

NHS Pensions - Annual Allowance FAQs

Frequently Asked Questions

These Frequently Asked Questions are split up into sections. They should be read in conjunction with the other materials provided on the NHS Pensions website and also on HM Revenue and Custom's (HMRC) website.

1. General Questions

Q. What is Annual Allowance?

A. The Annual Allowance is the maximum amount of tax free growth an individual's pension savings can grow by in any one year. If individuals exceed this limit they will need to pay a tax charge, the Annual Allowance charge, to HMRC.

Q. When was it changed?

A. From the 6 April 2011 the Annual Allowance reduced from £255,000 to £50,000.

Q. Will the Annual Allowance change again?

A. Yes. The Annual Allowance will reduce again from 6 April 2014 to £40,000. This will affect pension savings in the NHS Pension Scheme and the NHS MPAVC Scheme from 1 April 2014.

Q. What is included in the Annual Allowance?

A. All contributions to money purchase schemes, defined contribution schemes, personal pensions and the growth in benefits for defined benefit schemes.

Q. How is the Annual Allowance worked out for my NHS Pension Scheme benefits?

A. For the main NHS Scheme it is the growth in benefits from one year to the next taking into account inflation, which is measured using the Consumer Price Index (CPI).

Q. How is the Annual Allowance worked out for my NHS MPAVC Scheme benefits?

A. Here it is the amount of contributions you (or someone else on your behalf) have paid into the NHS MPAVC Scheme. If you have policies with more than one AVC provider this will be the combined contributions paid.

Q. Can I work out what my annual pension growth is in the NHS Pension Scheme myself?

A. No. It is not the amount of contributions you or your employer have paid into the NHS Pension Scheme but the amount of growth in your pension benefits.

Q. Can I work out what my annual pension growth has been from my NHS MPAVC Scheme contributions myself?

A. Yes. This is easier for you to work out as it is the contributions you have paid. All three AVC providers routinely issue an annual benefit statement (ABS) that show the amount of AVC contributions paid.

Q. Does the Annual Allowance apply to me?

A. For most members the Annual Allowance will not affect them. However, any of the following could impact on the growth of your pension savings:

- Being a high earner with long pensionable membership;
- Significant increase in membership (e.g. a change from part-time to full-time, doubled membership for Mental Health Officer's).
- Purchasing added years and/or additional pension
- A significant pay rise, possibly due to a promotion.
- Application of late retirement factors (in the 2008 Section).
- Receipt of a clinical excellence award.
- Tier 1 ill health retirement where the outstanding costs of a purchased of added years and/or an additional pension are waived.
- Tier 2 ill health retirement with an enhancement to your membership
- Contributions paid to other pension savings arrangements, including the NHS Money Purchase MPAVC Scheme.

Q. Am I at risk of exceeding the Annual Allowance?

A. Yes, if you meet some or all of conditions above.

2. Questions regarding how the Annual Allowance is calculated

There is a separate document (Annual Allowance Example Calculations) available on this Tax and Pensions page that provides a worked example of how the Annual Allowance is calculated.

Q. What is a Pension Input Period (PIP)?

A. This is the period over which the growth in your pension savings (NHS Pension Scheme) or the contributions paid (NHS MPAVC Scheme) is assessed.

The pension input period for both the NHS Pension Scheme and NHS MPAVC Scheme is 1 April to the following 31 March until 31 March 2015.

The relevant tax year is the year in which the pension input period ends, for example a PIP of 1 April 2011 to 31 March 2012 has a relevant tax year of 2011/12.

From 1 April 2015 HMRC aligned all PIP's with the tax year i.e. from 6 April to the following 5 April.

Q. What is a Pension Input Amount (PIA) in the NHS Pension Scheme?

A. This is the monetary amount your pension savings have grown by in the pension input period. It is calculated by determining the difference between the value of your benefits at the start of the pension input period (the opening value) compared with the value at the end of the pension input period (the closing value).

