

Assessing annual allowance: Ready Reckoner tool and the McCloud remedy

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Agenda

1. Intro and ready reckoner refresher
2. Pension tax
3. Ready reckoner demonstration
4. Pensions tax and McCloud
5. Resources to support you
6. Q&A
7. Close



1. Ready reckoner refresher



First Actuarial and NHS Employers: Working in partnership



**Independent actuarial advisors to the Scheme Advisory Board
Working with NHS Employers on many pensions issues**

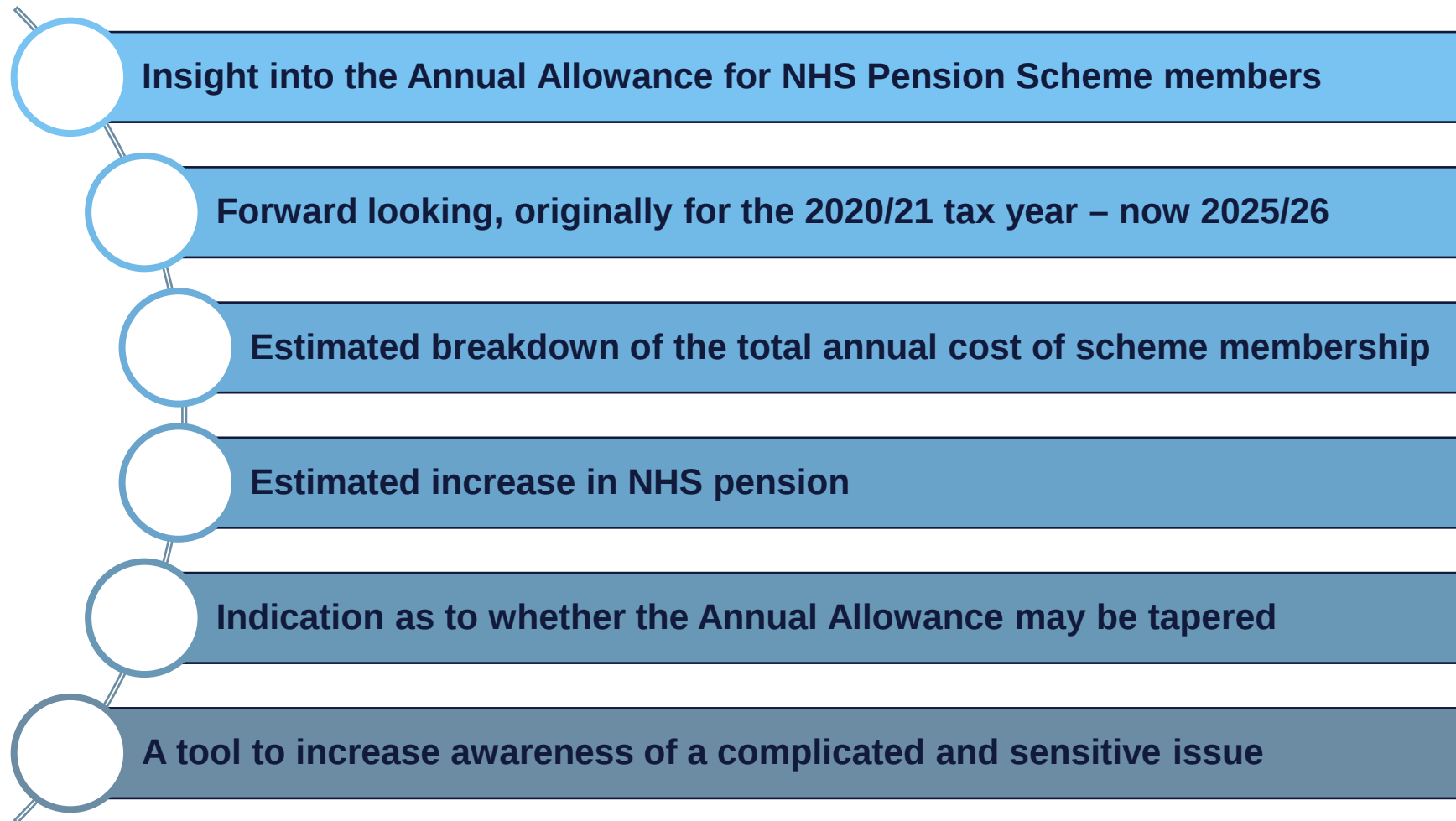


**Research into the impact of pensions tax in the NHS
Impact felt by NHS staff and NHS employers**



**Problems around awareness, understanding and advice
Ready Reckoner designed as an educational awareness tool**

Purpose of the ready reckoner



2. Pensions tax



Introduced by the Finance Act 2004

Annual Allowance

The maximum amount of tax-relieved savings that an individual can build up over one tax year.

- Not a limit to annual pension saving.
- For the NHS Pension Scheme, not based on the contributions paid in.

Lifetime Allowance

The maximum amount of tax-relieved savings that an individual can build up over their lifetime.

- Abolished from 6 April 2024
