

## **Nuffield Health Retirement Savings Plan: A reminder of the Pensions Annual Allowance and Lifetime Allowances**

In the 2015 Summer Budget the Government announced significant changes to pension savings which will take effect from **6 April 2016**. You may be impacted by these changes, in particular the changes related to the amount you can contribute into UK pension savings; known as:

- 1. Annual Allowance (AA)**
- 2. Lifetime Allowance (LTA)**

### **What Should I do?**

This document provides you with further information on these changes. Please read this if you think you may be affected by additional tax charges as a result of the new Annual Allowance, and may need to opt-out of making contributions to ensure your benefits remain within the allowable annual allowance.

Pensions tax legislation is complex and we cannot advise on these matters. We therefore strongly recommend you discuss your choices with your financial adviser before making decisions.

## 1. Annual Allowance

### **What is it?**

AA is the maximum amount of pension savings you can make in any one tax year that benefit from tax relief. The value of pension savings made over the year, including pension savings outside of Nuffield Health, in excess of the AA will be taxed as income (and then again when you take your benefits).

For the current tax year the AA is £40,000. However, employees with incomes in excess of £150,000 will have their AA reduced by £1 for every £2 earned over the earnings limit. By way of an example, an employee earning £210,000 or more will have a reduced AA of £10,000.

For the purposes of calculating the AA, income is broadly total taxable income (e.g. including bonuses, dividend income, rental income etc) over the tax year, plus any pension contributions over the year. This is known as *adjusted income*.

### **How is the AA calculated?**

For AA purposes, your Nuffield Health pension savings are calculated as the amount of any Defined Contribution (DC) pension contributions made in the tax year. You will then need to add any additional pension savings to other pension arrangements (such as a personal pension) you have made.

If you exceed the AA in a particular year, you may be able to use any unused AA from the previous three tax years to reduce your liability to this tax. This is known as 'carry forward'.

If you have accessed some of your pension benefits after 5 April 2015 the total DC pension savings you can make within the tax year will be restricted to £10,000.

***Please note employees with a net income of less than £110,000 will not normally be impacted by the change.***

### **What does this mean?**

Most employees will not have savings that will exceed the Annual Allowance. Two examples are provided below.

<b>Example 1 - John</b>		
Total taxable earnings 2017/18		This is less than £110,000, therefore John's Annual Allowance is £40,000
Total Pension contributions	£5,000	Total Employee and Employer Pension contributions are less than the AA therefore there is no charge.

<b>Example 2 – Anita*</b>		
Total taxable earnings 2017/18	£190,000	
Total Pension contributions	£18,000	
<b>Adjusted income</b>	<b>£208,000</b>	This exceeds £150,000. Anita's annual allowance is reduced to £11,000
Reduced AA	£11,000	Calculated (£40,000 less 0.5x £208,000-£150,000)
Pension contributions above AA	£7,000	
AA tax charge at member's marginal rate (assumed 45%)	£3,150	This is 45% x £7,000

*\* Please note that this example with Anita makes no exception for any unused allowance ('carry forward') from the previous three years.*

## 2. Lifetime Allowance

### **What is it?**

LTA is the maximum overall value of pension benefits you can build up over your working life before a tax penalty applies. The LTA is currently £1.03 million, linked to inflation for future increases.

### **How is it calculated?**

For tax purposes, the current overall value of your benefits is calculated as the current total value of your Defined Contribution (DC) fund. You will also need to add the value of any Defined Benefit (DB) pension you might have, multiplying the benefit promise by 20 to provide an estimated cash value.

### **What does this mean?**

Below are two examples for members retiring on 1 May 2019:

<b>Example 1 - Nathan</b>		
DC savings fund	£200,000	
Annual DB pension	£20,000	
Value of DB pension	£400,000	<i>i.e. 20 x £20,000 p.a.</i>
Total value of DC and DB pension benefits <i>i.e. £200,000 + £400,000</i>	£600,000	As this is lower than the £1m LTA, no charge is payable

<b>Example 2 - Jordan</b>		
DC savings fund	£500,000	
Annual DB pension	£30,000	
Value of DB pension	£600,000	<i>i.e. 20 x £30,000 p.a.</i>
Total value of DC and DB pension benefits <i>i.e. £500,000 + £600,000</i>	£1,100,000	As this is greater than the LTA, a charge is payable
Value of benefits above the LTA	£100,000	
LTA charge	£55,000	This is 55% of the value of benefits above the LTA (if paid as a lump sum)

### How can I protect my benefits?

HMRC confirmed that there will be two forms of protection when the Lifetime Allowance reduced to £1m from 6 April 2016, these are summarised below:

- **Fixed Protection 2016 (FP16):** The member retains a Lifetime Allowance of £1.25m, but cannot build up any future pension benefits.
- **Individual Protection 2016 (IP16):** The member has a Lifetime Allowance, between £1m and £1.25m, based on the value of their pension savings at 5 April 2016.

If you are unsure about the best course of action, we recommend that you obtain financial advice.

If you have any questions please contact Bill Jangra, Head of Pensions at [bill.jangra@nuffieldhealth.com](mailto:bill.jangra@nuffieldhealth.com)

***Disclaimer***

*The information is based on the guidance published on 6 April 2016, and updated on 6 April 2018 by HM Revenue & Customs, and is subject to change.*

*The information provided in this leaflet is intended for general information and illustrative purposes. It does not constitute investment or any other advice. It should not be relied on to make investment or other decisions.*

***We recommend that you get independent financial advice before making any important decisions about your pension arrangements.***