Pension Tax Limits: Summary Factsheet

Co-op Section

This factsheet provides a summary of recent changes to the rules on pension tax limits, including changes which impact the 2015/16 tax year and those which were introduced from April 2016 and April 2017.

The information was updated and is current as at August 2018.

This factsheet is for members of The Co-op Section of Pace. If you're a member of The Co-operative Bank Section, you should visit the Bank's pensions website at **www.co-operativebank.co.uk/pensions** for pension information that's relevant to you.

Reminder of changes to the pension tax limits

Tax relief on pensions is limited by:

- An **Annual Allowance**, which is the maximum tax-free build up of pension savings you can make each year.

  The Annual Allowance was previously reduced from £50,000 to £40,000 at 6 April 2014 and was further reduced from 6 April 2016 for those 'earning' more than £150,000.

- In addition, anyone drawing some of their pension savings under the new flexible retirement rules will have their allowance restricted to £4,000 (the **Money Purchase Annual Allowance** effective from April 2017). You will be advised by your pension provider if such a restriction applies to you.

- A **Lifetime Allowance**, which is the total value of pension savings you can build up over your working lifetime before tax penalties apply.

  The Lifetime Allowance was reduced from £1.5 million to £1.25 million at 6 April 2014 and was reduced again to £1 million from 6 April 2016. From 6 April 2018 the Lifetime Allowance was increased to £1.03 million in line with the annual increase in consumer price inflation.

You may be affected by these new limits and may need to take some actions now, although you will be able to choose alternative options at any stage in the future.

You should therefore read this summary factsheet and the more detailed factsheets and collect relevant information about your pension savings.

If you have any questions about your pension savings, please contact the Co-op Pensions Department: PensionSavings@coop.co.uk

What were the changes and who will be affected?

These changes will not affect the vast majority of colleagues and, unless your pension savings are subject to the Money Purchase Annual Allowance, you are generally unlikely to be affected if your salary is less than around £80,000.

However, the changes may affect colleagues in different ways depending on their personal circumstances and so it's important that you consider how they might affect you.

What are the main changes?

1. The amount that high earners will be allowed to contribute each year towards their pension without being taxed (the Annual Allowance) was reduced from April 2016.
2. The Money Purchase Annual Allowance was reduced from £10,000 to £4,000 from April 2017 which will potentially impact colleagues who have drawn some of their pension savings under the flexible retirement tax rules.
3. The total amount of pension savings that can be saved over a whole working lifetime without being subject to extra tax (the Lifetime Allowance) was also reduced from April 2016.

Action!

Dealing with your personal tax position is your responsibility and it's important that you check all of your pension savings so you can decide if you need to take any action.

This factsheet provides you with a summary of these changes. More information on the changes can be found in other, more detailed, factsheets: '**Pension Tax Limits – Changes to the Annual Allowance**' and '**Pension Tax Limits – Changes to the Lifetime Allowance**' (please visit the Co-op's pensions website: **coop.co.uk/pensions**).

What is the Annual Allowance?

This is the maximum tax-free build up of pension savings that you can make each year.

- The Annual Allowance was £50,000 for pension savings in the tax years 2011/12 to 2013/14 and was reduced to £40,000 from the 2014/15 tax year onwards.
- Pension savings in the tax year 2015/16 are measured across two periods: 6 April 2015 to 8 July 2015 (the date of the Budget in which the changes were announced), and 9 July 2015 to 5 April 2016.

  Everyone was allowed to have pension savings in the first period (now closed) up to a value of £80,000. Any amounts not used in this period could be used in the second period, but only up to a maximum of £40,000.

  In practice, most people were able to have pension savings in this tax year to a maximum of the value of pension savings up to 8 July 2015 plus £40,000.
- From the 2016/17 tax year the Annual Allowance was further reduced for anyone 'earning' more than £150,000, reducing down to a minimum of £10,000 for anyone 'earning' more than £210,000. 'Earnings' for these purposes is a new HMRC definition called 'Adjusted Income' which is generally all of your taxable income plus any pension savings that you make, or The Co-op makes on your behalf. So this means that those colleagues whose basic salary, bonus and other taxable benefits are likely to total less than £150,000 may still be affected.
- **If you draw some of your pension savings under the new flexible retirement rules, your allowance may already be restricted to £4,000 (the Money Purchase Annual Allowance effective from April 2017). You will have been advised by your pension provider if this applies to you.**

What happens if I exceed the Annual Allowance?

