire?**

If you are currently under your normal pension age the estimated reduction is calculated assuming you will retire on your normal pension age. If you are currently above your normal pension age then the estimated reduction is calculated assuming you will retire before your next birthday.

The amount of the reduction will be different to that estimated, using the enclosed factors, if you were to retire:

- before or after your normal pension age.
- due to ill health before your normal pension age then separate factors will be used in the calculation of the benefit reduction.

### **What happens if I die before I retire?**

Should you die before retirement no reduction will be applied to any dependants benefits which then become payable.

## Appendix A

### HSC Pension Scheme

Factors to estimate the reduction to your pension if you elect for the scheme to pay your Annual Allowance tax charge

**Table 1 - Male Members**

| Retirement Age: | 55   | 60   | 65  | Retirement Age: | 55   | 60   | 65   |
|-----------------|------|------|-----|-----------------|------|------|------|
| Current Age:    |      |      |     | Current Age:    |      |      |      |
| 16              | 8.0  | 6.4  | 4.3 | 43              | 17.0 | 13.5 | 8.9  |
| 17              | 8.2  | 6.6  | 4.4 | 44              | 17.6 | 13.9 | 9.2  |
| 18              | 8.4  | 6.8  | 4.6 | 45              | 18.1 | 14.3 | 9.5  |
| 19              | 8.7  | 7.0  | 4.7 | 46              | 18.6 | 14.7 | 9.7  |
| 20              | 8.9  | 7.2  | 4.8 | 47              | 19.1 | 15.1 | 10.0 |
| 21              | 9.2  | 7.4  | 4.9 | 48              | 19.7 | 15.6 | 10.3 |
| 22              | 9.4  | 7.6  | 5.1 | 49              | 20.3 | 16.1 | 10.6 |
| 23              | 9.7  | 7.8  | 5.2 | 50              | 20.9 | 16.5 | 10.8 |
| 24              | 10.0 | 8.0  | 5.4 | 51              | 21.5 | 17.0 | 11.2 |
| 25              | 10.2 | 8.2  | 5.5 | 52              | 22.1 | 17.5 | 11.5 |
| 26              | 10.6 | 8.4  | 5.7 | 53              | 22.8 | 18.0 | 11.8 |
| 27              | 10.9 | 8.7  | 5.8 | 54              | 23.2 | 18.5 | 12.1 |
| 28              | 11.2 | 8.9  | 6.0 | 55              | 23.6 | 19.1 | 12.5 |
| 29              | 11.5 | 9.2  | 6.1 | 56              | 23.2 | 19.6 | 12.8 |
| 30              | 11.8 | 9.4  | 6.3 | 57              | 22.8 | 20.2 | 13.2 |
| 31              | 12.1 | 9.7  | 6.5 | 58              | 22.4 | 20.9 | 13.6 |
| 32              | 12.5 | 10.0 | 6.6 | 59              | 22.0 | 21.2 | 14.0 |
| 33              | 12.8 | 10.2 | 6.8 | 60              | 21.6 | 21.6 | 14.5 |
| 34              | 13.2 | 10.7 | 7.0 | 61              | 21.1 | 21.1 | 14.9 |
| 35              | 13.6 | 10.8 | 7.2 | 62              | 20.7 | 20.7 | 15.4 |
| 36              | 14.0 | 11.1 | 7.4 | 63              | 20.3 | 20.3 | 15.9 |
| 37              | 14.4 | 11.4 | 7.6 | 64              | 19.8 | 19.8 | 16.1 |
| 38              | 14.8 | 11.8 | 7.8 | 65              | 19.4 | 19.4 | 16.4 |
| 39              | 15.2 | 12.1 | 8.0 | 66              | 18.9 | 18.9 | 15.9 |
| 40              | 15.6 | 12.5 | 8.2 | 67              | 18.4 | 18.4 | 15.4 |
| 41              | 16.1 | 12.8 | 8.5 | 68              | 17.9 | 17.9 | 14.9 |
| 42              | 16.6 | 13.2 | 8.7 | 69              | 17.4 | 17.4 | 14.4 |

Factors current as at April 2012

Notes:

- 1) The factors at ages below normal retirement age assume that you retire at your normal retirement age.
- 2) The factors at ages at or above normal retirement age (the shaded area) assume that you retire before your next birthday.

### HSC Pension Scheme

Factors to estimate the reduction to your pension if you elect for the scheme to pay your Annual Allowance tax charge

