STAFF BRIEFING ON PENSIONS TAX
UNIVERSITY OF EAST LONDON

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1

EXECUTIVE SUMMARY

The recent legislative changes could potentially result in a significant increase in the personal tax liabilities due for high earning employees of the University who are members of a pension scheme supported by the University – notably the Teachers Pension Scheme (TPS), the London Government Pension Scheme (LGPS) and the UEL Retirement and Savings Plan (UELRSP). This briefing paper provides background information in order for you to make a decision about whether you need to get further suitable advice.

BACKGROUND

In 2006 Her Majesty's Revenue & Customs (HMRC) placed restrictions on both the overall level of benefits that an individual can be provided on a tax-efficient basis under registered pension schemes and the annual rate at which these benefits can accrue. This is enforced using the Lifetime Allowance and the Annual Allowance respectively.

The additional tax associated with the Lifetime Allowance and Annual Allowance only used to apply to the very highest earners. However, over recent years, the Government has progressively reduced the allowances in order to raise additional tax revenue. As a consequence the tax efficiency of such registered pension schemes for high earners has been significantly reduced.

This year the Government has announced a number of further changes that will affect the calculation of the Annual Allowance and Lifetime Allowance. The changes are aimed to collect more tax from members of pension schemes.

In particular the recent changes mean that it is likely that many more individuals will now be caught by the Annual Allowance.

This briefing applies to all of our employees whether you are in the TPS, the LGPS or the UELRSP. Please read this briefing paper in conjunction with your pension scheme booklet, which is available on your pension website (details of which are shown in the further information section below).

The purpose of this briefing is to explain how the Annual Allowance and Lifetime Allowance work including examples, detail of the changes the Government has announced, where you can find more information, and the actions you might need to consider taking.

Please note all types of non-State pension benefits are included for the purposes of these limits, as well as public and private defined benefit and defined contribution schemes provided by the current employer. These include Additional Voluntary Contributions (AVCs), Free Standing Additional Voluntary Contributions (FSAVCs), personal pensions, group personal pensions, stakeholder pensions and deferred pensions from previous employment. The only pensions not included are those payable by the State, including the unified flat rate State pension implemented from April 2016.

The tax rules are complicated and the descriptions of any tax implications given in this guide have therefore been simplified. The information given in this guide is based on current legislation and may be subject to change.

Please note that you are responsible for submitting the relevant information to HM Revenue & Customs should you breach the Annual Allowance or Lifetime Allowance. If you think you might be affected you should seek appropriate advice before making any decisions. (Details of how to find an adviser can be found on the following webpage: http://www.fca.org.uk/consumers/financial-services-products/investments/financial-advice/finding-an-adviser)**.**

IN SUMMARY WHAT IS THE GOVERNMENT PROPOSING?

The Lifetime Allowance	A reduction from the current level of £1.25m to £1m (plus indexation) from 6 April 2016.
The Annual Allowance	A reduction from the current level of £40,000 for "high earners" from 6 April 2016. A "high earner" is a member who has taxable income, including the value of pension savings, in excess of £150,000.
Pension Input Periods (PIPS)	PIPS for all schemes are to be aligned with tax years. Currently the PIPS for TPS and LGPS are 1 April to 31 March each year. The PIP for the UELRSP is already aligned with the tax year. Transitional arrangements will apply for calculation of the Annual Allowance for 2015/16 to allow for the change to the PIP.

We have covered each of the changes in further detail below. Worked examples have been included in order to help you to understand the changes and how they may impact you.

Please note that the Annual Allowance and the Lifetime Allowance will apply to the total of your contributions to, and your benefits from, all registered schemes of which you are a member (i.e. not just the arrangement you are currently a member of).

2

THE LIFETIME ALLOWANCE

What is the Lifetime Allowance?

The ‘Lifetime Allowance’ is the limit on the total value of pension savings you can build up tax efficiently over your entire working lifetime.

How much is the Lifetime Allowance?

The Lifetime Allowance is currently £1.25m (having been reduced from £1.8m to £1.5m from April 2012 before being further reduced to £1.25m from 6 April 2014).