Q. What is the opening value in the NHS Pension Scheme?

A. This is the value of your benefits at the beginning of the pension input period converted into a capital value, which is increased by the CPI from the previous September (please see "Annual Allowance Example Calculations" for more information).

Q. What is the closing value in the NHS Pension Scheme?

A. Is the value of the benefits at the end of the pension input period converted into a capital value – please see "Annual Allowance Example Calculations" for more information.

Q. What is included in the Pension Input Amount?

A. The growth in your NHS Pension Scheme benefits including any doubled years, added years or additional pension being purchased.

Q. What is a Pension Input Amount in the NHS MPAVC Scheme?

A. The NHS MPAVC Scheme has three providers, Equitable Life, Standard Life and Prudential. The pension input amount is the sum of the contributions received by each of the three providers in the pension input period, not the amount invested with each individual provider.

If you pay to more than one provider then you will need to add the contributions paid to each provider to work out the total Pension Input Amount.

3. Informing you about the Annual Allowance

Q. How will I know if I am over the Annual Allowance limit?

A. If you are over the Annual Allowance limit with either the NHS Pension Scheme or the NHS MPAVC Scheme then NHS Pensions will send you a pension savings statement. We will not automatically send a pension savings statement where the Annual Allowance is not exceeded.

Please remember the NHS Pension Scheme and the NHS MPAVC Scheme are separately registered pension schemes and you will only be supplied a pension savings statement from the scheme where the pension input amount exceeds the Annual Allowance.

If you have more than one pension provider you may have to ask each pension provider for a pension savings statement.

Q. When will you write to me?

A. Provided all the relevant information is available to us from your NHS employer to calculate the pension input amount we will write to you by 6 October each year if you have exceeded the Annual Allowance.

For tax year 2012/13 – 6 October 2013

For tax year 2013/14 – 6 October 2014

For the tax-year 2011/12 HMRC has allowed all pension schemes until 6 October 2013 to provide a pension savings statement.

If we have not received all the information from your employer we will send you a pension saving statement within 3 months of receiving the information.

Q. What is included in a Pension Savings Statement?

A. The pension savings statement will include the following information:

- The amount of the Annual Allowance for the relevant tax year,
- The pension input amount for the pension input period,
- The pension input amount for the previous 3 pension input periods,
- The amount of the Annual Allowance in the previous 3 relevant tax years.

The pension savings statement is not an annual benefit statement and will not include an estimate of your NHS Pension Scheme benefits.

Details of how to request an estimate of your NHS Pension Scheme benefits can be found on the website at.

Q. When will you send me a Pension Savings Statement if I request one?

A. Provided we have received all the relevant information from your employer to calculate the pension input amount we will write to you by 6 October or within 3 months of receiving your request (requests can only be accepted from 6 April following the relevant tax year).

Please state if you want a statement for the NHS Pension Scheme or the NHS MPAVC Scheme; however remember that the NHS MPAVC providers will be issuing annual benefit statements.

Q. I am a General Medical Practitioner - when will my provisional Pension Savings Statements be sent out?

A. NHS Pensions aims to provide pension savings statements when the pensionable profit/pay has been confirmed.

You can assist NHS Pensions by completing your annual certificate of pensionable profit on time.

Q. What about my contributions to other pension arrangements?

A. Your total pension savings are subject to the Annual Allowance test so any contributions you are paying to other registered pension schemes will also need to be included when assessing whether your total pension input amount exceeds the Annual Allowance during the pension input period.

Q. Can I get information from NHS Pensions about the Annual Allowance if I do not exceed the limit?

A. Yes. Members will be able to request a pension saving statements from NHS Pensions if necessary.

Remember you would only need these if you have pension provisions with other pension provider(s) and you need to add the pension input amounts together to determine your overall Annual Allowance position.

4. Exceeding the Annual Allowance

Q. Will you tell me if I have exceeded the Annual Allowance?

A. No. We will only provide you with the pension input amount for the relevant tax year and the three previous tax years (if available). You are responsible for establishing and calculating any Annual Allowance charge.