**Table 2 - Female Members**

| Retirement Age: | 55   | 60   | 65  | Retirement Age: | 55   | 60   | 65   |
|-----------------|------|------|-----|-----------------|------|------|------|
| Current Age:    |      |      |     | Current Age:    |      |      |      |
| 16              | 8.2  | 6.7  | 4.6 | 43              | 17.7 | 14.2 | 9.5  |
| 17              | 8.5  | 6.9  | 4.7 | 44              | 18.2 | 14.6 | 9.8  |
| 18              | 8.7  | 7.1  | 4.8 | 45              | 18.7 | 15.0 | 10.1 |
| 19              | 9.0  | 7.3  | 5.0 | 46              | 19.3 | 15.4 | 10.4 |
| 20              | 9.2  | 7.5  | 5.1 | 47              | 19.8 | 15.8 | 10.7 |
| 21              | 9.5  | 7.7  | 5.3 | 48              | 20.4 | 16.3 | 11.0 |
| 22              | 9.8  | 7.9  | 5.4 | 49              | 21.0 | 16.8 | 11.3 |
| 23              | 10.1 | 8.1  | 5.5 | 50              | 21.6 | 17.3 | 11.6 |
| 24              | 10.3 | 8.3  | 5.7 | 51              | 22.3 | 17.8 | 11.9 |
| 25              | 10.6 | 8.6  | 5.9 | 52              | 22.9 | 18.3 | 12.3 |
| 26              | 10.9 | 8.8  | 6.0 | 53              | 23.6 | 18.8 | 12.6 |
| 27              | 11.2 | 9.1  | 6.2 | 54              | 24.1 | 19.4 | 13.0 |
| 28              | 11.6 | 9.3  | 6.4 | 55              | 24.5 | 20.0 | 13.4 |
| 29              | 11.9 | 9.6  | 6.5 | 56              | 24.1 | 20.6 | 13.8 |
| 30              | 12.2 | 9.8  | 6.7 | 57              | 23.8 | 21.2 | 14.2 |
| 31              | 12.6 | 10.1 | 6.9 | 58              | 23.4 | 21.9 | 14.6 |
| 32              | 12.9 | 10.4 | 7.1 | 59              | 23.0 | 22.3 | 15.1 |
| 33              | 13.3 | 10.7 | 7.3 | 60              | 22.6 | 22.6 | 15.5 |
| 34              | 13.7 | 11.0 | 7.5 | 61              | 22.2 | 22.2 | 16.0 |
| 35              | 14.1 | 11.3 | 7.7 | 62              | 21.8 | 21.8 | 16.5 |
| 36              | 14.5 | 11.6 | 7.9 | 63              | 21.4 | 21.4 | 17.0 |
| 37              | 14.9 | 12.0 | 8.1 | 64              | 21.0 | 21.0 | 17.3 |
| 38              | 15.3 | 12.3 | 8.3 | 65              | 20.5 | 20.5 | 17.5 |
| 39              | 15.8 | 12.6 | 8.6 | 66              | 20.1 | 20.1 | 17.1 |
| 40              | 16.2 | 13.0 | 8.8 | 67              | 19.6 | 19.6 | 16.6 |
| 41              | 16.7 | 13.4 | 9.0 | 68              | 19.2 | 19.2 | 16.2 |
| 42              | 17.2 | 13.8 | 9.3 | 69              | 18.7 | 18.7 | 15.7 |

Factors current as at April 2012

Notes:

- 1) The factors at ages below normal retirement age assume that you retire at your normal retirement age.
- 2) The factors at ages at or above normal retirement age (the shaded area) assume that you retire before your next birthday.

## Appendix B

### Example calculations

#### A. 1995 Section member

##### Individual data

|                           |              |
|---------------------------|--------------|
| Sex                       | Male         |
| Current age               | 55           |
| Tax charge at current age | £5,000       |
| Section                   | 1995 Section |
| Normal pension age (NPA)  | 60           |

##### Factors (from 'Table 1 – Male Members')

|                   |      |
|-------------------|------|
| Factor at age 55: | 19.1 |
|-------------------|------|

##### Estimated benefit reduction (payable from NPA)

Members can estimate their benefit reduction payable from NPA, in today's terms, as follows:

|                          |   |               |
|--------------------------|---|---------------|
| Annual pension deduction | = | £5,000 ÷ 19.1 |
|                          | = | £261.78 pa    |
| Cash lump sum deduction  | = | 3 x £261.78   |
|                          | = | £785.34       |

The estimated benefit deduction is assumed to increase annually in line with (CPI) inflation to retirement.

##### Calculation of actual benefit reduction at retirement

In practice, the individual's initial tax charge is not converted to a pension deduction until the member actually retires. Instead, the initial tax charge is increased in April each year between age 55 and retirement with interest based on (CPI) inflation plus 3% a year.

The actual benefit reduction will only be known at retirement and will depend on the amount of the tax charge (with interest) at that date, together with the relevant factor.

In this example the relevant factor would be 21.6 at retirement, i.e. the factor at current age 60 from Table 1. The factor would be different if the member did not retire in normal health at NPA. The factor would also be different if the member were to retire before or after age 60. Please note that all the factors are subject to future change.

## B. 2008 Section member

### Individual data

|                             |              |
|-----------------------------|--------------|
| Sex                         | Female       |
| Current age                 | 50           |
| Tax charge at current age   | £10,000      |
| Section                     | 2008 Section |
| Normal retirement age (NPA) | 65           |

### Factors (from 'Table 2 – Female Members')

|                   |      |
|-------------------|------|
| Factor at age 50: | 11.6 |
|-------------------|------|

### Estimated benefit reduction (payable from NPA)

Members can estimate their benefit reduction payable from NPA, in today's terms, as follows:

|                          |   |                |
|--------------------------|---|----------------|
| Annual pension deduction | = | £10,000 ÷ 11.6 |
|                          | = | £862.07 pa     |

The estimated benefit deduction is assumed to increase annually in line with (CPI) inflation to retirement.

### Calculation of actual benefit reduction at retirement

In practice, the individual's initial tax charge is not converted to a pension deduction until the member actually retires. Instead, the initial tax charge is increased in April each year between age 50 and retirement with interest based on (CPI) inflation plus 3% a year.

The actual benefit reduction will only be known at retirement and will depend on the amount of the tax charge (with interest) at that date, together with the relevant factor.

In this example the relevant factor would be 17.5 at retirement, i.e. the factor at current age 65 from Table 2. The factor would be different if the member did not retire in normal health at NPA. The factor would also be different if the member were to retire before or after age 60. Please note that all the factors are subject to future change.