



# CAVENDISH MEDICAL

## Annual Allowance FAQs June 2015

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### General

#### What is the Annual Allowance?

- The Annual Allowance was introduced in April 2006 as part of the Government's "pension simplification" legislation.
- It is a limit to the total amount of contributions that can be paid to a pension scheme each year on which income tax relief will be available.

#### What is included in the Annual Allowance calculation?

- Any contributions to private pensions.
- Any contributions to AVCs.
- Any benefits built up with defined benefits schemes such as the NHS & USS.

#### What is the current allowance?

- The current allowance is £40,000 in total. This was reduced from £50,000 in April 2014.
- The Annual Allowance has been as high as £255,000 in the recent past.

#### I am a member of the NHS/USS scheme. How do I calculate how much my benefits have increased by?

- This is a complex calculation and depends on various factors such as inflation, working hours (i.e. full time/part time) and if pensionable salary has changed over the year in question and in previous years.
- The test measures the overall accrued benefits at the start of the 'input period' and again at the end of the 'input period' with an allowance for inflation built in. The difference is known as your Annual Allowance 'input'.

#### What is the input period for the NHS & USS schemes?

- The increase in benefits is measured between April 1<sup>st</sup> in one year and March 31<sup>st</sup> the following year.

#### What might cause me to breach the Annual Allowance?

- Any private pension/AVC contributions (excluding added years) are taken at their gross value. For example if you paid £10,000 gross into your private pension this would be the input.
- For the NHS/USS scheme variables are inflation, your service history and your pensionable salary. The effect each has on your input is as follows:



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- Inflation is measured as the published CPI rate from the preceding September (1.2% for the 2015/16 tax year). A high inflation rate means benefits can go up by more each year before you breach the allowance. Conversely, a low inflation rate means there is a higher chance of a breach.
- If you are an active member your service will increase each year. A full time member (10 PAs) of the 1995 section of the NHS scheme and current USS scheme accrues an 80<sup>th</sup> each year. If added years are being purchased these are added on top of the standard service. If you are on less than full time / 10 PAs the accrued service will reduce.
- If your pensionable salary increases, your benefits will increase as a result leading to a higher input. Things that may increase your pensionable salary are reaching the next increment of the consultant contract, new local or national CEAs or taking on a pensionable management position. In previous years statutory pay rises have also increased pensionable pay although these are currently frozen.

### How can I find out what my Annual Allowance inputs are?

- At the end of each input period your NHS or USS scheme administrator calculates the inputs.
- If you have breached the Annual Allowance they need to write to you by October of that year to inform you of the breach.
- You should be able to find out historic inputs by writing to your scheme administrator.

### **NB:**

- Your input period in the NHS scheme runs from the end of March to the following April and your input notification may only be received in October. This is after the end of the input period and means that you will have no opportunity to amend your behaviour in the input year.

### Pay rises that may breach the Annual Allowance

- A 1% statutory pay rise could cause an individual to breach the current £40,000 allowance if they had 15-20 years of service and a high pensionable salary (~£175,000 and above).
- A 2% pay rise would cause a breach of the current £40,000 allowance for most individuals with pensionable salaries of more than £150,000 per annum.
- A 3% pay rise would cause a breach of the current £40,000 allowance for most individuals with at least 20 years' service and a pensionable salary of at least £125,000.

### Real life examples:

- A consultant with 20 years' service and a pensionable salary of just under £100,000 moves from threshold 5 to 6 on the consultant contract and also receives a new local point moving from 4 to 5 points. This causes an increase in pensionable pay of £8,553. This increase would cause an Annual Allowance input of over £60,000 in the current tax year.



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- A senior consultant receives a silver award having previously held a bronze. At the start of the input period she has 32 years' service within the scheme and before the silver award her pensionable salary was £133,000. The silver award causes an increase in pensionable pay of £11,160 which would give an Annual Allowance input of over £106,000 in the current tax year.

### What happens if I breach the allowance in any one year?

- Your NHS or USS scheme administrator should write to you if you breach the allowance and will outline your options.
- If you have breached you have the ability to carry forward any unused allowance from the three previous tax years to help offset the excess in the current tax year.
- If an excess still exists after all carry forward allowances, this excess is added to your income for the tax year and your highest marginal rate of tax is applied. This could mean up to 45% tax on the excess for most doctors.

### How do I pay the tax?

- If you have a tax bill to pay this can be dealt with either through amending your self-assessment tax return from the previous year or through "scheme pay" (where the particular scheme allows this facility).
- Scheme pay is where your scheme pays the tax bill to HMRC on your behalf and they then set this against your future pension benefits as a 'debt' which increases with interest until retirement. They then claw back the debt via a reduction in pension benefits at retirement.

### Summary

- The Annual Allowance and its interaction with the NHS& USS schemes is complex and will be different depending on each individual's particular circumstances.
- What is right for one person here may not necessarily be right for another so it is important you understand all of your options before making any final decisions.
- If individuals are unsure of the rules or how they are affected they should seek independent financial advice.

### Notes:

- It is important to check the input periods of any private pensions you may have as the dates may differ from the NHS/USS scheme.
- Your accrual rate will differ depending upon which section of the NHS scheme you are a member of (1995/2008/2015).
- All figures given on this summary should be used for illustrative purposes only.

For more information please contact specialist financial planners Cavendish Medical on 0207 636 7006 or visit [www.cavendishmedical.com](http://www.cavendishmedical.com)



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