



Annual Allowance Factsheet

Co-op Section

For members of Pace DC who joined on or after 10 June 2019

This factsheet provides a summary of the current rules on pension tax limits.



The information was updated
and is current as at April 2020.

Pension Tax Limits

This factsheet is for members of The Co-op Section of Pace DC who joined on or after 10 June 2019. If you joined before 10 June 2019 there is a separate [factsheet](#) for you which can be found at coop.co.uk/pensions. Your payslip will show you the date you joined Pace DC. 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.

Pension tax limits: an overview

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 is currently £40,000 a year.
You'll have a lower Annual Allowance if:
 - You're earning more than £240,000 a year
 - You're drawing some of your money purchase/defined contribution (DC) pension savings while still paying into a DC pension. In this case, your Annual Allowance may be restricted to £4,000 (the **Money Purchase Annual 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. More information about the Lifetime Allowance is covered in the [Lifetime Allowance Factsheet](#) and the [Pension Tax Limits - Summary Factsheet](#) at coop.co.uk/pensions

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

This factsheet provides you with details about the Annual Allowance (and Money Purchase Annual Allowance) and the options available if you're affected.

Pension tax legislation is complicated so make sure you seek financial advice when deciding what action to take. You can find details of a financial adviser, regulated by the Financial Conduct Authority (FCA), in your area at unbiased.co.uk. You should check the specialist advice areas of any adviser, as well as the cost of their advice, before appointing them.

What is the Annual Allowance?

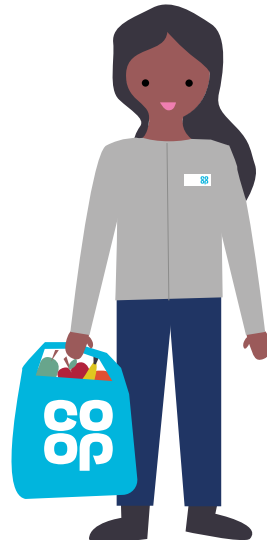
- This is the maximum tax-free pension savings you can make each tax year.
- The Annual Allowance is currently £40,000 for most people.
- For anyone who has 'earnings' above £240,000, the Annual Allowance is reduced by £1 for every £2 earned over £240,000, down to a minimum of £4,000 for those with earnings of more than £312,000.

HMRC calls earnings for these purposes 'Adjusted Income' (see example below and page 4 for further information).

Example

- Pete has 'Adjusted Income' of £225,000. Because his 'Adjusted Income' is less than £240,000, his Annual Allowance remains at £40,000.
- Ian has 'Adjusted Income' of £300,000. His Annual Allowance is reduced by $(£300,000 - £240,000) / 2 = £30,000$. Thus, his Annual Allowance will be $£40,000 - £30,000 = £10,000$.
- Jean has 'Adjusted Income' of £325,000 so her Annual Allowance will be £4,000.

Anyone who has 'Threshold Income' (HMRC definition) of less than £200,000 will be unaffected by this reduction in the Annual Allowance - see page 4 for further information.



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 £200,000 do you then have to calculate your 'Adjusted Income' to see if your Annual Allowance will be reduced.

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 contributions you make to Pace DC not made under NICE Pensions (for example, AVCs).
- 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 **page 7**).

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 a taxable income (after being reduced for NICE contributions) from employment of £220,000.
- She has no other income (e.g. bank interest or rental income) and makes no tax relievable charity donations.
- Julie has sacrificed £20,000 p.a. of her salary under NICE Pensions (which is then paid by the Co-op into Pace).
- In addition, the Co-op pays employer contributions of £20,000 p.a.
- Julie's Adjusted Income = £220,000 + £20,000 + £20,000 = £260,000.
- So despite Julie having 'earnings' below £240,000, the impact of pension contributions means that her Annual Allowance is reduced by $(£260,000 - £240,000) / 2 = £10,000$ to £30,000.
- She should consider whether to restrict her pension savings (see page 10).

Remember that if your Adjusted Income is more than £312,000, then your Annual Allowance is £4,000.

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.

A worksheet is available in the 'Tax information' dropdown in the [useful information](#) section of The Co-op's pensions website: coop.co.uk/pensions, to help you work out your Threshold Income and Adjusted Income.

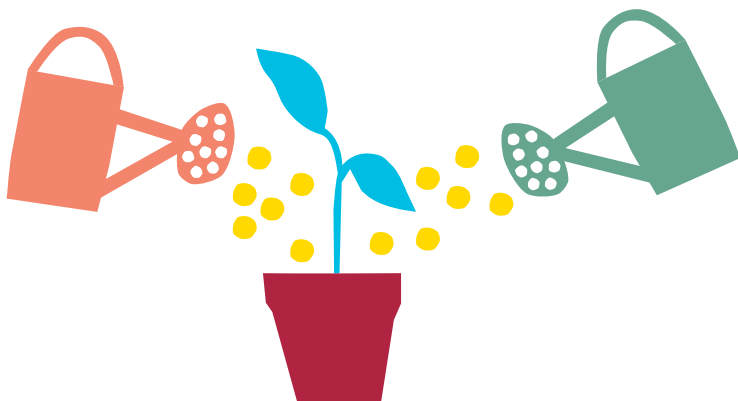
What is the Money Purchase Annual Allowance?

