

Pensions Bulletin

Fact Sheet 1

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New pensions tax regime from 6 April 2011

1 Introduction

- 1.1 George Osborne's Emergency Budget, announced on 22 June 2010, contained a number of measures relating to pensions, including the proposal to introduce a new pensions tax regime from 6 April 2011.
- 1.2 The previous Government had announced changes to the way that high earners would be taxed on their pension contributions from April 2011. The current Government was concerned about the complexity of this arrangement and has made a number of changes.
- 1.3 The new framework was confirmed on 14 October 2010. Details of the main features of the new regime, including your statutory duties as an employer, are provided in this Fact Sheet.

2 Restricting tax relief for high earners

- 2.1 Since 6 April 2011, pensions tax relief for high earners has been restricted via the reduction of an individual's Annual Allowance (from £255,000 to £50,000).
- 2.2 *Annual Allowance is a statutory limit on the amount by which pension savings (from all registered pension schemes) can increase each year without tax charges being applied. It will remain at £50,000 until at least 2016. Benefits above the Annual Allowance are taxed at the member's marginal rate.*

3 Employer duties

- 3.1 By law, employers must provide salary increase details for all defined benefit (DB) members to The Pensions Trust (the Trust) no later than 6 July following the tax year in which the relevant Pension Input Period (PIP) ends. The PIP for your scheme can be found in the table below.

Scheme Name	Pension Input Period
Action for Blind People Final Salary Pension Scheme	1 October to 30 September
The Anchor Trust Final Salary Scheme	1 April to 31 March
The Arthritis Care Pension Scheme	1 January to 31 December
Bedford Charity Pension Scheme for Non-Teaching Staff	1 September to 31 August
The CARE Scheme	1 April to 31 March
The Children's Society Pension Scheme	1 October to 30 September
The Christian Aid Final Salary Scheme	1 April to 31 March
Council for World Mission Final Salary Scheme	1 May to 30 April
Edward James Foundation Pension Scheme	1 April to 31 March
Growth Plan	1 October to 30 September
Help the Aged Final Salary Pension Scheme	1 October to 30 September
IndependentAge Final Salary Scheme	1 July to 30 June
The Independent Schools' Pension Scheme	1 September to 31 August

Scheme Name	Pension Input Period
Leonard Cheshire Disability Group Pension Scheme	1 July to 30 June
The Livability Final Salary Scheme	1 April to 31 March
Methodist Homes for the Aged Final Salary Pension Scheme	1 October to 30 September
MIIND (The National Association for Mental Health) Final Salary Scheme	1 July to 30 June
National Council for Voluntary Organisations Final Salary Pension Scheme	1 April to 31 March
Northern Ireland Charities Pension Scheme	1 March to 28 February
The Oxfam Pension Scheme	1 September to 31 August
The Oxford Diocesan Board of Finance Staff Retirement Benefit Scheme	1 January to 31 December
The Royal College of Nursing Pension Scheme	1 April to 31 March
The Royal National College for the Blind Final Salary Scheme	1 April to 31 March
Sanctuary Housing Association Final Salary Pension Scheme	1 July to 30 June
The Save the Children Defined Benefit Scheme	1 November to 31 October
Scottish Housing Associations' Pension Scheme	1 April to 31 March
Scottish Voluntary Sector Pension Scheme	1 April to 31 March
SeeAbility Pension Scheme	1 August to 31 July
Social Housing Pension Scheme	1 April to 31 March
St Elizabeth's Centre Final Salary Pension Scheme	1 April to 31 March
Stonham Final Salary Pension Scheme	1 April to 31 March
Together Trust Final Salary Scheme	1 August to 31 July
The United Reformed Church Final Salary Scheme	1 January to 31 December
William Sutton Trust Housing Association Pension Scheme	1 April to 31 March
Winchester College Support Staff Pension Scheme	1 January to 31 December
Workers' Educational Association Pension Scheme	1 August to 31 July
Youth Hostels Association Pension Scheme	1 April to 31 March

- 3.2 The vast majority of our employers use our online eBusiness facility and, as such, provision of salary information is a regular monthly exercise. This should ensure that most employers will meet the statutory duties without having to make any changes to existing processes.

