

Reduced Annual Allowance – Additional Pension (AP) and Added Years (AY)

The Annual Allowance has been reduced from £255,000 to £50,000 from 6 April 2011. The Annual Allowance is the maximum tax-privileged amount of growth and contributions you can have in all your pension arrangements (excluding State pensions) in a tax year.

The value for Annual Allowance purposes in an Additional Pension (AP) and Added Years (AY) arrangement is the amount of AP or AY purchased multiplied by 16. Survivors and dependants pensions do not count toward the Annual Allowance and therefore any AP or AY value attributable to these pensions should be excluded for Annual Allowance purposes.

Any AP or AY already purchased or still being purchased must be included in the opening and closing balance when calculating the Pension Input Amount for any Pension Input Period. These terms are explained in more detail in the reduced Annual Allowance section of this website.

Additional Pension (AP)

AP is an option to buy extra annual pension, available in both the 1995 and 2008 Sections of the Scheme. If AP of £2,000 is purchased by a single payment, its value for Annual Allowance purposes under the rules for 2011/12 is $£2,000 \times 16 = £32,000$ in the year of purchase. This amount will count towards the Annual Allowance of £50,000. Therefore the Annual Allowance remaining is $£50,000 - £32,000 = £18,000$ in this example*.

AP may also be purchased by payment of instalments deducted from pay. In those circumstances the AP accrues on a pro-rata basis during the period the instalments are paid. For example, AP of £2,000 purchased over a four-year period that begins at the start of a tax year, will accrue at the rate of £500 a year. The value for Annual Allowance purposes will be $£500 \times 16 = £8,000$, in each of the next four years*.

AP is re-valued by any increase in the rate of inflation between the month when the application to buy AP was received, and the second month before the pension is due for payment. The increase counts towards the Annual Allowance used in the year.

*The above examples assume that there is no increase in the rate of inflation and that no survivors or dependants pension has been purchased.

The growth is calculated differently under the main HSC Pension Scheme than it is for AP. Growth in the main HSC Pension Scheme also needs to be taken into account as do any other pension contributions, for example, to personal pensions.

Added Years (AY)

AY is a service based benefit available only in the 1995 Section of the Scheme. Each additional year purchased increases the service used to calculate scheme benefits. The service of members who work part-time is increased in proportion to the hours worked in the period when the added years are purchased.

AY benefits for HSC staff

Under an AY contract members usually contribute a fixed percentage of their pensionable pay for an agreed number of years. Contracts begin from a members birthday and normally end when he or she reaches age 60 or 65 (members of the special classes can also choose age 55). The service purchased accrues on a pro-rata basis during the period of the contract. For example, a contract to buy 5 added years, which began at age 50 and is due to be completed at age 60, will accrue extra service at the rate of half a year, in each year of the contract.

AY are added to actual years of service and the total used to calculate benefits as follows:

Pensionable pay x total years service x 1/80 = pension

Pensionable pay x total years service x 3/80 = lump sum*

(*The lump sum is normally reduced in respect of membership before 25 March 1972.)

This method of calculation also applies to practitioners when they work in salaried hospital/community service when buying AY.

AY benefits for Practitioners

Practitioners receive benefits based on their re-valued career earnings. This is achieved by re-valuing the pensionable earnings received in each year of practitioner service to calculate the total up-rated earnings. The pension is 1.4% of the total up-rated earnings. In keeping with this method of calculating benefits practitioners are credited with extra pensionable pay for each AY purchased. The extra pay is the annual average of the re-valued pensionable earnings during the period of the AY contract. At retirement the extra pay is added to the pensionable earnings in the year when the contract ends or in the final year of membership, if that is earlier.

For AA purposes the proportion of AY pay and membership purchased in the PIP is included in the opening and closing values.

The basic practitioner benefits are:

Total up-rated pensionable pay (including added years) x 1.4% = pension

Total up-rated pensionable pay (including added years) x 4.2% = lump sum*

(*The lump sum is normally reduced in respect of membership before 25 March 1972.)

Notes on Practitioner benefit calculations

HSC Pension Scheme regulations provide a number of flexibilities for the calculation of benefits when a practitioner has also undertaken work as an HSC staff member in salaried hospital / community service. Subject to the regulations this might result in:

The basic practitioner benefits being increased by a conversion factor which takes account of salaried hospital / community service before becoming a practitioner. AY service is included in the factor.

Separate staff member benefits being paid for salaried hospital / community service. If worked whilst buying AY, the separate benefits will include an AY service credit.

Pay from salaried hospital / community service worked concurrently with practitioner service being included in the practitioner benefit calculation. If worked whilst buying AY the salary is also included in the practitioner AY calculation, described above.

AY in the 2008 Section

AY cannot be purchased in the 2008 Section but any already purchased in the 1995 Section are included in the service which transfers to the 2008 Section under Choice. The transferred service, including AY, is subject to an adjustment if the member is over age 60 on 1 October 2009.

Once service has been transferred benefits are calculated in accordance with the rules of the 2008 Section.

More information on the Annual Allowance in the main HSC Pension Scheme can be found at: www.hscpensions.hscni.net.

When you are considering purchasing AP or AY, you should consider whether you may be affected by the Annual Allowance limit.