Since 2006 the Government have made many changes to the calculation of tax relief and limits that can be saved into your pension. This has made the situation more complex and for some has made saving into a pension less attractive.

This guidance note aims to give a brief overview of the current pensions’ taxation system and the limits and how they might affect you. It is no substitute for regulated financial advice and if you have concerns that you might be affected by these limits and don’t already have a financial advisor you can find a list [here](#).

**Lifetime Allowance (LTA)**

The Lifetime Allowance is the total value you can accrue across all pension schemes, whether as pension or cash lump sums, without incurring an additional tax charge at retirement.

The current LTA, from 6th April 2019, is £1.055M and increases each April in line with the growth in the Consumer Price Index (CPI).

Every time you draw money out of your pension the amount you draw is tested against your available LTA. If the amount of pension and lump sum you draw is less than the limit currently in place, then no additional tax is due. If it is over, then additional tax called a recovery charge is payable. If you have more than one pension, or take flexible retirement, this test is done each time you begin to receive more pension, and is tested against the amount of lifetime allowance you have left. It’s important to remember that pension is taxable when it is paid so any recovery charge is in addition to this. If the excess is taken as a cash payment, then tax is due at 55%. If you take the excess paid as a pension, then 25% tax is deducted.

As a rule of thumb, in order to breach the new LTA limit, you will need to have built up a pension (from all potential sources) of £43,400 a year or more plus your standard lump sum of three times this amount. This table illustrates the position

<table>
<thead>
<tr>
<th>Total pension</th>
<th>LTA used</th>
<th>Recovery Charge – Lump Sum</th>
<th>Recovery Charge – Annual Pension</th>
</tr>
</thead>
<tbody>
<tr>
<td>£70,000</td>
<td>£1,610,000</td>
<td>£319,000</td>
<td>£145,000</td>
</tr>
<tr>
<td>£65,000</td>
<td>£1,495,000</td>
<td>£255,750</td>
<td>£116,250</td>
</tr>
</tbody>
</table>
If you wish to avoid the lifetime allowance charge, it’s important to monitor the value of your pensions.

**Protection against LTA**

When the LTA was introduced, and at times that it has subsequently been reduced, the Government allowed people to protect themselves against the recovery charge if they already had pension savings in excess of the LTA at that point.

The only protection currently still available for new applicants is Individual Protection 2016 (IP2016). There are historic protections that some may have, further information on these if applicable to you can be found [here](#).

You might also wish to consider applying for protection if your pension saving is expected to exceed the lifetime allowance threshold. To qualify for IP2016 the value of all of your pension saving on 5th April 2016 must have been in excess of £1M. The maximum amount you can protect is £1.25M. You can still continue to save into your pensions, however, any savings made after 5th April 2016 will be subject to the recovery charge outlined above.

If you wish to apply for IP2016 you can do so [here](#). If you do please send your registration number to us at this email so that we may record it and ensure any pension calculations that you receive with are done on the correct basis.

The USS has a factsheet with more information [here](#).

NHSPS has more information [here](#).
**Annual Allowance (AA)**

If you are a UK taxpayer you will receive tax relief on your annual pension savings up to 100% of your salary, or £40,000, whichever is lower. This is your Annual Allowance (AA).

The method to calculate your AA input is quite complex. For defined benefit scheme members such as USS Income Builder and the NHS it is calculated by measuring the increase in value of your pension from the start of the tax year to the end of the tax year and multiplying this by a factor set out by the government. Any contributions made by you or the College into USS Investment Builder, the defined contribution section of USS, are also added on.

If the total amount is less than £40,000 then you have some spare allowance you can carry forward for a maximum of three years. If you have saved more than £40,000 and have no unused carry forward, then tax is due on the excess over the AA.

