



Pension tax allowances

Changes to the Annual Allowance and Lifetime Allowance



Key points

Annual Allowance (AA)

- The Annual Allowance is the amount you can save each tax year, across all of your pension arrangements, before tax is charged. For most savers this is £40,000 but from April 2016 the Annual Allowance will reduce from £40,000 if your adjusted income is over £150,000
- If your taxable income is more than £110,000, you may be affected by this change and you need to work out your 'adjusted income'
- For this purpose, adjusted income is typically all taxable income plus the assessed level of pension savings for Annual Allowance purposes (see page 2)
- The Annual Allowance will reduce in proportion to earnings, ultimately reaching £10,000 if your adjusted income is £210,000 or more

- The changes are more likely to affect you if you hold or have held a Senior Ministerial post or have been an Office Holder at some point. Buying Added Years or additional pension or paying AVCs all increase your pension accrual and therefore your chance of breaching the new limit.
- Transitional arrangements are in place for the 2015-16 tax year so different rules will apply for calculations during this period

Lifetime Allowance (LTA)

- From April 2016, the Lifetime Allowance will be reduced from £1.25 million to £1 million
- Optional protections will be available, which may assist those affected by the reduction
- You could face large tax bills if you exceed either the Annual Allowance or Lifetime Allowance

Important note

Some details about the proposed changes to the Annual and Lifetime Allowances are yet to be clarified. This leaflet is intended to be a guide only and contains general information on the changes to pension tax legislation. If you are considering making any changes to your pension saving to reflect either the Annual Allowance or the Lifetime Allowance, you should get independent financial advice. The Secretariat and the Scheme's administrator, RPMI, are **not** authorised to provide financial advice, nor can they accept responsibility for any loss or other consequences of decisions you make regarding your own personal finances.

You can find more information on the Annual Allowance and Lifetime Allowance at www.gov.uk/tax-on-your-private-pension.

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Tax allowance changes

Both the Annual Allowance and the Lifetime Allowance will change from 6 April 2016. It is important that you read this guide to understand the changes and what they may mean for you.

You should consider speaking to an independent financial adviser (IFA) if you have any questions or concerns about how any of the changes will affect you or are considering making any changes to your pension saving as a consequence of the changes.

The Annual Allowance (AA)

Your normal contributions to the Scheme will receive tax relief. However, HMRC limits the amount of tax-free pension savings you can make each tax year across all of your pension arrangements (excluding the State Pension). This limit is called the Annual Allowance (AA).

If you exceed the Annual Allowance and you do not have sufficient unused allowance from the previous three years, you will be liable to a tax charge on the excess pension savings. You are also responsible for reporting the information to HMRC under the tax self-assessment process.

In this Scheme, excluding any Additional Voluntary Contributions (AVCs), the level of pension savings for Annual Allowance purposes is the increase in value of your pension over the tax year in excess of inflation. This is determined by comparing the value of your pension at the end of the year to the value of your pension at the start of the year, plus inflation. Each £1 of additional annual pension built up is then treated as having a value of £16.

When working out the value of your pension at the start and the end of the year, any Added Years or Added Pension that you are buying is taken into account.

The total amount of any AVCs paid into the arrangement over the tax year is also included in your pension savings.

We will tell you how much Annual Allowance you have used in the MPs' or Ministerial Pension Scheme in your annual benefit statement.

Who do the changes affect?

If your total taxable income (known as your 'threshold income') is more than £110,000, you may be affected by changes to the Annual Allowance that are being introduced on 6 April 2016 and you must work out your 'adjusted income'.

The changes do not affect you if your taxable income is £110,000 or less or if your adjusted income is £150,000 or less.

What is 'adjusted income'?

Your adjusted income comprises:

Your taxable income:

This can include your income from any and all employment, plus any income you may have from other sources such as property or shares during the tax year... **Plus...**

Your pension input amount:

The value of your pension savings over the tax year, in excess of inflation and including any AVCs or Added Pension which is tested against the Annual Allowance.

How is the Annual Allowance changing?

For most pension savers, the Annual Allowance is £40,000, as it has been since April 2014.

However, from 6 April 2016, the Annual Allowance will be reduced for high earners. For every £2 of adjusted income over £150,000, the Annual Allowance will reduce by £1, tapering down to a possible minimum of £10,000.