Calculators to aid you with this are available on HMRC's website.

Q. What happens if I exceed the Annual Allowance?

A. If you exceed the Annual Allowance there may be an Annual Allowance charge to pay.

Q. How much is the Annual Allowance Charge?

A. The Annual Allowance charge is not at a fixed rate but will depend on how much taxable income you have and the amount of your pension saving in excess of the Annual Allowance.

To find out how much you will pay, you will need to work out the rate of tax that would be charged if your excess pension savings were added to your taxable income and based on your marginal income tax rate

Look at the exemptions section below to see if any affect your circumstances.

Q. What is Carry Forward?

A. If you have any unused Annual Allowance from the previous three tax years you can use this to offset against an Annual Allowance charge in the relevant tax year.

If you exceed the Annual Allowance in the relevant tax year you can "look back" to up to three previous tax years to see if you have any unused allowance from these years. If you do, you may be able to "carry forward" this unused allowance and add it to your Annual Allowance limit in the

current/relevant tax year. This means that if your pension growth exceeds the Annual Allowance, for example because of a promotion, you may not have an Annual Allowance charge to pay, depending upon your personal circumstances.

The maximum amount that can be carried forward is the Annual Allowance for each of the three previous tax years, and is calculated on the current Annual Allowance rules.

An example would be were you exceeded the Annual Allowance by £15,000 in 2011/12 but you had unused Annual Allowance from the three previous tax years of £25,000 then you would not be liable for an Annual Allowance charge.

It is your responsibility to check whether you have any unused Annual Allowance from the preceding three tax years to carry forward to the relevant tax year being assessed. The pension saving statement provided by NHS Pensions will include the pension input amounts for the previous three tax years.

Again HMRC's calculator will help you to check this and is located on their website.

Q. How can I pay the Annual Allowance Charge?

A. You can pay the charge yourself directly to [HMRC](#) using their self-assessment tax return or in certain circumstances you can ask the pension scheme to pay the charge on your behalf – this is known as Scheme Pays.

Please see the later section of this FAQ for information about Scheme Pays.

Q. What is my responsibility in terms of disclosing my Annual Allowance Charge to HMRC?

A. It is your responsibility to ensure that any Annual Allowance charge is worked out, declared and paid in time to HMRC.

The Annual Allowance charge must be declared to HMRC by completing a self assessment tax return. If necessary this can be obtained from [HMRC by registering](#).

The self-assessment deadline for declaring and paying any tax due is 31 January following the end of the relevant tax-year. The Pension Scheme Tax Reference (PSTR) number for the 1995/2008 Scheme is 00328820RJ and for the 2015 Scheme is 00820574RJ.

HMRC's self-assessment process enables individuals to estimate any tax payable on their tax return. Individuals will then have 12 months in which to correct any estimated information provided. Members wishing to find out more should visit the [HMRC website](#).

5. Exemptions from the Annual Allowance Charge

Q. I have a protection certificate from HMRC; does this affect my Annual Allowance Charge?

A. No. From 6 April 2011 having Enhanced Protection, Primary Protection, Fixed Protection 2012, Fixed Protection 2014 or Individual Protection will not protect you from potential Annual Allowance charges.

Q. Are there any exclusions from potential Annual Allowance charges?

A. Yes. If a member:

- meets HMRC's Severe Ill Health Condition (SIHC),
- dies, or
- is a deferred member (for the full pension input period)

during the relevant tax year then their pension input amount for that tax year only will be nil.

Q. What is the Severe Ill Health Condition?

A. This is where the member either:

- becomes entitled to a serious ill-health lump sum because their life expectancy is less than one year, or
- NHS Pensions receives evidence from a registered medical practitioner that the member is unlikely to be able to do any type of gainful work, other than in an insignificant way, before state pension age.