If your savings to all pension schemes in a tax year are more than the Annual Allowance (or Money Purchase Annual Allowance if applicable), then a tax charge may be payable. This is based on the amount by which you exceed the Annual Allowance (or Money Purchase Annual Allowance if applicable) and is payable at your marginal rate of income tax.

Pension savings for these purposes is the amount of contributions paid to Pace DC or any personal pensions you may have. If you have final salary benefits, then the value of any increase in these benefits will also count as pension savings.

To avoid a tax charge, you may be able to 'carry forward' any unused allowances from the previous three tax years.

Please note that if the Money Purchase Annual Allowance applies, then you are not able to 'carry forward' unused allowances.

What can I do if I expect to exceed the Annual Allowance?

If you think that your total level of pension savings in a tax year will exceed your Annual Allowance (or Money Purchase Annual Allowance if applicable), then you may wish to reduce your pension savings to avoid paying an Annual Allowance Tax Charge.

To enable you to do this, The Co-op will allow you to restrict the salary on which pension contributions are based, and will pay you a cash allowance 'top-up' instead.

Action!

You can find more details of the changes, how to work out if you are affected and what you can to do about it, in the 'Pension Tax Limits – Changes to the Annual Allowance' factsheet.

A worksheet has been produced which will help you work out your Adjusted Income and show you how these changes might affect you. This is available on the Co-op's pension website: coop.co.uk/pensions

What is the Lifetime Allowance?

This is the maximum build up of pension savings that you can have over your working lifetime without a tax charge and is measured when you start to take your benefits.

- The Lifetime Allowance was reduced from £1.5 million to £1.25 million on 6 April 2014 and was further reduced to £1 million at 6 April 2016.
- The Government will start to increase the Lifetime Allowance by inflation each year from April 2018.
- The Lifetime Allowance is £1.03 million from April 2018.

What happens if I exceed the Lifetime Allowance?

If the total value of your pension savings when you take them is more than the Lifetime Allowance, a Lifetime Allowance Tax Charge will be payable. In most circumstances this will be at an effective rate of 55% on the value of your pension savings over the Lifetime Allowance. The value of pension savings for this purpose is the fund value of any defined contribution savings (such as Pace DC or personal pensions) and 20 times the annual pension from any defined benefit scheme such as Pace DB.

What happened to the Lifetime Allowance from April 2016?

From 6 April 2016 the Lifetime Allowance reduced from £1.25 million to £1 million.

What if the value of my pension savings is already more than £1 million, or I expect them to be so in the future?

The Government has announced two forms of 'protection' which may help you if you expect to have pension savings over the Lifetime Allowance.

The first can protect you if you will have pension savings, valued at 5 April 2016, over the new Lifetime Allowance (£1 million).

The second can help you if you expect to have pension savings over the Lifetime Allowance by the time you take your benefits, even if you make no more pensions savings.

The second protection is only available if no further pension savings were made after 5 April 2016.

If you only expect to have total pension savings of more than the Lifetime Allowance by continuing to make future pension savings, then the protections will not help you. Instead you should continue to monitor your position and take action at a later date.

If you want to opt out of future pension savings because your pension savings are expected to be at the Lifetime Allowance, The Co-op has an arrangement in place which will enable you to do this and receive a cash allowance instead.

Action!

It's difficult to generalise about who this change might affect as it depends greatly on what pension savings you have already made and what your pension planning objectives are.

Full details of how these changes may affect you and how you may be able to protect yourself from them are set out in the 'Pension Tax Limits – Changes to the Lifetime Allowance' factsheet.

A worksheet has been produced which will help you work out whether this might affect you. This is available on the Co-op's pension website: coop.co.uk/pensions

Remember

If you haven't already done so, you should now start collecting relevant information.

The Co-op Pensions Department can help with any queries that you may have.

Please note that the Co-op Pensions Department cannot provide financial advice and you are strongly recommended to seek independent financial advice before making any pension planning decisions.

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