It has now been proposed that the Lifetime Allowance would be further reduced to £1m from April 2016. The Government also proposes to index the LTA in line with the Consumer Price Index (CPI) from 2018, which will help ease some of the impact, but the reduced Lifetime Allowance will still affect significantly more people than ever before (particularly if CPI increases remain low).

How do you calculate the value of your pension savings for Lifetime Allowance purposes?

At the time you draw your pension savings, the HMRC assessed value of any benefits being taken will be assessed against your remaining Lifetime Allowance.

In order to value a defined benefit pension coming into payment, HMRC uses a factor of 20:1. Any defined contribution funds or tax free cash are taken at face value.

If you are already receiving any pension payment from another scheme, then you will have already used up part of the Lifetime Allowance and this will be taken into account when testing your pension from the TPS, LGPS or UELRSPS against the Lifetime Allowance.

Example 1 - Calculation of the value of pension savings

Joe is retiring from the TPS at 5 April 2017 and has a pension at that date of £50,000 p.a. plus an additional cash entitlement of £150,000.

He has no other pension entitlements from any other pension schemes.

The value of his benefits at retirement is calculated as follows:

£50,000 x 20 + £150,000 = £1,150,000

How do you know if you will exceed the Lifetime Allowance?

Each scheme is required to provide members with a statement giving the details of the proportion of the Lifetime Allowance that the value of their benefits earned in that scheme to date represents. Therefore, whenever you get an annual benefit statement from the scheme this should give you an indication of how much of the Lifetime Allowance you have used up.

The actual amount of the Lifetime Allowance used up for a scheme is only calculated accurately when you actually retire from a scheme, and will depend on how much you actually receive. For example if you choose to retire early and your pension is reduced then this would mean you would use up less of the Lifetime Allowance than if your pension was not reduced.

At the point you actually take your benefits from the scheme then you will receive confirmation of whether you have exceeded the Lifetime Allowance. If you have exceeded the Lifetime Allowance you will be provided with options for paying the tax charge (see question below – How is any tax charge paid?).

If your benefits do not exceed the Lifetime Allowance you will receive confirmation from the scheme of what percentage of the Lifetime Allowance you have used up.

What happens if you have more than one pension arrangement?

If an employee has a number of different pension benefits, the individual schemes cannot provide a total assessment of the value of all of these benefits against the Lifetime Allowance. Each scheme can only calculate the Lifetime Allowance impact of the benefits payable through that scheme.

In order to assess their total liability against the Lifetime Allowance, the member will need to obtain quotes from each different pension arrangement in which they are a member.

If you are already receiving benefits from another scheme it is your responsibility to notify the relevant current scheme administrator of how much of the Lifetime Allowance you have already used up. Similarly if you have any protections (see later question) then it is your responsibility to inform the administrator of those protections.

What happens if your pension savings exceed the Lifetime Allowance?

Once in payment, all of your pensions will be liable for income tax. If you build up benefits above the Lifetime Allowance an additional tax charge will be applied to the value of retirement benefits above the Lifetime Allowance.

Any benefits received in excess of the Lifetime Allowance will be taxed at a rate of 25% on the excess with the residual pension taxed at the member's marginal rate whilst in payment. Alternatively, if the scheme allows the excess to be taken as a lump sum, a tax charge of 55% will apply to all of the excess.

How is any tax charge paid?

The Lifetime Allowance tax charge is paid directly to HMRC by the scheme. This means that your benefits at retirement will be reduced to allow for the amount of the tax charge that the scheme has paid on your behalf.

Example 2 - Calculation of the Lifetime Allowance tax charge

Joe’s Lifetime Allowance at 5 April 2017 is £1,000,000.

If he takes the excess over the Lifetime Allowance as pension the tax charge is 25%. His benefits will then be reduced by this amount by the scheme before they are paid to him.

Therefore, Joe’s Lifetime Allowance tax charge is £37,500 (calculated as (£1,150,000 - £1,000,000) x 25%).

The Lifetime Allowance tax charge would result in a reduction to the member’s gross pension of £37,500/20 = £1,875 p.a.