If you start to take money from a defined contribution (DC) pension, whilst still paying into a DC pension scheme, your Annual Allowance may be restricted to £4,000 a year.

This is called the Money Purchase Annual Allowance. This restriction applies to Pace DC and to any other DC pension arrangements you have. You would have been advised by your pension provider at the time you took money from your DC pension scheme if the Money Purchase Annual Allowance applies to you.

Example

- Anna cashed in a pension pot from a prior employment under the flexible retirement rules at age 57.
- She joined Pace DC (10% contribution from Anna, 10% contribution from The Co-op). Her salary is £30,000 so her annual pension savings are $20\% \times £30,000 = £6,000$.
- This is more than the Money Purchase Annual Allowance of £4,000 and a potential tax charge will apply.
- Anna should consider whether to restrict her pension savings (see page 10).



How are pension benefits valued for measuring against the Annual Allowance?

The Annual Allowance test is applied to all pension savings, so any additional pension savings you make outside of Pace DC will also count towards the test.

For 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 found on your payslip or 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 any increase in the value of these benefits in a tax year will need to be taken into account.
- If you have benefits in Pace DB, please contact the Co-op Pensions Department for more details at: PensionSavings@coop.co.uk
- If you have benefits in a DB scheme from a prior employment, please speak to your provider for more information.

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



What happens if I exceed the Annual Allowance (or the Money Purchase Annual Allowance, if applicable)?

- 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, 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 highest marginal rate of income tax.
- You'll be affected by the Money Purchase Annual Allowance if you start to take money from a DC pension and you and / or your employer are also paying contributions into a DC pension of £4,000 or more in a tax year.
- Tax is payable on the amount of your pension savings over the Money Purchase Annual Allowance and is charged at your highest 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, rather than paying tax via self-assessment, you may be able to ask Pace to pay any Annual Allowance Tax Charge, or the Money Purchase Annual Allowance Tax Charge, if applicable, from your pension savings. More details are available on request from the Co-op Pensions Department.

Example

- Mike has total pension contributions for the year of £25,000.
- Mike has an Annual Allowance of £20,000.
- So Mike's pension contributions are £5,000 over the Annual Allowance.
- Mike is a 45% taxpayer and so the Annual Allowance Tax Charge is $45\% \times £5,000 = £2,250$.

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 2020/21 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
2017/18	£40,000	£20,000	£20,000
2018/19	£40,000	£20,000	£20,000
2019/20	£20,000	£20,000	Nil

- Thus, he can carry forward £12,500 of the unused allowance of £20,000 from 2017/18 to avoid an Annual Allowance Tax Charge.

What can I do if I expect to exceed the Annual Allowance (or the Money Purchase Annual Allowance, if applicable)?

- 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.

Alternative options if you are affected by the Annual Allowance

- The Co-op will allow you to restrict (cap) the amount of your pensionable salary that is used to calculate DC pension contributions and will pay a non-pensionable cash allowance based on your basic salary over the cap.
- If you choose to cap your pensionable salary, you will pay 10% of this capped salary as a contribution and The Co-op will pay 10%.
- The non-pensionable cash allowance will be 10% of your basic salary over the cap and will be subject to income tax and national insurance contributions.
- Please note that this option is not available if you have chosen to take money out of a DC pension arrangement and as a result your Annual Allowance is restricted to the Money Purchase Annual Allowance of £4,000.

The capped salary options are:

Capped salary	Total pension contributions (20%)
£20,000	£4,000
£50,000	£10,000
£100,000	£20,000
£150,000	£30,000
£200,000	£40,000

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

- Luke's salary has recently increased to £270,000 and he estimates that he will have an Annual Allowance of £25,000.
- He will need to pay an Annual Allowance Tax Charge if he continues to pay contributions of 10% from his salary and receive contributions from The Co-op of 10%.
- Luke doesn't wish to pay an Annual Allowance Tax Charge and chooses to restrict his pensionable salary to £100,000.
- With his 10% contribution, and The Co-op's 10% contribution, Luke then has total pension savings in the year of £20,000 (20% of £100,000), and so is within his Annual Allowance.
- However, Luke 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, Luke also receives a cash payment for the year of $10\% \times (£270,000 - £100,000) = 10\% \times £170,000 = £17,000$.

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.

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 at PensionSavings@coop.co.uk
- You can do this at any time and the changes will take place at the next possible pay date.

For further information, you can read HMRC guidance at: www.gov.uk/tax-on-your-private-pension

Dealing with your personal pension tax position is your responsibility. The Co-op, the Pace Trustees, and the Co-op Pensions Department are unable, by law, to provide you with advice. You're strongly recommended to seek independent financial advice before making any pension planning decisions. You can find details of a financial adviser, regulated by the Financial Conduct Authority (FCA), in your area at unbiased.co.uk. You should check the specialist advice areas of any adviser, as well as the cost of their advice, before appointing them.

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, and before making any pension planning decisions.



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