

Assessing annual allowance: ready reckoner tool and the McCloud remedy



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16 January 2025



Agenda

1. Intro and ready reckoner refresher
2. Pension tax
3. Ready reckoner demonstration
4. Pensions tax and McCloud
5. Resources to support you
6. Q&A
7. Close



1. Ready reckoner refresher



First Actuarial and NHS Employers: Working in partnership



**Independent actuarial advisors to the Scheme Advisory Board
Working with NHS Employers on many pensions issues**

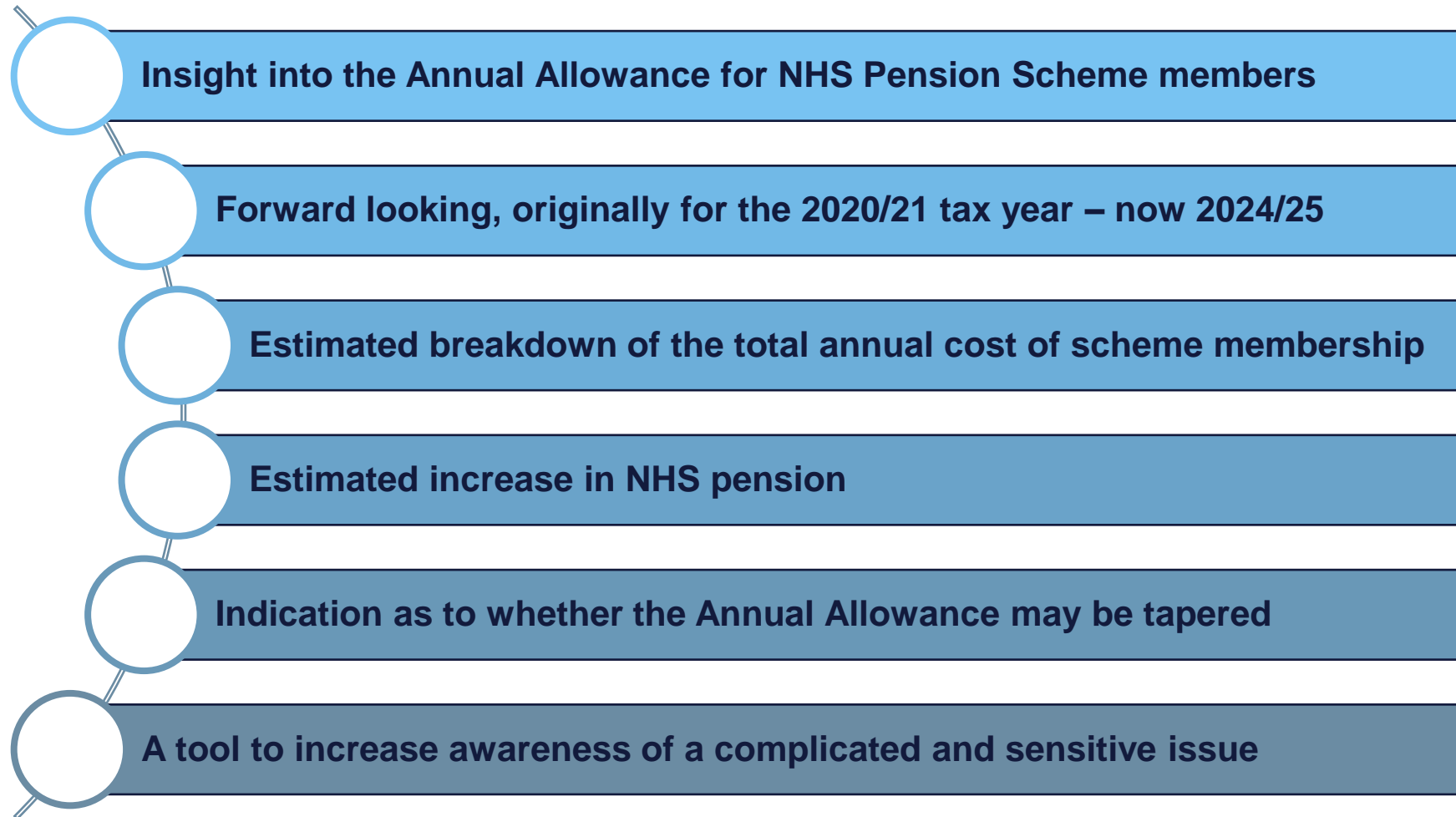


**Research into the impact of pensions tax in the NHS
Impact felt by NHS staff and NHS employers**



**Problems around awareness, understanding and advice
Ready Reckoner designed as an educational awareness tool**

Purpose of the ready reckoner



2. Pensions tax



Introduced by the Finance Act 2004

Annual Allowance

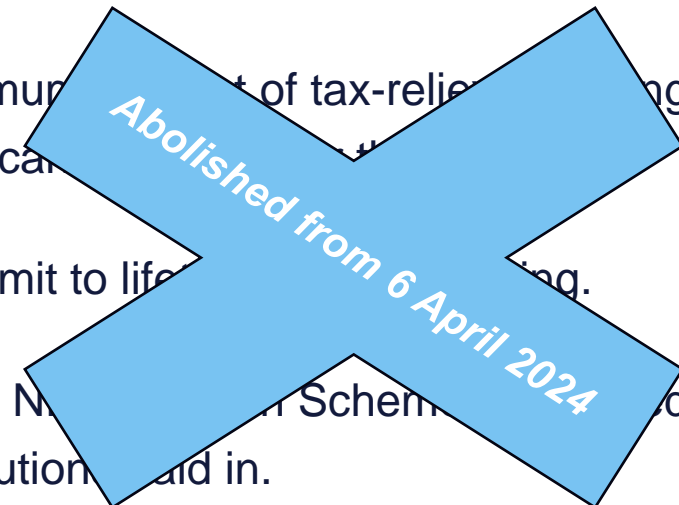
The maximum amount of tax-relieved savings that an individual can build up over one tax year.

- Not a limit to annual pension saving.
- For the NHS Pension Scheme, not based on the contributions paid in.

Lifetime Allowance

The maximum amount of tax-relieved savings that an individual can build up over their lifetime.