(Please note that this example is based on a current factor for TPS of 20:1. In practice this will be different for other schemes.)

Can I protect myself from the impact of the Lifetime Allowance?

HMRC introduced a new form of protection called "Individual Protection 2014" in 2014 for individuals who had already built up pension rights worth at least £1.25m at 5 April 2014. Members can register the value of their pension benefits at 5 April 2014 as their personal LTA (subject to a maximum personal Lifetime Allowance of £1.5m), and will be able to continue to build up pension benefits as a member of the scheme. An application for Individual Protection 2014 can be made up to 5 April 2017.

From April 2016 there will be two new protections, Fixed Protection 2016 and Individual Protection 2016 for individuals to protect their pension savings when the Lifetime Allowance reduces to £1m from 6 April 2016.

Fixed Protection 2016 means that an individual can retain a Lifetime Allowance of £1.25m, as long as an individual accrues no further benefits in a registered pension after April 2016.

Individual Protection 2016 will be available for individuals who have already built up pension rights worth at least £1m at 5 April 2016. These individuals can register the value of those rights accrued at 5 April 2016 as their personal LTA (but subject to a maximum of £1.25m).

There will be no application deadline for these protections. However, the individual will need to apply for protection before your benefits are taken (on or after 6 April 2016) since the HMRC reference number will be required in order to rely on these protections.

3

THE ANNUAL ALLOWANCE

The summer budget means the position for high earners from 2016/17 is potentially much worse. However, HMRC has introduced easements for 2015/16 which will potentially reduce the Annual Allowance tax charge for that year. The impact of the easement is shown in the next section – “The Annual Allowance for 2015/16”.

What is the Annual Allowance?

The Annual Allowance is the amount of your annual pension savings that can be made by you or on behalf of you that will benefit from tax relief.

How do you calculate the value of your pension savings for Annual Allowance purposes?

Your pension savings are measured over a Pension Input Period (PIP) which will be the tax year for all UK pension schemes.

If you are a member of the TPS or LGPS, to work out the figure that counts towards your Annual Allowance you should take the increase in your defined benefit pension entitlement for the pension input year net of Consumer Price Index (CPI) inflation (measured over the period September to September before the start of the PIP) and multiply it by 16 plus the increase in your lump sum cash entitlement for the pension input year also net of CPI inflation.

You then add the value of any additional contributions paid to a defined contribution arrangement over that year.

If you are member of the UELRSP your pension savings will be the amount of employer and any employee contributions made in the year.

If the overall total is greater than the Annual Allowance you will have to pay a tax charge on the excess.

Example 3 - Calculation of value of pension savings, UELRSP member

John has earnings of £50,000 p.a. in 2014/15

UEL makes contributions to the UELRPS of 10% p.a. of his earnings, i.e. £5,000 p.a. John does not make any personal pension contributions.

The Annual Allowance is £40,000.

As total contributions to the UELRPS are less than John’s Annual Allowance, there is no Annual Allowance tax charge.

What are carry forward provisions?

Carry Forward provisions are available which may allow you to make tax-efficient savings in excess of the Annual Allowance. Specifically, where the contributions you have paid for the value of a benefit accrued is less than the Annual Allowance in respect of a particular tax year; it is possible for you to carry forward any “shortfall” to the current tax year for up to three tax years.

This amount can then be added to your Annual Allowance before the comparison against the value of pension savings is carried out.

Example 4 - Calculation of value of pension savings, TPS member

Mel has an accrued pension in the TPS of £30,000 at 1 April 2014 (the beginning of the Pension Input Period) and an accrued pension of £38,000 at 31 March 2015 (the end of the Pension Input Period).

She also has an additional cash entitlement of £90,000 at 1 April 2014 and £114,000 at 31 March 2015.

CPI over September 2012 to September 2013 is 2.7%

The HMRC value of the increase in her pension is:

(£38,000 - £30,000 x 1.027) x 16
+ (£114,000 - £90,000 x 1.027)
= £136,610

Mel’s Annual Allowance for 2014/15 is £40,000.