For example:

Adjusted income	Annual Allowance
£150,000 (or less)	£40,000
£160,000	£35,000
£170,000	£30,000
£180,000	£25,000
£190,000	£20,000
£200,000	£15,000
£210,000 (or more)	£10,000

Please note that the tapered Annual Allowance works on a sliding scale so if, for example, you earned an adjusted income of £175,000, the Annual Allowance would be £27,500.



The test is carried out each tax year, so if you are impacted by this tapered Annual Allowance, the amount of your Annual Allowance is likely to vary year-by-year.

As was previously the case, you can carry forward any unused allowance you may have from the previous three years and add this to your Annual Allowance. This may help you stay within the limit, or could mean you are taxed on a smaller amount.

A lower Annual Allowance may also apply if you take money from a defined contribution pension arrangement using the new pension flexibilities that have been available since 6 April 2015 (see 'The Money Purchase Annual Allowance' article on page 4).

You should be particularly careful about triggering Annual Allowance charges if you:

- buy Added Years, Added Pension or pay Additional Voluntary Contributions (AVCs)
- make contributions to another tax-approved pension arrangement
- are (or become) a member of the Ministerial Pension Scheme
- have aggregation or linking of previous service in the PCPF
- take ill-health retirement

Changes to the Pension Input Period (PIP)

From 6 April 2016, the Pension Input Period (PIP) for all pension schemes will be aligned to the tax year.

The PIP is the period (usually 12 months) over which your pension savings are measured against the Annual Allowance. The PIP for the Scheme was previously from 1 April to 31 March.

Transitional PIP arrangements

The changes to the Annual Allowance were announced on 8 July 2015 during the Summer Budget and come into effect on 6 April 2016. Since some schemes' PIPs will need to be realigned to the tax year, special arrangements have been made for the transitional period.

As a result:

- All PIPs in progress on 8 July 2015 ended on that date (referred to as the pre-alignment tax year)
- A new PIP was established, which will run from 9 July 2015 to 5 April 2016 (referred to as the post-alignment tax year); and
- The following PIP will start on 6 April 2016 until 5 April 2017 (the 2016/17 tax year), and all PIPs will remain in line with the tax year thereafter

Transitional Annual Allowance arrangements

An Annual Allowance of £80,000 (plus any amount you are able to carry forward from the previous three years) will apply for the 2015-2016 tax year. This covers the PIPs for the Scheme between 1 April 2015 and 8 July 2015 and between 9 July 2015 and 5 April 2016, although a maximum of £40,000 applies to savings in the latter PIP.

What happens if I exceed the Annual Allowance?

You will have to pay a tax charge on any pension savings that are over your Annual Allowance.

It is your responsibility to monitor how much Annual Allowance you have used. Information about how much of the Annual Allowance you have used within this Scheme will be included on the annual benefit statement that you will receive each summer. You will need to add this to any other pension savings you make.

If you need to pay an Annual Allowance charge, you must complete a self-assessment tax return to show the amount by which your total pension savings exceed your Annual Allowance for the year. **It is your responsibility to make sure the information you send HMRC is correct and pay any tax charges.**

If you do need to pay a tax charge:

- It is possible to carry over any unused Annual Allowance you may have from the previous three years which may mitigate the tax charge.
- You may choose to use 'Scheme Pays' to meet the tax charge (see overleaf), where the Scheme pays the charge but you will have a permanent reduction in your pension. Any benefits payable to your dependants on your death are not affected by Scheme Pays.



Who do I contact about Scheme Pays?

If you are interested in finding out more about Scheme Pays, please contact the Scheme administrator at the address on the back page for further information.

What are my options if my pension savings are likely to exceed the Annual Allowance?

You may wish to reduce the amount you contribute to your pension schemes to avoid exceeding your Annual Allowance.

For example, you may wish to adjust the amount you pay in Additional Voluntary Contributions through the Scheme. Or, if you make any contributions to a defined contribution scheme, you may adjust those.

You are able to stop contributions to Added Years, and you can also stop or adjust the level of contributions you are paying for Added Pension from 1 April each year, where you have an Added Years or Added Pension contract in place.

Please note:

You are unable to adjust the level of main Scheme contributions you pay to the MPs' or Ministerial Pension Scheme. If you wish to cease contributions to the MPs' or Ministerial Pension Scheme, you would need to opt out of the Scheme.

Effective Pension Age contributions (CARE Section members only) do not increase your pension for Annual Allowance purposes.