- But with a subsequent limit on pension commencement lump sums – i.e. ‘tax-free cash’ (and a lump sum and death benefit allowance)

Annual Allowance has changed over time

	2016/17 to 2019/20	2020/21 to 2022/23	2023/24 to now
'Standard' Annual Allowance	£40,000		£60,000
First income test for tapering <i>"Threshold income"</i>	Above £110,000	Above £200,000	Above £200,000
Second income test for tapering <i>"Adjusted income"</i>	Above £150,000	Above £240,000	Above £260,000
Minimum tapered Annual Allowance	£10,000	£4,000	£10,000
Carry forward	Unused Annual Allowance from 3 previous tax years can be carried forward		
Treatment of 1995/2008 and 2015 Schemes	Schemes treated independently <i>Any 'negative' final salary growth was floored at zero.</i>		Schemes treated in aggregate <i>Any 'negative' final salary growth to be offset against career average growth.</i> <i>Also, CPI inflation figure aligned for both CARE benefit revaluation and Annual Allowance calculations.</i>

Implications for NHS Pension Scheme members

The 2023/24 changes should have encouraged staff to remain in NHS employment and to take on additional work to help alleviate workforce challenges.

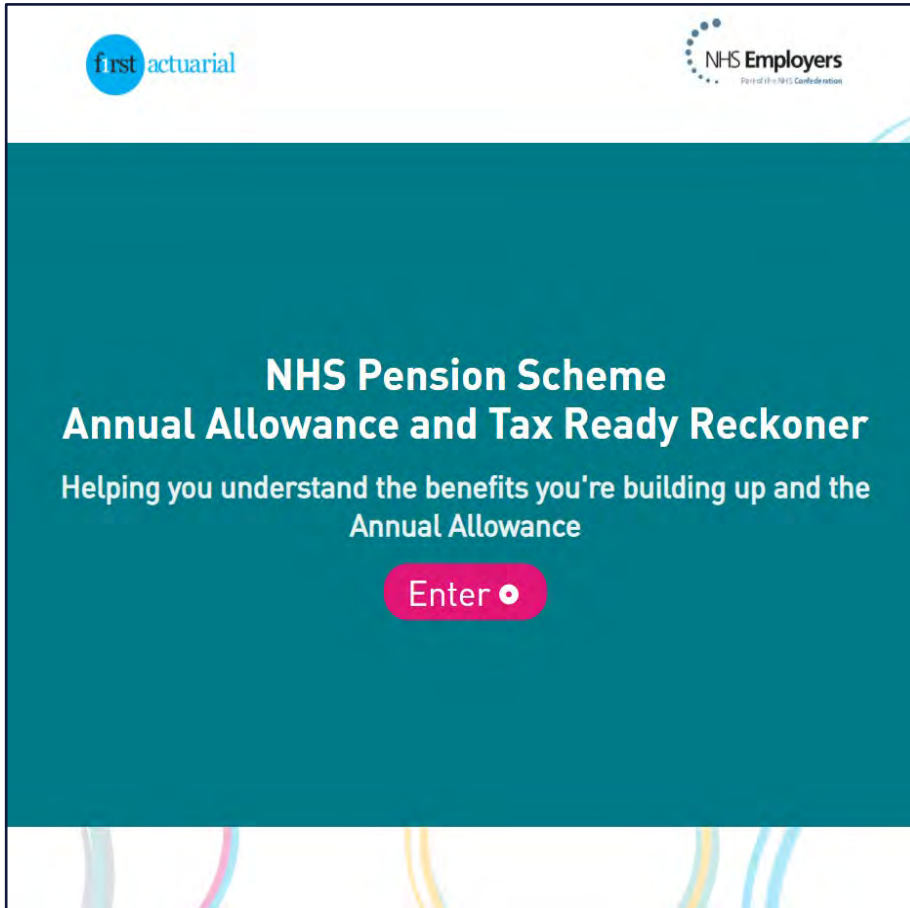
Some members will continue to be affected by the Annual Allowance.