Therefore an Annual Allowance tax charge would be payable on the excess of pension savings over the Annual Allowance i.e. £136,610 - £40,000 = £96,610.

However, Mel also has cumulative carry forward for the last 3 years of £50,000.

In this case the effective Annual Allowance becomes £90,000 (i.e. £40,000 plus £50,000 carry forward).

The Annual Allowance tax charge would then be payable on the excess of pension savings over £90,000 i.e. £136,610 - £90,000 = £46,610.

How much is the Annual Allowance?

The Annual Allowance is currently £40,000 for everybody, but this will be reduced for “high earners” from 6 April 2016.

If your “Adjusted Income” (broadly taxable income plus the value of your pension savings) is more than £150,000, the standard Annual Allowance will be earnings related and will reduce by £1 for every additional £2 of Adjusted Income (as defined below) above £150,000 – this is known as the “Tapered Annual Allowance”.

The minimum Annual Allowance will be £10,000.

The table below summarises the proposed new Annual Allowances from 6 April 2016:

Adjusted Income	Annual Allowance
Less than £150,000	£40,000
£150,000 to £210,000	Earnings related, between £40,000 and £10,000
Greater than £210,000	£10,000

If your “Threshold Income” is £110,000 or less, you will not be subject to the Tapered Annual Allowance. The Threshold Income is broadly taxable income.

How is Adjusted Income calculated?

This is the income amount that will be used to determine your Annual Allowance from 6 April 2016. It is broadly total taxable income over the tax year, plus the value of your pension savings over the year (as explained below).

Example 5 – Calculation of Annual Allowance

Mel has total taxable income of £120,000 for the 2016/17 tax year.

She is a member of a defined benefit scheme and the value of the increase in the benefit is £35,000 in the tax year.

Hence her Adjusted Income is £155,000.

Her Annual Allowance is £37,500 (calculated as 40,000 less £1 for every £2 of Adjusted Income in excess of £150,000).

What happens if your pension savings exceed the Annual Allowance?

If your savings exceed the Annual Allowance an Annual Allowance tax charge would apply which is based on your marginal rate of income tax.

How is any tax charge paid?

If the Annual Allowance tax charge exceeds £2,000 in any one tax year, you can request the tax charge is paid from the pension scheme through a facility called "Scheme Pays". This means that your pension benefits at retirement will be reduced to allow for the amount of the tax charge that the scheme has paid on your behalf.

Example 6 – Calculation Scheme Pays amount

As shown by Example 3 Mel would need to pay an Annual Allowance tax charge for 2014/15 on the excess of pension savings of £46,610

Assuming an Annual Allowance factor of 20:1, Mel's pension would be reduced by £2,330 p.a. if the Annual Allowance tax charge is paid via Scheme Pays.

Please note that in practice the factors vary by age in the TPS and LGPS.

How will I know if I exceed the Annual Allowance in a year?

Currently if your savings exceed the Annual Allowance in a Pension Input Period the pension scheme administrator will need to notify you within 6 months of the end of the tax year (i.e. by 5 October) in which you exceeded the Annual Allowance. The administrator will also advise you of the value of pension savings in the three previous years so you can work out your carry forward position.

4

ANNUAL ALLOWANCE FOR 2015/16

You will be notified by your scheme by 5 October 2016 if you exceed the Annual Allowance for 2015/16.

Please note that is very unlikely that you will exceed the Annual Allowance in 2015/16 unless your earnings are in excess of £100,000. If you expect to exceed the Annual Allowance for 2015/16 you should read this section in detail.

As mentioned earlier, transitional arrangements have been put in place for 2015/16 which will reduce the Annual Allowance tax charge. We have illustrated the reduction using the figures from Example 3 earlier.

