RAILPEN

ANNUAL ALLOWANCE FACTSHEET
ENW GROUP OF THE ESPS – EX UUPS SECTION

This factsheet is intended to assist with understanding of the Annual Allowance information included with your annual benefit statement and covers the following areas

1) Pensionable Salary Calculation
2) Calculation of Pension Input Amounts and the Annual Allowance
3) Scheme Pays and Pension Debit

Pensionable Salary

Your pension is based on what is known as your pensionable pay. Normally this is the total pay you earned in the last 12 months. However, if the below calculation gives a higher figure then this will be taken as pensionable pay:

- The average of your actual pensionable pay over any 3 consecutive tax years in the last 10 years increased in line with the increase in the Retail Price Index from the end of the relevant year to the penultimate month before the date of calculation

Below is an example of how this calculation works in practice for members of the ex-UUPS section

Final Pensionable Salary example (with RPI applied)

	Date	Annual Salary (*)	
last 365d	05/04/2023	87,400	(a) Salary over the last year

	Date	Annual Salary (*)	RPI (**) 364.5	Revalued (***) Annual Salary	Three year average	
tax year 1	05/04/2023	87,400	372.8	85,454	91,781	(b) Highest average for three years in the last ten complete tax years
tax year 2	05/04/2022	84,300	334.6	91,833	93,817	
tax year 3	05/04/2021	81,000	301.1	98,055	93,602	
tax year 4	05/04/2020	73,500	292.6	91,561	90,347	
tax year 5	05/04/2019	72,100	288.2	91,188	88,203	
tax year 6	05/04/2018	67,750	279.7	88,291	86,462	
tax year 7	05/04/2017	63,200	270.6	85,131	85,316	
tax year 8	05/04/2016	61,650	261.4	85,966	84,927	
tax year 9	05/04/2015	60,060	258	84,852		
tax year 10	05/04/2014	58,900	255.7	83,962		

Final salary is the highest value under either (a) or (b). In this case, the value is £93,817

(*) The annual salary shown is the average paid over the year to this date. For example, the figure of £87,400 is based on a member with a salary of £85,000 from 1/8/2021, increasing to £88,532 from 1/8/22

6/4/22 – 31/7/22	85,000 x 117/365	= 27,247
1/8/22 – 5/4/23	88,532 x 248/365	= 60,153

27,247 + 60,153 = 87,400

(**) RPI – these are the values for February 2023 (the penultimate month before the date of calculation) and for April at the end of each tax year

(***) The salary is then revalued by the difference between RPI for 2023 and the relevant salary year, so the salary for 2021 is 81,000 x 364.5 / 301.1 to give 98,055.

The full salary calculation is not normally applied for estimates or for your annual benefit statement because final RPI values are not known and could go up or down.

The estimated benefits shown on your Annual Benefit Statement are based on the salary before any RPI uplift and so are usually based on the salary over the last year.

However, this calculation will apply automatically on leaving the scheme and your final benefits would reflect this.

The HMRC requirements for the Annual Allowance calculations also require that the full calculation is used to calculate your Pension Input Amount each year.

Calculation of the Pension Input Amount and the Annual Allowance

The Annual Allowance (AA) is a measure of the tax relief on pension savings. Where an individual exceeds the AA in a given tax year, the excess would be liable for a tax charge.

For Defined Benefit schemes such as the Electricity North West Group of the ESPS, your Pension Input Amount (PIA) is based on the change in the value of annual pension over the tax year. The PIA is not based on the contributions you or the company pay but will include any Additional Voluntary Contributions (AVCs) that you have paid.

The value of your Group benefits is established by multiplying your annual pension by a factor of 16. This value is calculated for your pension at the 5th April each year. The PIA is the difference between the opening value and the closing value. The calculation method is set out by HMRC and also includes an allowance for inflation.

The salary used to calculate your accrued pension for the PIA includes the full calculation, with the link to RPI (please see above for explanation).

Opening Value: The pension benefits at the start of the tax year are valued by multiplying the accrued pension at the previous 5 April by 16.

This total value is then increased by CPI, this is taken from the September before the start of the tax year. (For the 2022/23 tax year this was 3.1%, which was the annual percentage rate for CPI in September 2021)

Closing Value: This is the value of the pension at the end of the input period (tax year) multiplied by 16.