- Not a limit to lifetime pension saving.
- For the NHS Pension Scheme, not based on the contributions paid in.



Annual Allowance has changed over time

| | 2016/17 to 2019/20 | 2020/21 to 2022/23 | 2023/24 to now |
|--|--|--------------------|--|
| 'Standard' Annual Allowance | £40,000 | | £60,000 |
| First income test for tapering "Threshold income" | Above £110,000 | Above £200,000 | Above £200,000 |
| Second income test for tapering "Adjusted income" | Above £150,000 | Above £240,000 | Above £260,000 |
| Minimum tapered Annual Allowance | £10,000 | £4,000 | £10,000 |
| Carry forward | Unused Annual Allowance from 3 previous tax years can be carried forward | | |
| Treatment of 1995/2008 and 2015 Schemes | <p>Schemes treated independently</p> <p><i>Any 'negative' final salary growth was floored at zero.</i></p> | | <p>Schemes treated in aggregate</p> <p><i>Any 'negative' final salary growth to be offset against career average growth.</i></p> <p><i>Also, CPI inflation figure aligned for both CARE benefit revaluation and Annual Allowance calculations.</i></p> |

Implications for NHS Pension Scheme members

The 2023/24 changes should encourage staff to remain in NHS employment and to take on additional work to help alleviate workforce challenges.