CALCULATION OF THE VALUE OF INCREASE IN PENSIONS SAVINGS

Savings for Pension Input Periods (PIPs) ending in the 2015/16 tax year are split into two “mini tax years” (broadly the period from 1 April 2015 to 8 July 2015, (the Pre Alignment Period), and from 9 July 2015 to 5 April 2016 (the Post Alignment Period)). Effectively, the savings in the Pre Alignment Period is assessed against an Annual Allowance of £80,000 plus any carry forward from past years. The balance of this Annual Allowance (but up to a maximum of £40,000 plus carry forward) is then available for the Post Alignment Period. The usual Annual Allowance measurement rules then apply with the exception that the opening value of the pension rights at the start of the period is uprated by 2.5% rather than the September 2014 CPI figure of 1.2%.

Any contributions (employee and employer) paid to a defined contribution arrangement are attributed to the period in which they are paid.

Example 7 – Calculation of value of pension savings

Mel has an accrued pension of £30,000 at 1 April 2015 (the beginning of the Pension Input Period) and an accrued pension of £38,000 at 5 April 2016 (the end of the tax year).

She also has an additional cash of £90,000 at 1 April 2015 and £114,000 at 5 April 2016.

The HMRC value of the increase in pension is:

(£38,000 - £30,000 x 1.025) x 16
+ (114,000 - £90,000 x 1.025)
= £137,750

The total number of days between 1 April 2015 and 5 April 2016 is 371 days. The pre alignment period is 99 days and the post alignment period is 272 days.

The value of her pension savings for each PIP is as follows:

- The first period is 99/371 x £137,750 = £36,758
- The second period is 272/371 x £137,750 = £100,992

COMPARING THE PENSION INPUT AMOUNT WITH THE ANNUAL ALLOWANCE

As a result of the PIP being aligned with tax years from April 2016 onwards, the transitional rules mean that the PIP for the pension input period from 1 April 2015 to 8 July 2015 will be assessed against an Annual Allowance of £80,000 (plus any carry forward allowance you have from the previous three tax years).

Where the £80,000 amount has not been used for the pension input period from 1 April 2015 to 8 July 2015, it will be carried forward to the pension input period from 9 July 2015 to 5 April 2016, subject to a maximum of £40,000 (plus any carry forward allowance you have from the previous three tax years).

Should the value of pension savings ending in any tax year be more than the Annual Allowance (plus any carry forward for the previous three tax years), you will be subject to an Annual Allowance tax charge.

Any excess over the Annual Allowance and the resulting Annual Allowance charge should be reported to HMRC via the Self-Assessment process. You may be able to meet any such charge by way of ‘Scheme Pays’ as explained earlier in the paper.

Example 8 - Comparing pension savings against the Annual Allowance

The value of Mel’s pension savings over the first PIP is £36,758 – significantly below the Annual Allowance of £80,000.

Therefore, the Annual Allowance for her second PIP is £40,000 (the maximum allowed).

As her pension savings for the second PIP are £100,992, there is a tax charge on the excess over the Annual Allowance i.e. on £100,992 - £40,000 = £60,992.

However, Mel also has cumulative carry forward for the last 3 years of £50,000.

In this case her effective Annual Allowance for the second PIP becomes £90,000 (i.e. £40,000 plus £50,000 carry forward).

An Annual Allowance tax charge would then be payable on the excess of pension savings over £90,000 i.e. £100,992- £90,000 = £10,992.

This figure is significantly lower than the figure of £46,610 calculated in example 3.

5

WHAT ACTIONS DO YOU NEED TO TAKE?

HAVE YOU EXCEEDED THE ANNUAL ALLOWANCE IN 2014/15?

If you have exceeded the Annual Allowance in 2014/15 the table below illustrates the timescales and the actions needed. Note the same deadlines will apply in each future year.

Deadline	Action
By 5 October 2015	If you have exceeded the Annual Allowance for the 2014/15 tax year, your pension scheme will have provided you with your pensions savings for 2014/15, together with details of your pension savings in the previous 3 years in order for you to work out any carry forward of any unused Annual Allowance. If you have not received this detail, your pension savings have not exceeded the Annual Allowance hence no further action is required.
By 31 January 2016	If you have been advised that your pension savings exceed the Annual Allowance, after taking account of carry forward, you should notify HMRC on your self-assessment tax return. You should include on page Ai 4, box number 10, the amount by which you have exceeded the Annual Allowance after taking account of any carry forward provision. If you want to use Scheme Pays you will also need to complete box numbers 11 and 12 on the self-assessment form. Box number 11 should be the amount of Annual Allowance tax due which will collected by Scheme Pays. Box number 12 is the pension scheme tax reference number for the relevant scheme. Links to the self-assessment form and supporting notes are provided below: www.gov.uk/government/uploads/system/uploads/attachment_data/file/419535/sa101-2015.pdf www.gov.uk/government/uploads/system/uploads/attachment_data/file/419543/sa101-notes-2015.pdf
By 31 July 2016	This is the latest date by which you can make an irrevocable election to proceed with Scheme Pays