Q. I am retiring on ill health grounds, how do I know if I will be affected?

A. Members who retire on ill health grounds are not automatically excluded from Annual Allowance charges. If you are retiring on ill health grounds, you are more likely to be affected if you are eligible for ill health benefits which provide uplift to your pension and lump sum.

This normally happens when you are awarded "Tier 2" ill health retirement benefits. HMRC have stated that their "Severe Ill Health" Condition must be met in order for an individual to be exempt from the Annual Allowance in the tax year they retire on ill health grounds.

HMRC's Severe Ill Health Condition is different to the conditions required to receive Tier 2. As part of your ill health application you will be asked to consent in order for our medical advisers to assess whether you meet HMRC's Severe Ill Health Condition. This test can help to establish whether or not you are exempt from any Annual Allowance charge in the tax year you retire. More information about the test can be found on HMRC's website.

Remember, any growth in excess of the Annual Allowance may be partially or fully offset if you have any unused Annual Allowance that you are able to carry forward.

Q. I am not an active member of the NHS Pension Scheme will I have a Pension Input Amount?

A. If you have been a deferred member for the whole of the input period (or a deferred member for part of the pension input period and retired) then you will have no pension input amount.

Q. I am receiving a pension from the NHSPS will I have a pension input amount?

A. This depends when you went on pension and if you have paid any growth in your NHSPS benefits in a pension input period:

- If you retired from employment and took your benefits you will have a pension input amount for the time you accrued benefits in the NHSPS for that pension input period; and
- If your benefits are revised to take account late payments or extra membership, then this growth will be included in the pension input period the extra benefits are paid; or
- If your benefits were paid in an earlier pension input period and there were no revisions to your benefits then you will be a “pensioner member” and your pension input amount will be nil in any pension input period where there is no growth in benefits.

6. Scheme Pays

Q. What is Scheme Pays?

A. NHS Pensions may be able to help if the growth in your NHS Pension Scheme benefits exceeds the Annual Allowance and you have a total Annual Allowance charge of £2,000 or more. You can ask us to pay your Annual Allowance charge; this is ‘Scheme Pays’).

In simple terms scheme pays can be likened to NHS Pension ‘loaning’ you money now to pay your current tax bill which it will receive back with interest when you retire from your accumulated pension benefits.

Q. Is there a Scheme Pays option for the NHS MPAVC Scheme?

A. Yes. Scheme pays is also available if your contributions to the NHS MPAVC Scheme exceed the Annual Allowance and your total Annual Allowance charge is £2,000 or more.

There will be a separate irrevocable election in respect of the NHS MPAVC Scheme.

Q. I am considering Scheme Pays - what is an irrevocable election?

A. It is your decision to opt for scheme pays. It means that once you have completed, signed and sent the Scheme Pays Election Notice to NHS Pensions that your decision cannot be revoked or withdrawn at a later date, but it may be amended if the amount of the Annual Allowance charge changes.

Q. When do I have to tell NHS Pensions I want to use Scheme Pays?

A. For both the NHS Pension Scheme and the NHS MPAVC Scheme you must send the Scheme Pays Election to NHS Pensions by the 31 July in the year following the tax-year the Annual Allowance charge applies.

For the tax-year 2011/12 only, this was extended to 31 December 2013.

Q. When will the Scheme Pays amount be recovered?

A. In the NHS Pension Scheme the amount will usually be recovered when your benefits are paid at retirement, or if you transfer out of the Scheme.

In the NHS MPAVC Scheme it will be taken from your pension fund when the charge is paid to HMRC. If you elect for scheme pays but hold investments with more than one AVC provider it will be up to you to tell us from which provider and policy you want the Annual Allowance to be collected from.

Q. How will it be recovered from my NHS Pension Scheme benefits?

A. By permanently reducing your pension and in the 1995 section your lump sum as well.

Q. How much will it cost me?

A. The NHS Pensions Scheme will add interest to any scheme pays balance. Interest will be applied, based on the CPI figure every September plus 3%, from 16 March 2016 this changed to 2.8%.