You should seek independent financial advice before making any changes, as this will affect how much pension you have in retirement. You can find details of independent financial advisors in your local area at www.unbiased.co.uk

The Money Purchase Annual Allowance

From 6 April 2015, if you start to take money from a defined contribution pension arrangement, this might trigger a lower Annual Allowance of £10,000 for future defined contribution savings, such as AVCs. This limit is known as the 'Money Purchase Annual Allowance' ('money purchase' being another term for 'defined contribution').

However, your standard pension savings in the Scheme will still be measured against an allowance of up to £40,000.

If you have taken money from a defined contribution pension arrangement since 6 April 2015, the new lower £10,000 Annual Allowance may apply, depending on how you access your pension pot.

Generally you might trigger the Money Purchase Annual Allowance if you:

- take all of your defined contribution pension pot as a lump sum
- start to take ad-hoc lump sums from your defined contribution pension pot
- put your defined contribution pension pot into an income drawdown fund and start to take an income
- were in a flexible drawdown arrangement before 6 April 2015; or
- use your pension pot to buy an annuity contract under which the income can be reduced (an annuity is an insurance product that gives you a guaranteed income for life)

You would not trigger the Money Purchase Annual Allowance if you:

- take a tax-free cash lump sum and buy an annuity where the annual rate of income cannot be reduced, other than in permitted circumstances; or
- receive a small lump sum payment if your defined contribution pension pot is worth less than £10,000

Once the Money Purchase Annual Allowance is triggered, it remains for all future PIPs for new defined contribution pension savings.



How do I calculate my Annual Allowance?

The first step is to work out if your taxable income is £110,000 or more. If it is, you will need to calculate your adjusted income to find out what your Annual Allowance limit will be.

Information about how much Annual Allowance you have used in the MPs' or Ministerial Pension Scheme will be included on the annual benefit statement that your Scheme administrator, RPMI, will send you each summer.

If you are contributing to any other pension arrangements, you will also need to take these savings into account, as well as any Additional Voluntary Contributions you may have made in other schemes.

Until the end of each Pension Input Period, you cannot definitively work out if you will exceed the Annual Allowance. However, to roughly estimate how much of your Annual Allowance your pension savings in the Scheme are likely to use, you can follow our step-by-step guide.

If you think you may be affected by the new tapered Annual Allowance, you should seek independent financial advice. You can find details of independent financial advisors at www.unbiased.co.uk

You can also contact the Scheme's administrator, RPMI, to find out more about the Annual Allowance on 0845 555 3377 (calls cost 5p per minute plus your phone company's access charge) or by emailing pcpf@rpm.co.uk





Step-by-step guide to the calculation

A simple example of how to calculate the amount of Annual Allowance used is shown below:

This is based on a member being in the new CARE Section.

It assumes that the MP entered Parliament at the 2015 General Election and contributed to the MPs' CARE Pension Scheme and has not made any Additional

Voluntary Contributions (AVCs). The MP's salary is £74,000.

This example also assumes that there was no inflation increase in April 2016 or April 2017 for the CARE brick revaluation, and that no Added Pension is being purchased.

You can find your pension figure at the start of the PIP on your Annual Benefit Statement.

1. **Take the pension figure at the start of the Pension Input Period (PIP) – 6 April.**
For this example, an MP annual pension at 6 April 2016 = £1,330.07
2. **Revalue it in line with the increase in the Consumer Prices Index (CPI) to September of the PIP.**
As there was no positive increase in CPI in September 2015, the increase in this example is nil.
Starting value = £1,330.07
3. **Estimate the pension at the following 5 April (the end of the PIP 2017 is used for this example)**
Estimated pension at 5 April 2017 = £1,450.98 + £1,330.07 = £2,781.05
4. **Deduct the figure at (2) from the estimated pension at (3) and multiply by 16.**
(£2,781.05 – £1,330.07) = £1,450.98 x 16 = £23,215.68
5. **Work out any AVCs paid in the PIP (6 April 2016 to 5 April 2017)**
No AVCs paid in 2016/17 PIP.
6. **Take the answer from (4) above and add this to (5) to get the amount of Annual Allowance used up.**
Amount of Annual Allowance used = £23,215.68

You can find a calculator for Annual Allowance on the HMRC's website at www.hmrc.gov.uk/tools/pension-allowance/index.htm. However, this calculator cannot be used to work out the tapered Annual Allowance.





The Lifetime Allowance (LTA)

As well as the Annual Allowance, HMRC also limits the amount you can build up in all of your pension arrangements (excluding the State Pension) over your lifetime without paying an additional tax charge.

It is your responsibility to notify the Scheme administrator, RPMI, of any other pensions you are receiving when you apply for your Scheme benefits.