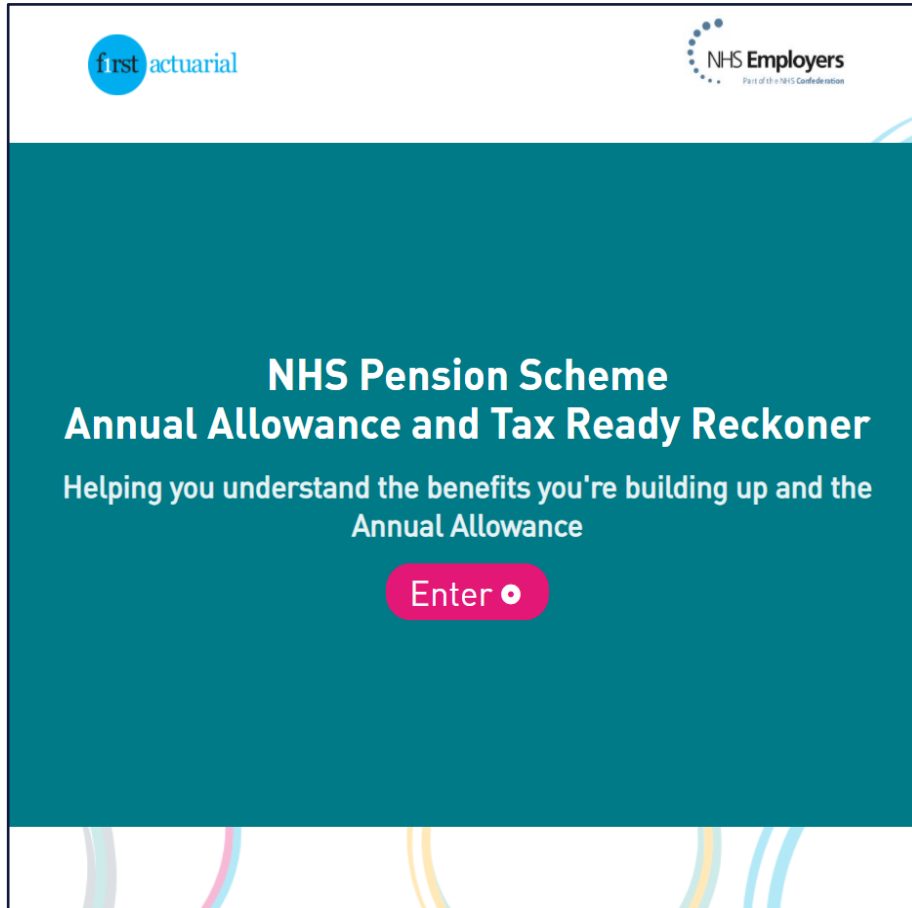
Some members will continue to be affected by the Annual Allowance.

The categories of members who are most likely to be affected by the Annual Allowance are:

- Members with 2015 Scheme benefits and pensionable NHS earnings approaching £200,000
- Members with significant earnings outside of the NHS
- Members with 1995/2008 Scheme service who receive pay rises significantly above inflation

3. Ready reckoner demonstration





- Promotes understanding
- Outcome only known after the tax year has ended
- Not easy to look ahead
- Broad guide to pension growth and tapering
- Traffic light guide and signposting to further help and possible next steps
- Heavily caveated!
 - Will not match actual statements from NHS BSA
 - Calculations are heavily simplified
 - Estimates depend on the inputs

Three illustrative examples

Example 1

- 1995/2008 Scheme service: 25 years
- 2015 Scheme pension: £1,000 pa
- 2023/24 pensionable pay: £60,000
- 2024/25 pensionable pay: £75,000

Example 2

- 1995/2008 Scheme service: Nil
- 2015 Scheme pension: £17,500 pa
- 2023/24 pensionable pay: not needed
- 2024/25 pensionable pay: £125,000