The categories of members who are most likely to be affected by the Annual Allowance are:

- Members with 2015 Scheme benefits and pensionable NHS earnings approaching £200,000
- Members with significant earnings outside of the NHS
- Members with 1995/2008 Scheme service who receive pay rises significantly above inflation

3. Ready reckoner demonstration





- Promotes understanding
- Outcome only known after the tax year has ended
- Not easy to look ahead
- Broad guide to pension growth and tapering
- Traffic light guide and signposting to further help and possible next steps
- Heavily caveated!
 - Will not match actual statements from NHS BSA
 - Calculations are heavily simplified
 - Estimates depend on the inputs

Three illustrative examples

Example 1

- 1995/2008 Scheme service: 25 years
- 2015 Scheme pension: £3,000 pa
- 2024/25 pensionable pay: £60,000
- 2025/26 pensionable pay: £75,000

Example 2

- 1995/2008 Scheme service: Nil
- 2015 Scheme pension: £20,000 pa
- 2024/25 pensionable pay: not needed
- 2025/26 pensionable pay: £125,000

Example 3

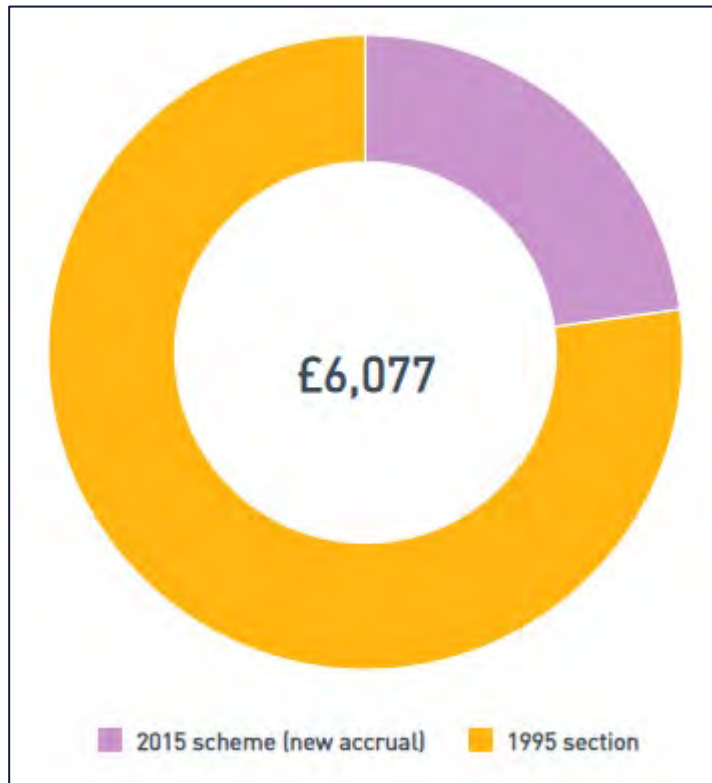
- 1995/2008 Scheme service: 30 years
- 2015 Scheme pension: £10,000 pa
- 2024/25 pensionable pay: £225,000
- 2025/26 pensionable pay: £225,000