Definition: PIP is a 12-month period over which the amount of a member's pension saving is measured.

4 Communication with members

- 4.1 Once the salary information has been received from employers, the Trust has a statutory duty to provide information on the Annual Allowance to members, both automatically and on request.
- 4.2 For members who have exceeded the Annual Allowance, the Trust must provide the following information before 6 October following the relevant tax year:
- the Pension Input Amount (PIA) for the relevant period;
 - the PIA for each of the periods ending in each of the previous three tax years; and
 - the Annual Allowance for each of the three preceding years.

Definition: PIA is the amount of contributions paid and/or increases in value of a member's benefits over a PIP.

5 Valuing DB accrual

- 5.1 Pension savings are assessed against the Annual Allowance every 12 months. For DB pension benefits, the value of the increase in accrued rights over the year is assessed against the Annual Allowance.
- 5.2 The factor to determine the value of the increase in DB benefits will, from April 2011, be 16 instead of 10, which means that a £1,000 increase in annual pension benefit is now deemed to be worth £16,000 instead of £10,000.
- 5.3 For example, a (final salary) DB pension scheme member who has:
- 20 years service at the start of the year.
 - Pensionable salary of £60,000 at the start of the year.
 - Pensionable salary of £63,000 at the end of the year.
 - An accrual rate of 1/60th for each year of service.

This will have an increase in their pension savings over the year equal to:

$$\{(21/60) \times £63,000\} - \{(20/60) \times £60,000\} = £2,050$$

And the value of this increase will be:

$$16 \times £2,050 = £32,800 \text{ (i.e. within the Annual Allowance of £50,000).}$$

The calculation is slightly different where the member has a DB pension benefit accrual in a career average revalued earnings (CARE) scheme, but ultimately, if the increase in the value of the member's pension exceeds £3,125 p.a. in one year then an Annual Allowance charge is likely to apply (but also see section 8 below).

6 Valuing defined contribution (DC) accrual

- 6.1 The amount tested against the Annual Allowance for DC members is, broadly, the total contributions paid in by the member and/or the employer in the specified 12 month period. If the total contribution exceeds £50,000 then an Annual Allowance charge will apply (but also see section 8 below).

7 Removal of Annual Allowance exemption in year of retirement

- 7.1 Previously, if the member was taking all of their retirement benefits from the same date, there was no requirement for a member's pension benefits to be tested against the Annual Allowance in the year of retirement. From April 2011, there will now be a test in the year a member's benefits are taken.
- 7.2 The only members that will not require an Annual Allowance test in the year of retirement are those who are deferred members prior to retirement or those who retire on the grounds of ill-health (provided the member is unlikely to work again in any capacity). In addition, there is no test in the year a member dies.

8 Using unused allowance

- 8.1 Members who exceed the Annual Allowance will, from April 2011, be able to use any unused allowance from the previous three years. This may be used to offset a sudden significant increase in pension benefits, for example where a member has received a promotion.

9 Lifetime Allowance

- 9.1 The Lifetime Allowance is being reduced from £1.8 million to £1.5 million from 6 April 2012. The tax charges on benefits above the Lifetime Allowance will remain at 55% (where the excess is taken as a cash lump sum) and 25% (where it is taken as pension income).
- 9.2 *Each individual has a personal Lifetime Allowance and, when benefits are put into payment, their benefits are tested against their available Lifetime Allowance. Each time a member takes pension benefits, their Lifetime Allowance is reduced by the value of the benefits taken in percentage terms.*

10 Action from the Trust

- 10.1 The Trust notified all members about the tax changes in April 2011 via our Intouch magazine.
- 10.2 If you believe that any of your staff will be affected by the new pension tax rules, then we recommend that you visit the HM Treasury website and read the section 'Consultation & legislation > Full index of consultations > Restriction of pensions tax relief' (the link is http://www.hm-treasury.gov.uk/consult_pensionsrelief.htm). Members may also wish to seek independent financial advice.

While every effort has been made to ensure the accuracy of the information contained in this Fact Sheet, it should not be treated or relied upon as a statement of law. Readers should contact their regular Account Manager at The Pensions Trust in relation to their own circumstances and/or refer to the original source material as appropriate.