If you exceed the Lifetime Allowance, you will be charged tax on any savings over the limit.

To calculate whether your benefits are likely to exceed the Lifetime Allowance, you will need to add together the value of your PCPF pension and any other pension benefits you may have (excluding State, widow/er, civil partner or dependant pensions) when you come to retire. If the total value of these benefits exceeds the Lifetime Allowance that applies for the year of your retirement, there may be a tax charge.

The value of your benefits in defined benefit schemes (such as the PCPF) is calculated by multiplying your annual pension by 20 and then adding your lump sum.

The value of your benefits in any money purchase schemes (which includes additional voluntary contributions) is their fund value when you retire.

For each pension with benefits above the Lifetime Allowance limit, the tax charge would be either:

- 25% of the value of your annual pension that exceeds the Lifetime Allowance when it starts (you will also pay income tax on the pension)

Or

- 55% of any excess lump sum taken

How is the Lifetime Allowance changing?

From 6 April 2016, the Lifetime Allowance will reduce from £1.25 million to £1 million. Each £1 of annual pension from defined benefit schemes such as the Scheme is valued as £20 for the purposes of assessing your benefits against the Lifetime Allowance.

For this Scheme, the £1 million Lifetime Allowance is equivalent to an annual pension of £50,000 if no cash lump sum is taken; or a maximum cash lump sum of £250,000 and an annual pension of £37,500.

From 2018 onwards, the Lifetime Allowance will increase in line with the annual increase in the Consumer Prices Index.





What happens if I exceed the Lifetime Allowance?

The Lifetime Allowance previously reduced from £1.5 million to £1.25 million in April 2014 and some optional protections – referred to as Fixed Protection 2014 and Individual Protection 2014 – were made available. Similar protections are being made available for the 2016 reduction. In summary:

Fixed Protection 2016 would keep your Lifetime Allowance at its pre-6 April 2016 level of £1.25m. However, no further pension savings could be made and you would effectively have to opt out of active membership of the Scheme before 6 April 2016.

Individual Protection 2016 would give you a personalised Lifetime Allowance based on the level of your pension savings built up at 5 April 2016, if these exceed £1 million. This personalised amount cannot exceed £1.25 million. Under Individual Protection 2016, you would be able to make further pension savings, so would not have to opt out of active membership of the Scheme, although you would be liable to a Lifetime Allowance tax charge if your eventual benefits exceed your personalised Lifetime Allowance.

It will not be possible to apply for Fixed Protection 2016 or Individual Protection 2016 until after April 2016.

You will be able to apply using a new online self-service system which will be available from July 2016. If you wish to take benefits and rely on either Fixed or Individual Protection between 6 April and July 2016, you will need to

contact HMRC in writing. Once the new online system goes live in July 2016 you will need to make a full online application so your pension savings can continue to be protected against the Lifetime Allowance tax charge. More information on the 2016 protections is likely to be available at www.gov.uk/tax-on-your-private-pension/lifetime-allowance in due course.

What are my options if I am likely to exceed the Lifetime Allowance?

If you have been automatically entered into the Scheme and already have pension savings close to the Lifetime Allowance, you may wish to consider opting out of the Scheme to avoid being taxed on any excess savings.

You should seek independent financial advice before making any changes, as this will affect how much pension you have in retirement.

Independent advice

You should seek independent financial advice if you are affected by any of the issues covered in this leaflet.

The Pensions Unit and the Scheme administrator, RPMI, are not authorised to provide financial advice, nor can they accept any responsibility for any loss or other consequences of decisions you make regarding your own pension finances.

You can find details of independent financial advisors at www.unbiased.co.uk

If you would like to discuss any of these issues further, please contact:

Write to

PCPF Administration Team
RPMI
PO Box 193
Darlington
DL1 9FP

Email

PCPF@rpmf.co.uk

Telephone

0845 555 3377
(calls cost 5p per minute plus your phone company's access charge)

If you require a meeting to discuss your pension, please contact:

Write to

PCPF Secretariat
Pensions Unit
House of Commons
London
SW1A 0AA

Email

pensionsmp@parliament.uk

Telephone

020 7219 2106

Fax

020 7219 2554

Text relay

18001 7219 2106

More details on the taxation of pension contributions and benefits and up-to-date tax limits can be found online at www.gov.uk/hmrc or by calling the Scheme administrator, RPMI, on 0845 555 3377. (calls cost 5p per minute plus your phone company's access charge)