This guide has been produced to support your conversations with members of the NHS Pension Scheme about annual allowance.

What is annual allowance?

Annual allowance is the amount of pension savings an individual can make in one year without paying tax. If an employee builds up pension savings that exceed the annual allowance, a tax charge is due on the value of the excess benefits. For members of the NHS Pension Scheme, the amount of pension savings over the year is not based on the value of employee and employer contributions paid into the scheme, it is based on the increase in the value of the member’s pension benefits over the year.

Employees may be subject to the standard annual allowance or a lower tapered annual allowance, depending on their taxable income.

The standard annual allowance limit is set by HMRC and is £40,000 for the 2018/19 tax year. The value of the annual allowance has fallen over time, meaning that a wider range of NHS staff may now earn benefits that exceed the allowance.

Employees may have a lower, tapered annual allowance if they have:

- ‘threshold income’ above £110,000 and
- ‘adjusted income’ above £150,000

If an individual is subject to a tapered annual allowance, their annual allowance of £40,000 is reduced by £1 for each £2 of adjusted income above £150,000, to a minimum annual allowance of £10,000. This means the employee’s individual tapered annual allowance may be anywhere between £40,000 and £10,000. The gradual tapering of the annual allowance is shown in the graph on page 2.

Further restrictions may apply if the employee has taken any pension benefits from a money purchase or defined contribution scheme, such as a personal pension scheme.

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<th>Threshold income is taxable income, including earnings from all employment, and income from other sources such as rental properties, investments and pensions.</th>
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<th>Adjusted income includes threshold income, plus the value of pension savings.</th>
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A range of factors may contribute towards an individual breaching their annual allowance. As many of these factors depend on the individual’s personal finances, it may not be possible for employers to identify who may be affected in advance. However, employees are more likely to exceed the annual allowance if:

- they have long service in the NHS Pension Scheme
- they are members of the 1995/2008 Scheme (although it’s still possible for members of the 2015 Scheme to be affected)
- they receive a significant increase in pensionable pay
- they are promoted several times within a brief period
- they have pension savings in other workplace pension schemes
- they receive taxable income from other sources (e.g. income from other employment, pension income, self-employment and income from rental properties)
- inflation is low.

“It may not be possible for employers to identify who may be affected in advance...”
How are benefits in the NHS Pension Scheme tested against annual allowance?

STEP 1
The value of pension growth over the year, known as the Pension Input Period (PIP), is calculated by subtracting the value of the member’s pension at the start of the year from the value of the pension at the end of the year.

STEP 2
The value of pension growth is multiplied by a factor of 16.

STEP 3
The resulting figure is the Pension Input Amount (PIA).

If the PIA exceeds the individual’s annual allowance, any excess benefits are subject to a tax charge at the member’s marginal rate of income tax. The HMRC calculator can be used to work out the tax charge.

Options for affected staff

1. **Carry forward** – Staff may use any leftover annual allowance from the last three years.

2. **Scheme pays** – Employees may ask NHS Pensions to pay the tax charge to HMRC on their behalf. In return, pension payments in retirement are reduced by a corresponding amount.

   Employees must notify NHS Pensions of their intention to use scheme pays before the annual deadline for the relevant tax year. For example, for a tax charge relating to the 2017/18 tax year, employees must submit their request to NHS Pensions before 31 July 2019. The scheme pays election notice form is available to download from the NHS Pensions website.

3. **Pay the tax charge** – The employee can pay the tax charge to HMRC from their personal funds.
Communications

NHS Pensions will write to staff who they believe may have built up pension savings in the NHS Pension Scheme that exceed the annual allowance for the previous tax year. This letter is called a pension savings statement and contains all the information an employee will need to calculate and pay their tax charge. Employees may have pension savings elsewhere, so it is the employee’s responsibility to include details of other pension arrangements and identify and calculate any tax liability. Staff will often look to their employer for help in understanding their statements and what to do next.


Timeline

- 6 April: Start of the PIP.
- 6 July: Employers must provide data to NHS Pensions.
- 31 July: Staff must request to use Scheme Pays.
- 31 October: NHS Pensions will release pension saving statements.
- 5 April: End of the PIP.
- 31 January: Staff must complete their self-assessment tax return.
# Responsibilities

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<th>Member</th>
<th>Employer</th>
<th>NHS Pensions</th>
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<td>Calculate their tax charge, inform HMRC and ensure the tax charge is paid.</td>
<td>Provide accurate employee data to NHS Pensions, help to answer any queries and signpost staff to HMRC or an independent financial adviser where necessary.</td>
<td>Calculate the Pension Input Amount, send pension savings statements and pay the tax charge to HMRC for members requesting to use scheme pays.</td>
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NHS Employers

NHS Employers supports organisations to develop effective approaches to reward to support their workforce priorities and challenges. We keep employers up to date with the latest developments in reward and provide guidance to help employers communicate and reinforce the value of their reward offer. Our Total Reward and Engagement Network provides an opportunity for colleagues from across the NHS to develop and share their reward knowledge and experiences.

The NHS Pension Scheme is a key part of the reward offer for employees in the NHS and we provide tools and resources to help employers promote the value of the scheme and carry out their local administration responsibilities.

Further information

Further information about the annual allowance is available online from NHS Pensions and HMRC.

Contact us

For more information about the NHS Pension Scheme, go to: www.nhsemployers.org/pensions

If you have any questions, email us at: pensions@nhsemployers.org

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