Pace
pension
scheme

Changes to the Annual Allowance Factsheet

Co-op Section

This factsheet provides a summary of changes to the rules on pension tax limits, 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 may have their allowance restricted to £4,000 (the **Money Purchase Annual Allowance** effective from 6 April 2017). You will be advised by your pension provider if such a restriction applies to you.

  To avoid possible tax charges The Co-op offers pension options to enable affected colleagues to cap their pension savings and receive an additional cash allowance.

- A **Lifetime Allowance**, which is the total value of pension savings you can build up over your entire working lifetime before tax penalties apply. The changes to the Lifetime Allowance are covered in a separate factsheet.

To avoid or reduce the impact of these changes, you may need to take action.

You should therefore read this factsheet and collect relevant information about your pension savings and 'earnings' as soon as possible.

Note that 'earnings' for these purposes includes all income and also employer pension contibutions.

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

What are the changes and who is affected?

What are the changes?

There are three main changes:

1. The amount that high earners will be allowed to contribute each year towards their pension (the Annual Allowance) was reduced from April 2016.

2. Anyone who has taken some of their pension savings under the flexible retirement tax rules will have their allowance restricted to £4,000 (the Money Purchase Annual Allowance effective from April 2017).

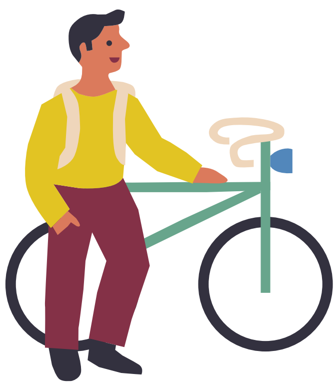
3. The total amount of pension savings that can be saved over a whole working lifetime without being subject to extra tax (the Lifetime Allowance) was also reduced from April 2016.

This factsheet provides you with details of the changes to the Annual Allowance (and Money Purchase Annual Allowance) **and the pension options available if you are affected (see page 13)**.

Details of the other changes can be found in the **'Pension Tax Limits – Changes to the Lifetime Allowance' factsheet** and **'Pension Tax Limits – Summary' factsheet** (please visit the Co-op's pensions website: **coop.co.uk/pensions**).

Action!

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



What is the Annual Allowance?

- This is the maximum tax-free pension savings you can make each year.
- The Annual Allowance for pension savings was £50,000 in the tax years 2011/12 to 2013/14 but was reduced to £40,000 from the 2014/15 tax year onwards.
- Pension savings in the tax year 2015/16 were 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.
- 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'll be advised by your pension provider if such a restriction applies to you.

Example

- Sue cashed in a small pension pot from a prior employment under the flexible retirement rules at age 57.
- She joined Pace DC (5% contribution from Sue, 10% contribution from The Co-op). Her salary is £30,000 so her annual pension savings are 15% x £30,000 = £4,500.
- This is more than the Money Purchase Annual Allowance of £4,000 and a potential tax charge will apply.
- Sue should consider whether to restrict her pension savings (see page 13).

- From the 2016/17 tax year, the Annual Allowance remains at £40,000 for most people.

- However, for anyone who has 'earnings' above £150,000, their Annual Allowance is reduced by £1 for every £2 earned over £150,000, down to a minimum of £10,000 for those with earnings of more than £210,000.

  Earnings for these purposes is a new HMRC definition called 'Adjusted Income' (see **page 7**).

Example

- Pete has 'Adjusted Income' of £145,000. Because his 'Adjusted Income' is less than £150,000 his Annual Allowance remains at £40,000.
- Ian has 'Adjusted Income' of £200,000. His Annual Allowance is reduced by (£200,000 - £150,000) / 2 = £25,000. Thus, his Annual Allowance will be £40,000 - £25,000 = £15,000.
- Jean has 'Adjusted Income' of £225,000 so her Annual Allowance will be £10,000.

However, anyone who has 'Threshold Income' (a new HMRC definition – see below) of less than £110,000 will be unaffected by this change.

What is 'Threshold Income' and 'Adjusted Income'?

'Threshold Income' is effectively your taxable income, so it includes:

- Salary (**after** any member contributions to Pace DC or salary sacrificed under NICE Pensions)
- Any salary sacrificed under NICE Pensions (*but only if this was started after 8 July 2015*)
- Bonus payments
- Car allowance
- P11D benefits
- Bank interest
- Dividend payments
- Rental income
- Any other taxable income

This is then reduced by any tax-relievable items such as charity giving.

Only if your 'Threshold Income' is more than £110,000 do you then have to calculate your 'Adjusted Income' to see if your Annual Allowance will be reduced.

Example

- Jack has salary (after being reduced for NICE contributions) and bonus and all other cash payments from employment of £99,000.
- Jack first sacrificed salary of £4,000 p.a. under NICE Pensions in November 2015, so this has to be added back on.
- Jack's only other income is bank interest of £500 and he makes tax relievable charity donations of £250.
- So Jack's Threshold Income = £99,000 + £4,000 + £500 - £250 = £103,250.
- As Jack's Threshold Income is less than £110,000, his Annual Allowance remains at £40,000.