2025/26 contributions

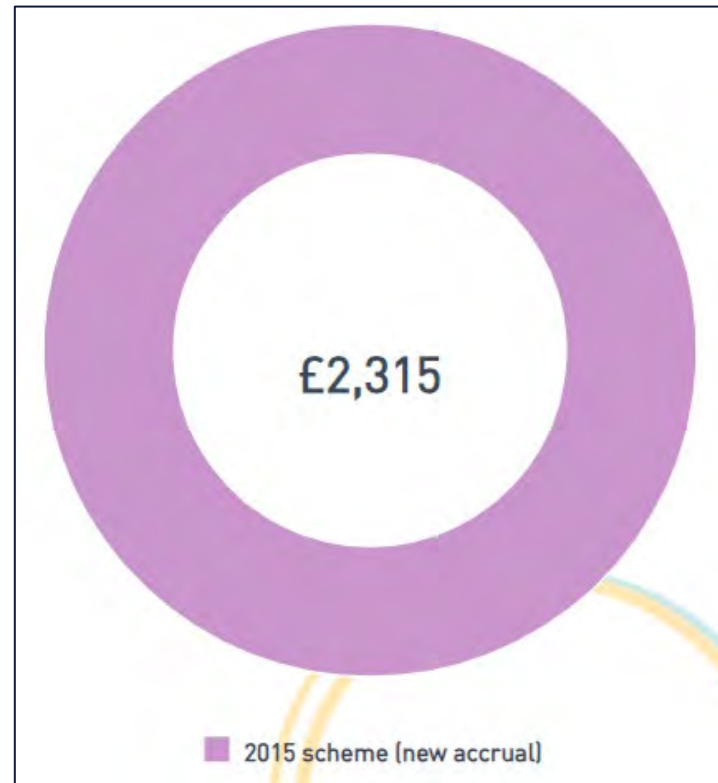
		Example 1	Example 2	Example 3
Member	Net ?	£5,625	£6,250	£15,469
	Income tax relief ?	£3,750	£9,375	£12,656
	Gross ?	£9,375	£15,625	£28,125
Employer ?		£17,775	£29,625	£53,325
Total contribution ?		£27,150	£45,250	£81,450

