Pension Pay Supplement

Introduction

The Government’s recent and forthcoming changes to pension taxation thresholds have been reviewed by the College. This guidance note explains our approach to supporting members of staff who are affected by the reductions in the Lifetime Allowance (LTA) and the introduction of the tapered Annual Allowance (AA) detailed below:

The changes may be summarised as follows:-

- **Lifetime Allowance (LTA):** reduced to **£1m** on 6th April 2016. From 6th April 2018 the LTA will be increased by CPI.
- **Annual Allowance (AA):** the AA will be tapered to reduce from £40,000 to £10,000 from 6 April 2016 on a sliding scale for income from £150,000 until it has tapered down to £10,000 for those earning £210,000 or more.

The College’s support takes the form of a pay supplement, payable only to employees who are adversely affected by the LTA or AA limits to such an extent that it causes them to withdraw from active pension membership or to limit their pension savings. The amount of pay supplement will be set by the Provost’s Board each year and will broadly be equivalent in value to the saving in employer contribution made by the College, after making adjustments for the additional employer’s national insurance costs which becomes payable.

Members of staff in receipt of a salary over £110,000 are the most likely to be affected by the LTA or AA limits mentioned above though in some cases those earning less can also be affected by the changes. New (pre-employment), existing and overseas staff are eligible to be considered as part of this guidance note. Where a post is advertised and the salary is over £110,000, a copy of this guidance will be made available to the successful candidate at the earliest opportunity to allow them early consideration of this issue.

The HMRC web-site [link](https://www.gov.uk/guidance) provides basic guidance on how an individual taxpayer may judge whether or not they are likely to breach the LTA or AA limits. As a rule of thumb, in order to breach the new LTA limit, a taxpayer will need to have built up a pension (from all potential sources) of £43,400 a year or more plus their lump sum of three times this amount. The table below illustrates the position.
If total accumulated pension savings (the value of your College scheme pension benefits plus any other pension benefits you may have in any other scheme or pension vehicle), are higher than the Lifetime Allowance (LTA), then any amount in excess of the LTA will be subject to an additional tax charge at the time the excess pension (cash value of benefits over the current or protected LTA limit) is drawn. This tax charge is 55% if the excess amount is taken as a lump sum and 25% on top of their normal marginal rate of tax if it is taken as pension income.

The College strongly recommends that staff who are concerned that they fall above one of the above thresholds, or think they might be eligible for the Voluntary Salary Cap (VSC), outlined below, should seek independent advice from a Financial Services Adviser to discuss tax efficient options before taking any action.

### Members holding or intending to apply for Fixed Protection Status

Existing members of staff who have sought independent advice and hold a Fixed Protection Certificate or have obtained a temporary reference number from HMRC, and new members (including those who have been issued with a contract but whose employment has not yet commenced) should meet with a member of the Pensions team to discuss the options available to them. If at the end of the meeting, the member of staff wishes to leave the pension scheme, they must give the Pensions representative either a copy of their Fixed Protection Certificate or, for new starters, seek independent tax advice and then apply for a HMRC reference number, so that the Pensions team can make the following arrangements.

<table>
<thead>
<tr>
<th>Total pension</th>
<th>LTA value</th>
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<tbody>
<tr>
<td>£70,000.00</td>
<td>£1,610,000.00</td>
</tr>
<tr>
<td>£65,000.00</td>
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<tr>
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<tr>
<td>£5,000.00</td>
<td>£115,000.00</td>
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</tbody>
</table>
1. The Pensions team will write to the relevant Faculty/Support Services HR team and request that they set-up an annual pay supplement with a review period of three months prior to the end of the supplement.

2. The supplement will reflect the College’s annual percentage which will be agreed each year at the Provost’s Board.

3. The member of staff should receive the original letter and the Pensions and Payroll teams should be sent copies.

4. Whilst in receipt of a pay supplement, should a member of staff’s circumstances change prior to the review period, they are advised to review these changes with their independent Financial Services Adviser or a member of the Pensions team to check if their Fixed Protection Certificate or HMRC reference number is still valid and their entitlement to the pay supplement. Failure to do this could result in the loss of protection and higher tax charges upon retirement.

5. A member of the Pensions team will meet with the member of staff during the three month review period to check their circumstances have not changed and that they continue to be entitled to the pension supplement. Following the meeting they will inform the relevant HR team to either renew the supplement for a further twelve months (including review period) or to end the supplement.

Members with Individual Protection Status, or who are likely to breach the AA limit in the coming tax year

- Existing **NHS members** of staff who have sought independent advice and applied for an Individual Protection Certificate from HMRC or who consider they are likely to breach the AA limit should meet with a member of the Pensions team to discuss if they are eligible for the pay supplement. They will need to give the Pensions representative a copy of the certificate or HMRC reference number or complete a declaration affirming their tax situation, in order that Pensions may make the appropriate arrangements.