CAN YOU APPLY FOR ANY LIFETIME ALLOWANCE PROTECTION?

If you pension savings are in excess of £1.25m on 5 April 2014 you can still apply for Individual Protection 2014. The window for applying for this is open until 5 April 2017. A link to this is provided below.

https://online.hmrc.gov.uk/shortforms/form/IP2014?dept-name=&sub-dept-name=&location=36&origin=http://www.hmrc.gov.uk

HMRC are introducing a new online self-service for pension scheme members to apply for Individual Protection 2016 and Fixed Protection 2016, and this service will be available for members to use from July 2016. However, if you would wish to rely on fixed protection 2016, you will need to have ceased active membership of the pension scheme before 5 April 2016.

If you apply for these protections from July 2016, you will be provided with a reference number which you will need to keep.

If you are likely to take your pension benefits before July 2016 you will need to apply for Fixed Protection 2016 and/or Individual Protection 2016 in writing to HMRC. They will respond to you in writing, and this information can then be provided to your scheme administrator.

WHERE SHOULD YOU GO IF YOU WOULD LIKE MORE INFORMATION?

If you have any questions about the changes to pensions tax please contact either your scheme and/or you should seek appropriate advice. Contact details for your scheme and details of how to find an adviser are both provided in the table below.

There are a number of places you can go to get further information about the Annual Allowance and Lifetime Allowance, as well as the specifics for your scheme. Links to the appropriate web pages are provided in the table below:

HMRC's website	ANNUAL ALLOWANCE guidance, which includes links to various examples: **http://www.hmrc.gov.uk/tools/pension-allowance/index.htm** Carrying forward unused ANNUAL ALLOWANCE from the previous 3 tax years. **http://www.hmrc.gov.uk/manuals/rpsmmanual/rpsm06108010.htm** The calculation of the ANNUAL ALLOWANCE charge is shown in the link below: **http://www.hmrc.gov.uk/manuals/rpsmmanual/RPSM06108110.htm**
TPS	Contact details: **https://www.teacherspensions.co.uk/public/contact-us/member-contact-us.aspx** Scheme guide: **https://www.teacherspensions.co.uk/members/your-scheme.aspx** Scheme pays form and Lifetime Allowance charge assessment form: **https://www.teacherspensions.co.uk/members/forms/managing-your-pension.aspx**
LGPS	Scheme website: **http://www.lbbdpensionfund.org/**

UELRSP	Contact details: Friends Life PO Box 2282, Salisbury, SP2 2HY Tel: 0845 604 9915 email: mymoney@friendslife.co.uk
Finding an adviser	http://www.fca.org.uk/consumers/financial-services-products/investments/financial-advice/finding-an-adviser

The information in this leaflet is based on the guidance published on 8 July 2015 by HM Revenue & Customs.

The information provided in this leaflet is intended for general information and illustrative purposes. It does not constitute investment or any other advice, and it is not intended to be a substitute for information and statements provided by the Trustees of the TPS, LGPS or Friends Life as the provider of the UELRSP. It should not be relied on to make investment or other decisions. The University gives no warranty and accepts no responsibility for the accuracy of any information provided, or for your reliance on that information. Your benefits will be worked out in accordance with and subject to the governing trust deed and rules. Although every effort has been made to ensure that the information given in this leaflet is accurate, none of the information given can give you legal rights to benefits that differ from those provided in the pension trust and rules.

We recommend that you get independent financial advice before making any important decisions about your pensions arrangements.