2025/26 pension build-up

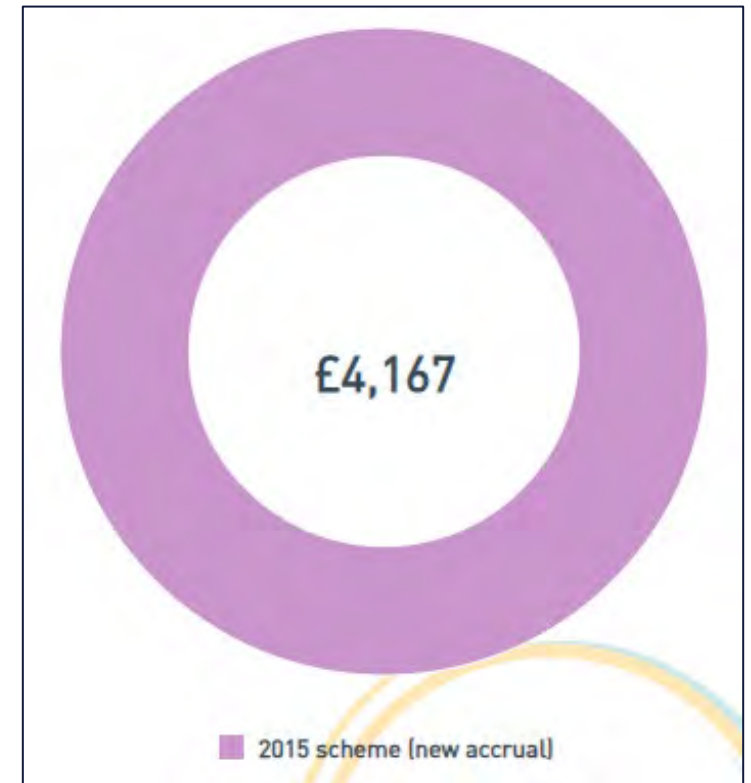
Example 1



Example 2



Example 3



2025/26 pension tax

Example 1

1995 PIA	£83,006
2015 PIA	£22,942
Total PIA	£105,948
Threshold income ?	£65,625
Adjusted income ?	Not calculated as threshold income is estimated to be under £200,000
Annual Allowance ?	£60,000
Breach ?	£45,948

Example 2

£41,837
£41,837
£109,375
Not calculated as threshold income is estimated to be under £200,000
£60,000
£0

Example 3

£-27,253
£69,067
£41,814
£196,875
Not calculated as threshold income is estimated to be under £200,000
£60,000
£0

Summary

Example 1

Your rating



We have given you a **Red** rating

We have given you a red rating for 2025/26 as you are projected to breach the Annual Allowance. This is based on estimated calculations and your data inputs. Your true position will only be known when all data has been collected and assessed after the end of the tax year.

Based on your inputs, the ready reckoner estimates that:

- The estimated total cost of scheme membership over 2025/26 is £27,150, of which your "net" contribution was £5,625.
- The estimated extra pension built up over 2025/26 is £6,077 paid every year for life from retirement.
- The estimated breach of the Annual Allowance in 2025/26 is £45,948, although this may be lower or zero depending on any unused AA you may have to carry forward. The AA tax charge from any breach will depend on your taxable income over the year with your marginal rate of income tax applying to the breach – likely to be 40% to 45%.

If you have an AA tax charge to settle, then there are options on how it is paid – including Scheme Pays. This is a facility where the scheme will pay the charge on your behalf, record this debit on your account, increase this debit with interest and a deduction will be made to your benefits at retirement. For example, where the AA tax charge from the 2015 Scheme amounts to £1,000 when retiring at age 65, the deduction to pension at retirement would be $£1,000 / 18.33 = £55$ pa (using the current Scheme Pays recovery factor).

Example 2

Your rating



We have given you a **Amber** rating

We have given you an amber rating for 2025/26 as you are projected to be reasonably close to the Annual Allowance. This is based on estimated calculations and your data inputs. Your true position will only be known when all data has been collected and assessed after the end of the tax year.

Based on your inputs, the ready reckoner estimates that:

- The estimated total cost of scheme membership over 2025/26 is £45,250, of which your "net" contribution was £6,250.
- The estimated extra pension built up over 2025/26 is £2,315 paid every year for life from retirement.
- A green or amber rating does not necessarily mean that your pension growth will be under the Annual Allowance in practice as the outcome depends on your data inputs and there are several limitations as stated throughout the Ready Reckoner.

Example 3

Your rating



We have given you a **Green** rating

We have given you a green rating for 2025/26 as you are projected to be well under the Annual Allowance. This is based on estimated calculations and your data inputs. Your true position will only be known when all data has been collected and assessed after the end of the tax year.

Based on your inputs, the ready reckoner estimates that:

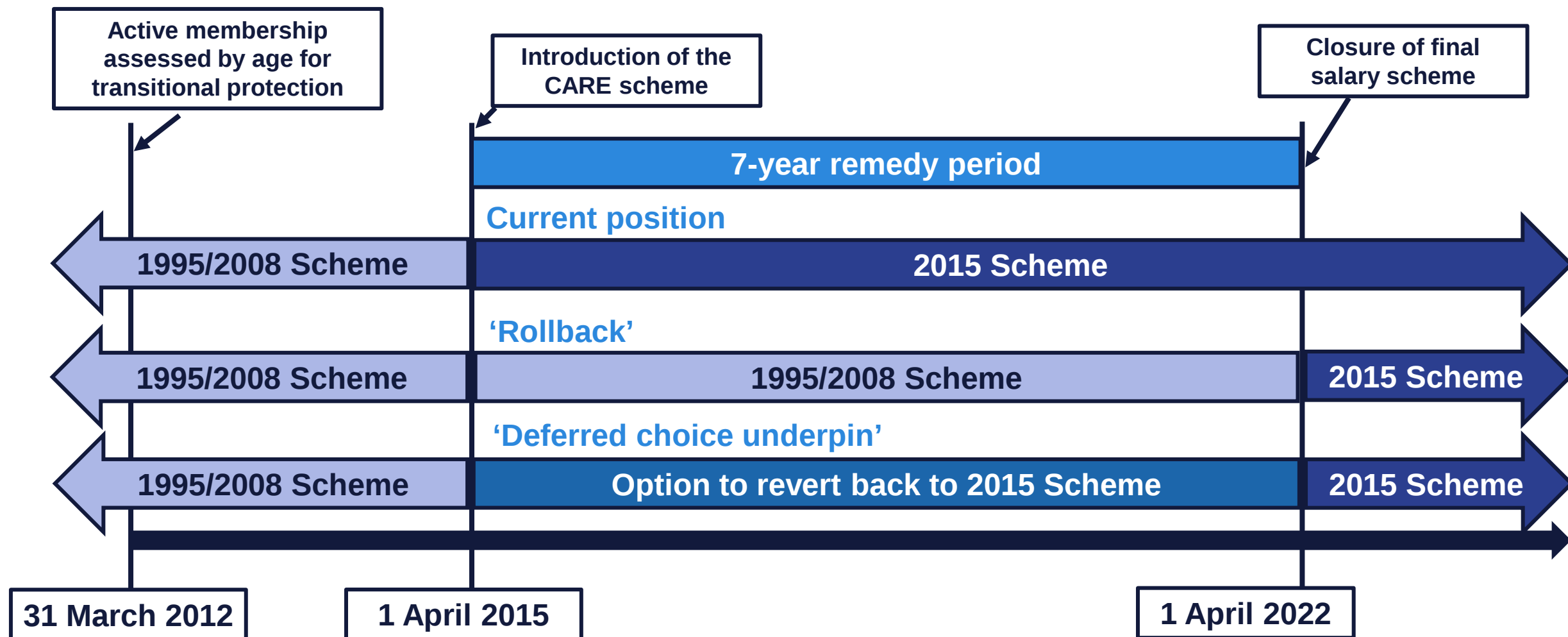
- The estimated total cost of scheme membership over 2025/26 is £81,450, of which your "net" contribution was £15,469.
- The estimated extra pension built up over 2025/26 is £4,167 paid every year for life from retirement.
- A green or amber rating does not necessarily mean that your pension growth will be under the Annual Allowance in practice as the outcome depends on your data inputs and there are several limitations as stated throughout the Ready Reckoner.

- The output is neither definitive nor financial advice
- Based on the inputs and simplifications
- Limitations are explained throughout
- Flags potential next steps

4. Pensions tax and McCloud



Overview of the McCloud remedy



McCloud remedy period and 2022/23

- **Remedial Pension Savings Statements (RPSS):** Being issued in stages since September 2024
 - For members who exceeded the AA in the remedy period (2015/16 to 2021/22) or 2022/23
 - Will show pension growth in remedy period and 2022/23 (old and new figures)
 - Can self-identify for a RPSS if paid an AA charge directly to HMRC rather than via Scheme Pays
- **What should members do with these statements:**
 - Use the HMRC digital service within 3 months from the date of receiving correct RPSS
 - *“Calculate your Public Service Pension Adjustment”*
 - www.gov.uk/guidance/calculate-your-public-service-pension-adjustment
- **And then what happens:**
 - Can trigger tax refunds or higher benefits (all years, 2015/16 to 2022/23)
 - Can trigger (extra) tax charges or lower benefits (only years 2019/20 to 2022/23)
 - Scheme Pays deadline extended to 6 July 2027

And what about 2023/24?