**To do this you will need to declare it on your tax return in the year after the tax becomes due, so if you have gone over the AA in 2018/19 you must declare this on your tax return no later than 31 January 2020. Your pension scheme must let you know if you have exceeded the £40,000 limit no later than six months after the tax year has ended, 5th October.**

If you have exceeded the AA and the amount of tax due is £2,000 or more then you can ask the scheme to pay it on your behalf. If you are a USS member then this will be a cash deduction from your Investment Builder account. If you are in the NHS scheme, then this will be in exchange for a permanent reduction in the amount of pension you receive when you retire.

The USS has a factsheet with more information [here](#).

NHSPS has more information [here](#)

**Tapered Annual Allowance (TAA)**

From 6th April 2016 further restriction on the Annual Allowance was introduced such that the more you earn, the lower the allowance.

If your taxable earnings are over £150,000 the AA reduces at the rate of £1 for every £2 you earn over £150,000 with a minimum AA of £10,000. So, if your taxable earnings are £210,000 or more then your TAA is £10,000.

This table illustrates how this works for different levels of earnings.
Any amount saved over your TAA, and for which you don’t have any unused carry forward, will need to be declared on your tax return and tax will be due on the excess. Please note that your pension scheme does not know your taxable earnings so is unable to calculate the TAA for you – you will need to check this for yourself.

The USS has a factsheet with more information [here](#).

NHSPS has more information [here](#)

**Ways to manage your Annual and Lifetime Allowance Use**

If you are affected by the LTA then you might be thinking about stopping saving into your pension so that the value does not get any larger. Before doing this it would make sense to take financial advice. The pensions office is unable to provide advice, however, the College has contracted with a range of regulated financial advisors who have an in-depth knowledge of the pension schemes the College offers. A full list can be found [here](#).

There are a few options available that you might like to consider – more details of these are set out below.

**Opt-out**

You can use to stop contributing to your pension all together – you will no longer pay anything towards it and neither will the College.

If you opt-out of the pension scheme, then your pension will become deferred. This means the value of your pension will be calculated on the day you leave the scheme and will increase in line with the schemes inflationary increases until such time as you retire and start to draw your pension. As a deferred member you will also no longer be entitled to the schemes enhanced incapacity benefits and death in service payments so you may wish to make your own provision for this.

**Enhanced opt-out**

This is only available for members of USS.

It allows you to cease to building up pension in USS which would count towards your Lifetime and Annual Allowance. You will still be an active member of the scheme and still be entitled to enhanced incapacity and death in service benefits. You will still need to pay contributions to the scheme to maintain this, currently 2.5% of your pensionable salary.

The USS has a factsheet with more information [here](#).
Voluntary Salary Cap

USS have introduced a Voluntary Salary Cap (VSC) which will enable you to limit your pension saving and may help you to reduce your AA or LTA.

The VSC can only be applied with effect from 1 April each year and the minimum level that can be selected is equivalent to the earnings threshold which from 1 April 2019 is £58,589.70 and increases each in line with CPI each year.

For salary above the VSC you can either opt-out totally, or pay an additional 2.5% contributions to maintain enhanced incapacity and death in service benefits on your whole pensionable salary.

The VSC must remain in place for at least a year, and will automatically be continued unless you explicitly tell us you want to stop it. It can only be cancelled on 31 March each year. If you wish to set the VSC you must apply no later than 3rd March.

The USS has a factsheet with more information here.

Pay in lieu of pension

The College recognises the impact of the tax implications on some high earning or long serving staff and appreciates that some will wish to either opt-out of pension saving or limit pension saving. If you elect to do this as you are effected by one of these allowances, then the College will pay a supplement that is broadly equal to the value of the employer pension contributions being saved. The level of supplement will be reviewed annually by the Provost’s Board.

If you are affected by the LTA, AA or TAA and wish to limit your pension saving please contact the pensions office for further guidance and an application form. If you are earning in excess of £110,000 per year you are more likely to be affected than not, or if you are a new employee and your starting salary is over this level.

The level of pay in lieu of pension available to you depends on which scheme you were either in, or were eligible to join:

- USS with enhanced opt-out: 13.0% of pensionable salary
- USS without enhanced opt-out: 14.8% of pensionable salary
- NHS opt-out: 12.6% of pensionable salary.