Q. How will the total cost be recovered from my NHS Pension Scheme benefits?

The total balance will be converted by factors provided by the Scheme's Actuary into an amount to be recovered from your pension, and in the 1995 section your lump sum.

A separate factsheet about estimating this cost (Estimating effect of Scheme Pays in Reducing Pensions) is available on this Tax and Pension page.

If you transfer out the total balance will be deducted directly from any transfer amount.

Q. What and when is the relevant date?

A. The relevant date is the date from which interest is added to scheme pays balance. This will be 1 January following receipt of your Scheme Pays Election Notice, for tax years 2011/12 and 2012/13 this will be 1 January 2014.

Q. Can I make an election for Scheme Pays after I have retired?

A. No. NHS Pensions must receive your Scheme Pays Election Notice before you become entitled to your NHS Pension Scheme benefits.

Q. I have Annual Allowance Charges in both the NHS Pension Scheme and the NHS MPAVC Scheme can all the charges be deducted from my NHS MPAVC Scheme?

A. No. The NHS Pension Scheme and the NHS MPAVC Scheme are registered separately by HMRC.

You cannot make an election requiring one registered pension scheme to pay all of your Annual Allowance charge liability where part of that liability relates to another registered pension scheme nor can you simply require each scheme to pay an equal share of your total liability.

Q. What happens if I make a Scheme Pays election but die before retirement?

A. If you die whilst a member of the NHS Pension Scheme, then any recovery due because of scheme pays will be written off and your estate will receive the same level of benefits as if you didn't use scheme pays.

If you are in the NHS MPAVC Scheme any benefits will be based on your pension fund after the reduction for Scheme Pays.

Q. Will it affect my dependents benefits?

A. In the NHS Pension Scheme your dependents benefits will be based on your pension before any recovery for scheme pays.

In the NHS MPAVC Scheme it will be based on the value of your fund with which you buy an annuity after the reduction for scheme pays.

Q. What happens if I exceed the Annual Allowance again?

A. The process will be repeated for each tax year in which a scheme pays payment is accepted.

Q. Why have you rejected my Scheme Pays request?

A. We do not have to pay your Annual Allowance charge, where:

- we do not receive the Scheme Pays Election Notice within the specified time limits;
- the pension input amount, in relation to either the NHS Pension Scheme or the NHS MPAVC Scheme does not exceed the Annual Allowance;
- your total Annual Allowance charge is less than £2,000;
- you are in receipt of your full pension entitlement under either the NHS Pension Scheme or the NHS MPAVC Scheme;
- you are over age 75;
- you transferred out of the Scheme;
- you have taken a refund of contributions.

7. Miscellaneous Questions

Q I am thinking of buying Additional Pension by single payment, how do I know if I will be affected?

A. When Additional Pension is purchased, this increases a member's pension beyond any normal increases. This is more likely to affect higher earners, especially if they also have longer service.

If you are buying additional pension by lump sum of in excess of £2,500 pension then you are much more likely to be affected by the Annual Allowance. More information on additional pension and the Annual Allowance can be found on our website.

Q I am thinking of buying Additional Pension by regular payments, how do I know if I will be affected?

A. The value of additional pension purchase will be calculated at the beginning and end of the pension input period and added into the opening and closing balance.

Q. What happens if I am made redundant?

A. If you are being made redundant, you will not be affected if your pensions' growth is usually below the Annual Allowance unless you receive an enhancement to your pensionable service.

Other redundancy payments which do not affect your pension or lump sum are not included in the Annual Allowance test.

Q. Is my State Pension affected by Annual Allowance?

A. The growth in your State Pension is not affected by the Annual Allowance limits.

Q. Where can I get more information about the Annual Allowance?

A. It is important to remember that we are unable to provide advice on personal tax circumstances. We would recommend that independent advice is sought if there is any uncertainty about the tax implications. Information about Annual Allowance and Scheme Pays, including the Scheme Pays election form, is available on our website. More detailed information about Annual Allowance can also be found on HMRC's website.