- **‘Normal’ Pension Savings Statements (PSS):** To be issued after RPSS (only if this relevant)
- **2023/24 self assessment tax return deadline:** Was 31 January 2025
- **What if someone did not receive their 2023/24 PSS before 31 January 2025?**
 - DHSC worked with HMRC to agree the following guidance
 - www.nhsbsa.nhs.uk/public-service-pensions-remedy-mccloud/understanding-effect-rollback-annual-allowance
 - If someone thought they had an AA tax charge, they should have:
 - Stuck to the 31 January 2025 deadline to avoid a late-filing penalty
 - Used provisional figures in the tax return
 - Confirmed how to pay the tax charge
 - If by Scheme Pays, then completed the NHSPS election form (SPE2) by 31 July 2025
 - Can still complete form SPE2 after 31 July 2025 to be accepted on a Voluntary Scheme Pays basis
 - Still have until 31 January 2026 to provide final figures (or afterwards, in writing)
- **If, as a consequence of McCloud delays, HMRC apply late-filing penalties, then members can appeal**

...and 2024/25?

- **Normal' Pension Savings Statements (PSS):** To be issued after RPSS (only if this relevant)
- **2024/25 self assessment tax return deadline:** Was 31 January 2026
- **What if someone receives their 2024/25 PSS after 31 January 2026?**
 - If someone thinks they may have an AA tax charge, they should:
 - Stick to the 31 January 2026 deadline to avoid a late-filing penalty
 - Used provisional figures in the tax return
 - www.gov.uk/hmrc-internal-manuals/self-assessment-manual/sam121190
 - Confirm how to pay the tax charge
 - If by Scheme Pays, then completed the NHSPS election form (SPE2) by 31 July 2026
 - Can still complete form SPE2 after 31 July 2025 to be accepted on a Voluntary Scheme Pays basis
 - Still have until 31 January 2027 to provide final figures (or afterwards, in writing)
- **If, as a consequence of McCloud delays, HMRC apply late-filing penalties, then members can appeal**

NHS Cost Claim Back Scheme

- **Who is eligible?**
 - Remedy members who have incurred financial losses
- **What costs can be claimed back?**
 - Professional advice about moving to the 2015 Scheme, which no longer applies
 - Additional advice due to the application of the McCloud remedy
 - Not services that could have been “*reasonably obtained*” from the scheme administrator without charge
- **How much can be claimed back?**
 - Up to **£500** for Independent Financial Adviser (IFA) services (advice around the benefit choice)
 - Up to **£1,000** for accountancy services (advice around or making a remedy tax adjustment submission)
 - Per piece of advice; including VAT
- **When do claims need to be made?**
 - No more than 12 months after receiving RPSS (or first RSS that facilitates a benefit choice)

5. Resources to support you



NHS Employers

- **Annual allowance web page:** www.nhsemployers.org/publications/annual-allowance
- **Pensions tax guidance:** www.nhsemployers.org/publications/pension-tax-guidance-employers
- **IFA list:** www.nhsemployers.org/publications/access-pension-tax-guidance-and-advice
- **McCloud:** www.nhsemployers.org/articles/mccloud-remedy
- **Flexible retirement to attract and retain staff:** www.nhsemployers.org/publications/using-flexible-retirement-support-retention

Signposting

- **HMRC online tool:** www.gov.uk/guidance/calculate-your-public-service-pension-adjustment
- **NHS Cost claim back scheme:** www.nhsbsa.nhs.uk/public-service-pensions-remedy-mccloud/nhs-cost-claim-back-scheme
- **Effect of rollback on annual allowance - NHSBSA website:** www.nhsbsa.nhs.uk/public-service-pensions-remedy-mccloud/understanding-effect-rollback-annual-allowance
- **HMRC** has published [guidance](#) on the steps members should take if they don't have the information they need to complete their self-assessment tax return accurately

6. Q&A



Thank you.

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- Evaluation