Example

- Leanne has salary (after being reduced for NICE contributions) and bonus and all other cash payments from employment of £130,500.
- She sacrifices £7,500 p.a. of her salary under NICE Pensions but started this before 8 July 2015 (so this can be ignored).
- Leanne also has bank interest and rental income from a buy-to-let of £8,000 p.a. and makes no tax relievable charity donations.
- So Leanne's Threshold Income = £130,500 + £8,000 = £138,500.
- As Leanne's Threshold Income is more than £110,000 she may be affected by these changes and will have to calculate her Adjusted Income to check her position.

Action!

Collect together estimates of your taxable earnings, and tax relievable donations for the tax year and estimate your Threshold Income.

If your Threshold Income is likely to be more than £110,000, then you'll need to calculate your Adjusted Income (see below).

A worksheet is available from the Co-op's pensions website: coop.co.uk/pensions to help you work out your Threshold and Adjusted Income.

Adjusted Income is similar to Threshold Income but includes all pension contributions including those made by The Co-op.

So, Adjusted Income would include:

- Salary (**after** any member contributions to Pace or sacrificed salary)
- Bonus payments
- Car allowance
- P11D benefits
- Bank interest
- Dividend payments
- Rental income
- Any other taxable income

To this is added:

- The value of any member pension contributions to Pace DC not made under NICE Pensions.
- Any Co-op pension contributions to Pace DC (which would include any member contributions paid under NICE Pensions).
- The value of the increase in any final salary linked benefits (see **pages 9 and 10**).

This is reduced by any tax-relievable items such as charity giving.

What is NICE Pensions?

NICE Pensions is an arrangement that means you give up (sacrifice) some of your salary which The Co-op then pays into the pension scheme. This means that you make national insurance contribution savings.

Example

- Julie has taxable income = £138,000 (and no tax-relievable charity donations).
- Julie has sacrificed £7,500 p.a. of her salary for NICE Pensions contributions (which is then paid by The Co-op into Pace).
- In addition, The Co-op pays employer contributions of £12,500 p.a.
- Julie's Adjusted Income = £138,000 + £7,500 + £12,500 = £158,000.
- So despite Julie having 'earnings' below £150,000, the impact of pension contributions means that she is affected by these changes and her Annual Allowance is reduced by (£158,000 - £150,000) / 2 = £4,000 to £36,000.

Remember that if your Adjusted Income is more than £210,000, then your Annual Allowance is £10,000.

Because Adjusted Income depends on the total level of income and pension savings during the year, the actual level of your Annual Allowance may only be known towards the end of the tax year.

Action!

Collect together estimates of your taxable earnings, tax-relievable charity donations and pension savings for the tax year and estimate your Adjusted Income.

Then use this to estimate your Annual Allowance for the tax year.

A worksheet is available from the Co-op's pensions website: coop.co.uk/pensions to help you work out your Adjusted Income.

How are pension benefits valued for Annual Allowance purposes?

For defined contribution (DC) schemes like Pace DC, personal pension plans and Additional Voluntary Contributions (AVCs), the value for Annual Allowance purposes is the total level of contributions actually paid, either by yourself or by The Co-op, over the tax year.

Your current level of contributions to Pace DC can be derived from your payslip or found on the Co-op's pensions website: **coop.co.uk/pensions** in **Manage your Account**.

- Other pension arrangements, such as defined benefit (DB)/final salary schemes, are valued in a different way. In particular, if you have benefits that are linked to your final salary, then these need to be valued.
- DB pension savings are measured by taking the difference between the amount of DB pension at the end of the tax year and the amount of DB pension at the beginning of the tax year (after adjustment for the effects of price inflation) and multiplying by an HMRC factor of 16 (see example on **page 10**).

Example

- Roger's final salary pension at 5 April 2018 is £10,000 p.a.
- After adjusting for Consumer Prices Index (CPI) inflation to the previous September, this is £10,300 p.a. as movement in CPI was 3%.
- Because of a 5% salary increase in April 2018, his final salary pension at 5 April 2019 is now £10,000 x 1.05 = £10,500 p.a.
- For Annual Allowance purposes, Roger's final salary pension savings for 2018/19 are valued at (£10,500 - £10,300) x 16 = £200 x 16 = £3,200.

You can estimate what your DB pension benefits might be from Pace if you know what your final salary benefit is at the previous 5 April. This can be obtained by contacting the Co-op Pensions Department.

If you're making any pension savings outside of The Co-op, you should speak to your provider about how these should be valued.

Action!

Estimate your total pension savings for the tax year, including:

- **Your Pace DC contributions (whether through NICE Pensions or not).**
- **Any Additional Voluntary Contributions (AVCs) or payments to personal pensions.**
- **The Co-op's pension contributions.**
- **The increase in value of any final salary linked benefits.**

Compare this against your expected Annual Allowance.

What happens if I exceed the Annual Allowance?