- Existing **USS members** of staff who have sought independent advice and applied for an Individual Protection Certificate from HMRC or who consider they are likely to breach the AA limit should meet with a member of the Pensions team to discuss if they wish to establish a Voluntary Salary Cap (further information below). If it is
concluded at the end of the meeting that the member of staff does wish to limit their pension accrual, they will need to give the Pensions representative a copy of the certificate or HMRC reference number or complete a declaration affirming their tax situation in order that they may make the appropriate arrangements.

- New members of staff with a salary over £110,000, including those who have not yet joined the College, but have been issued with a contract of employment and are a current pension scheme member being impacted by AA, may in the first instance, discuss if they are eligible for VSC prior to seeking independent advice and applying for an Individual Protection Certificate/Individual Protection Reference Number.

**Further option for USS Members**

**The Voluntary Salary Cap (VSC)** has been introduced to allow members to limit their pension accrual when annual or lifetime allowance limits may lead to a tax charge.

Key features are as follows.

- The scheme is available from **1 October 2016**
- The VSC can be **no lower** than the value of the DB threshold, currently £55,560 (increased annually in line with capped CPI).
- Normally this should remain in place for a full scheme year and election should be made prior to the start of the relevant scheme year.
- Cancellation will only be permitted on 31st March.
- A mandatory member contribution of 8% of pensionable salary up to the chosen cap (minimum £55,560) is required.
- The member option of contributing an additional 2.5% of salary from the VSC (chosen cap) to full salary is available to maintain death in service and incapacity cover.
- The member optional 1% matching contribution is available up to the chosen cap.
- The College pays 18.0% of the pensionable salary up to VSC (chosen cap) and 2.1% from the VSC to full salary to maintain the deficit contributions.
12.0% of the employer contributions will be allocated to the member’s DC fund on salary from the DB threshold (£55,560) to the VSC (chosen cap) if applicable.

If the prime reason for selecting a VSC is in order to avoid breaching the Annual Allowance in any given tax year, or relates to Individual Protection, a pay supplement will be offered in a similar manner to that described above for Fixed Protection. Further details may be obtained from the Pension Office.

Other

Existing and new staff who are concerned that they may be impacted negatively by tax legislation and do not have either a Fixed Protection or Individual Protection Certificate contact the Pensions Office who will be able to inform you of the options available.

Details of an Independent Financial Adviser (IFA) can be found at:

NHS
US
BMA Pensions

The College is part of a London Pensions High Earner Consortium that are in the process of establishing an IFA contact that is fully informed on both the NHS and USS schemes. Further details will be issued as soon as possible.

Glossary of terms

Annual Allowance (AA)
The limit members are allowed to build up in pension accrual in each scheme year without attracting additional tax charges.

Cost Price Index (CPI)
A consumer price index (CPI) measures changes in the price level of a market basket of consumer goods and services purchased by households. The CPI is a statistical estimate constructed using the prices of a sample of representative items whose prices are collected periodically.

Fixed Protection (FP) Certificate
Issued from April 2012 to April 2014, will be a HMRC FP Reference Number from April 2016.
**Income for AA purposes**
Broadly this is all taxable income i.e. investment and property income plus income sacrificed under a salary sacrifice scheme entered into on or after 9th July 2015 and less any pension contributions paid outside the College using the “relief at source” method i.e. contributions paid from take home pay and not deducted before tax.

**Individual Protection (IP) Certificate**
Issued from April 2012 to April 2014, will be a **HMRC IP Reference Number** from April 2016.

**Lifetime Allowance (LTA)**
The Lifetime Allowance is the total value a member can accrue across all pension schemes without incurring a tax charge at retirement.

**Pensionable salary (earnings)**
The total of the basic pay plus any additional allowances on which pension contributions are assessed

**Pension Benefit accrual**
The difference between pension benefits at the start of the Pensions Input Period (PIP) and the end of the PIP and for Defined Benefit Schemes such as those operated by the College not just contributions paid.

**Pensions Input Period (PIP)**
The period 6th April to 5th April in line with the tax year

**Scheme Year**
1st April to 31st March

**USS Capped CPI**
Pensions from USS are currently subject to increase for cost of living in line with “official pensions,” i.e. in line with the Cost Price Index (CPI). USS will match increases in official pensions for the first 5%, and thereafter, half of the increase to a maximum of 10.0%.

**USS DB Threshold**
From 1st October 2016 a salary threshold was introduced to cap the USS Career Revalued Benefits (CRB) at £55,000 (increased annually in line with capped CPI). Currently £55,560 with effect from 1 April 2017.
USS Defined Contribution Scheme

Member and College contributions are accumulated and invested in chosen or default funds to build a “pensions pot” which can be taken as cash (subject to the scheme rules and tax limits) or pension on retirement.

Scheme Factsheets & Modellers

USS Modeller

USS “An introduction to Pensions Tax”

NHS AA Modeller

NHS Tax Information

College reserves the right to withdraw this pay supplement at any stage

mg 6/04/2017