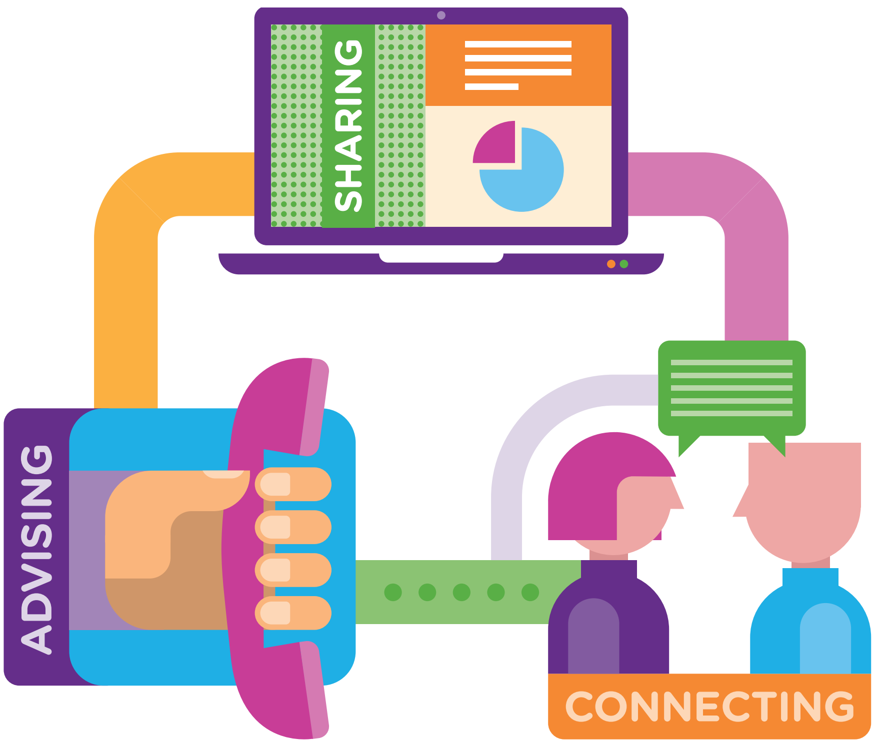
CIPFA The Chartered Institute of Public Finance & Accountancy

Pension taxation and planning

support for employers and members

Pensions' savings are subject to HMRC limits and these limits reduced in April 2014, meaning that more people in public service pension schemes will be affected. Those who are above the limits, or who are likely to exceed them in future, should consider the impact of tax limits on their pension, understand the options available to them, and be aware of their obligations to HMRC should a tax charge arise. Members whose pension growth exceeds the Annual Allowance charge in any tax year must calculate whether they have a tax charge to pay and if so complete a self-assessment form and arrange payment of the charge.

To assist employers and their employers who are members of public sector pension schemes, CIPFA, in partnership with MyCSP, has developed a service to employers to help you and your affected staff understand the impact of recent changes to pensions taxation.



Who is likely to be affected?

The reduction in the Annual Allowance and Lifetime Allowance will not just affect the very highest earners.

A Lifetime Allowance of £1.25m is equivalent to an annual pension at retirement of £62,500, or a pension of £54,350 with an automatic lump sum of £163,000. This means that people earning over £90,000 who retire after a full career could face a pension's tax charge.

Members falling into the following categories are in danger of breaching the Annual Allowance, now or in the near future:

Police and Firefighters with:

- salary of £70,000 or over and service of 20 years or more; or
- salary of £50,000 and recent promotion

Local Government and NHS workers with:

- salary of £90,000 and 40 years' service; or
- salary of £70,000 and recent promotion

Or in any of these schemes:

- any member taking an enhanced pension on ill-health retirement
- any member paying additional contributions or linking of service
- other higher earners in any scheme with shorter service

Any member (in any scheme) retiring on a full career pension and who earns over £90,000 is in danger of breaching the Lifetime Allowance

Members likely to exceed the Lifetime Allowance should be aware of the reduction in the limit from April 2014 and the new Individual Protection that may be available to them. They will need to consider whether or not they are eligible for and wish to apply for Individual Protection in order to protect the value of benefits built up to date.

Impact of Local Government Pension Scheme 2014

The rate at which pension is earned under the new scheme has increased, which will mean that people with very little service earning over £122,500 a year will breach the annual allowance. Under the old scheme new starters would not breach the Annual Allowance unless they were earning around £165,000 a year.

The new scheme includes a 50/50 option which allows members to pay half contributions and earn half the normal pension. This option may be of interest to people who would otherwise breach the annual or lifetime allowance.

Impact of Police Pension Scheme 2015 and Firefighters' Pension Scheme 2015

The rate at which pension is earned under the new schemes will change, meaning that people with very little service earning over £138,000 a year (Police) or £148,000 a year (Fire) will breach the annual allowance. However, for people with significant pensionable service, the critical salary is likely to be lower so that members earning over £100,000 may be affected. Under the old scheme new starters would not breach the Annual Allowance unless they were earning perhaps £140,000 a year (Police) or £150,000 a year (Fire).

Impact of NHS Pension Scheme 2015

From April 2015, people with very little service earning over £139,000 a year will breach the annual allowance. Under the old scheme new starters would not breach the Annual Allowance unless they were earning perhaps £150,000 a year.

The considerations faced by members are complex. The factors they will need to consider include:

- when they intend to retire
- the mix of pension and cash that they intend to take at retirement
- views on future inflation and salary growth (and hence how their benefits might grow in the future)
- whether they have further pension savings from other sources (e.g. previous employers), or indeed other savings in general
- the position in relation to dependants' benefits granted on death in service
- the position relating to ill health benefits
- their current tax position and their expected tax position in retirement
- whether they might wish to consider flexible working (e.g. partial retirement)
- the 50/50 option for those in the LGPS

What do employers need to know?

Because the tax charges can appear very high, the changes to the Annual and Lifetime Allowances are likely to lead to a number of members considering early-retirement, partial retirement and/or leaving the pension scheme or even employment.

The individuals making these decisions will, by definition, be senior members of staff who may be critical to the functioning of your organisation.

By taking a proactive approach, you can obtain early visibility on the likely impact of these changes on your organisation. You can engage with your senior staff which may lead to a better outcome for both of you.

Additionally, where an employee is offered a promotion, the timing may impact on any Annual Allowance tax charge and so both parties may wish to take this into consideration.

Where can you get help?

CIPFA has partnered with MyCSP to provide a service to employers to help you support your staff who may be impacted by the tax changes. The services are listed below:

- Pensions tax seminars for senior staff
- Projections for individuals to show the potential impact of pensions tax in various scenarios
- One-to-one sessions with senior staff (in person or by telephone), tailored to the individual

The services will provide information only to help members make informed decisions. We will not provide financial advice.

To discuss your requirements or for more information on these services please contact: **CIPFA Pension Network Advisor,** Neil Sellstrom at **neil.sellstrom@cipfa.org** tel: **01287 619679** or:
CIPFA Pensions Technical Manager, Nigel Keogh at **nigel.keogh@cipfa.org** tel **01204 592311**

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