- If your total pension savings to all pension schemes (including Pace DC and any personal pensions plus any increase in value of any final salary benefits) exceeds the Annual Allowance in a tax year, (or the Money Purchase Annual Allowance if applicable), then an Annual Allowance Tax Charge will be payable.
- Tax is payable on the amount of pension savings over the Annual Allowance and is charged at your marginal rate of income tax.
- If the tax charge arising from your pension savings to a Co-op pension scheme is more than £2,000, you may be able to ask Pace to pay any Annual Allowance Tax Charge from your pension savings. More details are available on request from the Co-op Pensions Department.

Example

- Mike has total pension savings of £25,000.
- Mike has an Annual Allowance of £20,000.
- So Mike has pension savings of £5,000 over the Annual Allowance.
- Mike is a 45% tax payer and so the Annual Allowance Tax Charge is 45% x £5,000 = £2,250.

What is 'carry forward' and how can it be used?

If you haven't used your full Annual Allowance in any of the last three tax years, then you may be able to reduce any Annual Allowance Tax Charge by 'carrying forward' these unused allowances.

Note that if your Annual Allowance is restricted to the Money Purchase Annual Allowance of £4,000 under the flexible retirement rules, then you cannot 'carry forward' unused allowances.

Example

- Neil has an Annual Allowance in 2018/19 of £10,000 and wants to make pension contributions of £22,500.
- Without any 'carry forward' he would be subject to an Annual Allowance Tax Charge on the £12,500 savings above his Annual Allowance.
- But his history of pension savings in the last three tax years is:

Tax year	Annual Allowance	Total pension savings	'Carry forward' allowed
2015/16	£40,000	£20,000	£20,000
2016/17	£40,000	£20,000	£20,000
2017/18	£20,000	£20,000	Nil

- Thus, he can carry forward £12,500 of the unused allowance of £20,000 from 2015/16 to avoid an Annual Allowance Tax Charge.

Action!

Estimate any unused Annual Allowance you may have for the last three tax years as this may reduce any Annual Allowance Tax Charge. Go to Manage your Account through the Co-op's pensions website to get details of your Pace DC pension savings, or contact the Co-op Pensions Department. For details of your Co-op DB pension savings, please contact the Co-op Pensions Department.

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

- If you think that your pension savings will be more than your Annual Allowance, (or the Money Purchase Annual Allowance if applicable), then you may wish to act to minimise or avoid an Annual Allowance Tax Charge.
- You should first check to see if you have any unused Annual Allowance from the previous three tax years that could be 'carried forward'. Note that you cannot do this if you are subject to the Money Purchase Annual Allowance.
- You should then consider reducing any AVCs or personal pension contributions.
- If these are insufficient, The Co-op will allow you to restrict (cap) the amount of your salary that is used to calculate DC pension contributions and will pay a non-pensionable cash allowance based on your salary over the cap.
- If you choose to cap your pensionable salary, you will pay 5% of this capped salary as a contribution and The Co-op will pay 10%.
- The non-pensionable cash allowance will be 10% of your salary over the cap and will be subject to income tax and national insurance contributions.

The capped salary options are:

Capped salary	Total pension contributions (15%)
£20,000	£3,000
£26,666	£4,000
£66,666	£9,999
£133,333	£19,999
£200,000	£30,000

If you wish to maximise your total pension contributions, then you can make an Additional Voluntary Contribution towards the end of the tax year when your Annual Allowance can be better estimated, or in the following tax year using the carry forward facility.

Example

- Nathan's salary is £150,000 and he estimates that he will have an Annual Allowance of £25,000.
- He currently contributes 10% of his salary and receives a 10% contribution from The Co-op (which amounts to a total of £30,000 p.a.).
- Nathan does not wish to pay an Annual Allowance Tax Charge and so chooses to restrict his pensionable salary to £133,333 and reduces his own contributions to 5%.
- With The Co-op's 10% contribution he then has total pension savings of £19,999 (15% of £133,333), and so is within his Annual Allowance.
- However, Nathan wishes to pay the maximum amount of pension contributions and so pays AVCs or a contribution to a personal pension of £5,000 towards the end of the tax year, once his actual amount of Annual Allowance becomes clearer.
- In addition to The Co-op's pension contributions, Nathan also receives a cash payment of 10% x (£150,000 - £133,333) = 10% x £16,667 = £1,667 p.a.

If you choose to cap your pensionable salary, then your full salary will continue to be used for both death-in-service benefits and any PACE final salary benefits that you may have. You may be asked to complete an additional death benefit nomination form.

Action!

If you need to reduce your total pension savings to avoid an Annual Allowance Tax Charge, then consider capping your pensionable salary at a level which produces total contributions below your Annual Allowance.

If you wish to maximise pension savings, consider making an appropriate AVC towards the end of next tax year or in the following tax year using the carry forward facility.

How do I choose to cap my pensionable salary?

- If you wish to cap your pensionable salary to reduce your pension savings to minimise or avoid an Annual Allowance Tax Charge, you will need to contact the Co-op Pensions Department.

- You can do this at any time and the changes will take place at the next possible pay date.

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.

This factsheet should not be treated as an authoritative statement of the law on any particular aspect or in any specific case. It should not be taken as financial advice and action should not be taken as a result of this factsheet alone. Individuals are recommended to seek independent financial advice in respect of their own personal circumstances.

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