Your PIA is calculated as the Closing Value minus the Opening Value. If the value is negative your PIA will be zero

Any AVC contributions made in the tax year are then added to the main scheme input amount to give a total PIA. The PIA on your annual statement will include any AVCs you make to the Group's AVC provider.

Example Annual Allowance Calculation for 2022/23

Based on a member with a final salary of £93,817 and pensionable service of 28 years at 5 April 2023

	5 April 2022	5 April 2023
Annual pension	£ 37,935	£ 43,781
16 x pension	£606,960	£700,500

With AVC contributions paid during the 2022/23 tax year of £1,200

700,500 – (606,960 x 1.031) = 74,724
74,724 + 1,200 = 75,924

Total Pension Input Amount 2022/23 = £75,924

This PIA would be measured against the AA for 2022/23 which was £40,000 and any excess is potentially liable for a tax charge. However there may not be a tax charge if this is covered by unused allowance from previous tax years. Please see the next section for more details

Carry-forward of unused allowance

If you exceed the AA in a year, unused allowance from the last three tax years may be carried forward to reducing or eliminate any tax liability. So that you can see whether this will apply in your case, you will be provided with a Pension Savings Statement (PSS) showing the PIA for the relevant years.

This PSS also includes other information that you need to be aware of and what you need to do next. If you exceed the standard AA of £40,000 a PSS will be sent to you before 5th October 2023.

Scheme Pays

A Pension Savings Statement (PSS) is issued automatically for members where the Annual Allowance (AA) for the tax year exceeds £40,000.

This includes information on the AA used over the last three tax years (for this scheme only) so that you can determine whether any tax charge is due.

Anyone who exceeds the AA could be required to notify HMRC of the fact through the Self-Assessment process and then to pay an additional tax charge.

If the total PIA for all pension arrangements exceeds the AA and there is not sufficient unused allowance from the three previous tax years the excess would be liable for tax (at your marginal rate of income tax) for 2022/23.

You need to declare this tax liability to HMRC by completing a Self-Assessment Tax Return for 2022/23 and you can pay the tax charge directly as part of this. As part of this, you will need to determine the amount of tax due (taking into account any AA used by other pensions and your marginal rate of income tax).

However, there is an option available for you to request the Group Trustee pays this charge on your behalf. This is called ‘Scheme Pays’ and your benefits would be reduced to reflect the tax paid on your behalf.

If you have AVC’s these funds would be used to meet the charge first. If you do not have AVCs (or the total fund is less than the tax charge due) a Pension Debit would be calculated which reduces your current benefit by an amount equivalent to the tax paid on your behalf.

If a tax charge is payable, you can contact Railpen and request a Scheme Pays form. Please note that the appropriate form needs to be completed and received by Railpen in order for your request to be valid.

Whether or not you choose to exercise Scheme Pays you need to advise HMRC of the tax charge by completing a Self-Assessment Tax Return. If you choose to go down the Scheme Pays route, you are able to indicate this on the tax return.

Pension Debit

A Scheme Pays pension debit is a value that is stored on your record. It is treated as a 'negative deferred pension' and will be revalued until you leave the scheme in line with normal deferred increases (that is, increasing annually in line with the rate of RPI from the previous December). This pension debit applies to your pension and the attaching spouse’s pension.

Once your Scheme Pays form has been received, the value you have requested the scheme to pay (after deducting any AVC funds) is sent to the Group Actuary who calculate the pension debit.

Once this is received, Railpen will update your record accordingly and send details of the debit applied to you.

Other things to consider

Other Pension Savings
The AA is a limit on all pension savings and so you will need to consider any contributions paid to other arrangements separately.

Tapered Annual Allowance
Although the standard AA from 2016/17 is £40,000, this can be reduced for individuals with taxable earnings above a certain level.

Where your total taxable income (from all sources) is above the ‘threshold income’ of £200,000 (£110,000 up to 2019/20) in a tax year your Annual Allowance can be reduced (to a minimum of £4,000). Further information is available on the HMRC website https://www.gov.uk/tax-on-your-private-pension/annual-allowance.

As this requires you to take all of your taxable income into account, we cannot calculate this and we will not make any attempt to calculate whether a reduced AA should apply. All of the figures on this statements we provide will be based on the standard AA of £40,000 for each year.

Future changes to the Annual Allowance
The CPI offset in the calculation for the 2023/24 tax year will be 10.1%

In the recent budget it was confirmed that for the 2023/24 tax year, the Annual Allowance will increase to £60,000