Example 3

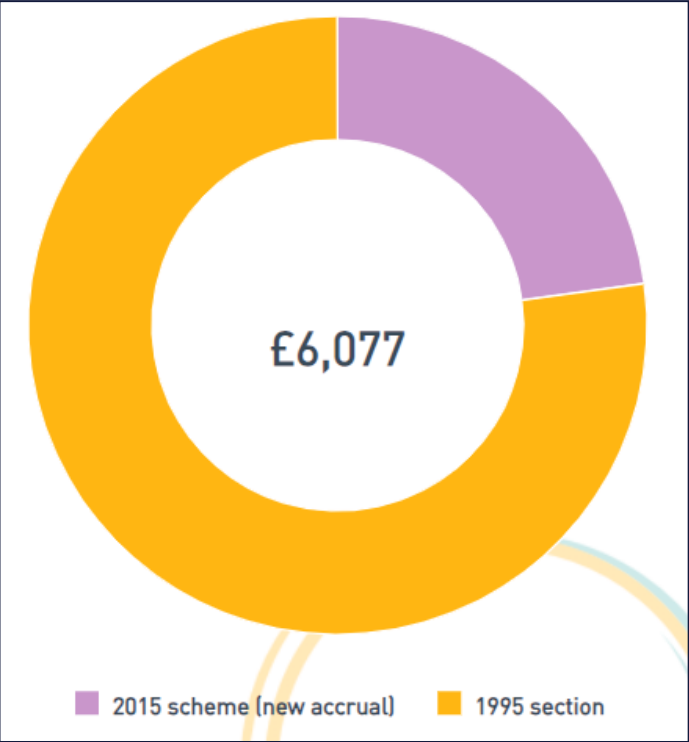
- 1995/2008 Scheme service: 20 years
- 2015 Scheme pension: £10,000 pa
- 2023/24 pensionable pay: £240,000
- 2024/25 pensionable pay: £240,000

2024/25 contributions

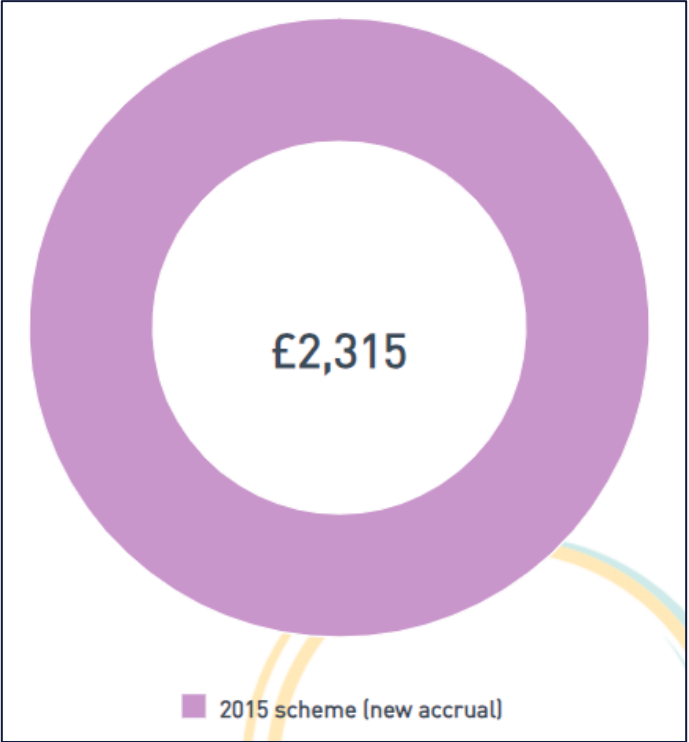
| | | Example 1 | Example 2 | Example 3 |
|----------------------|---------------------|-----------|-----------|-----------|
| Member | Net ? | £5,625 | £6,250 | £16,500 |
| | Income tax relief ? | £3,750 | £9,375 | £13,500 |
| | Gross ? | £9,375 | £15,625 | £30,000 |
| Employer ? | | £17,775 | £29,625 | £56,880 |
| Total contribution ? | | £27,150 | £45,250 | £86,880 |

2024/25 pension build-up

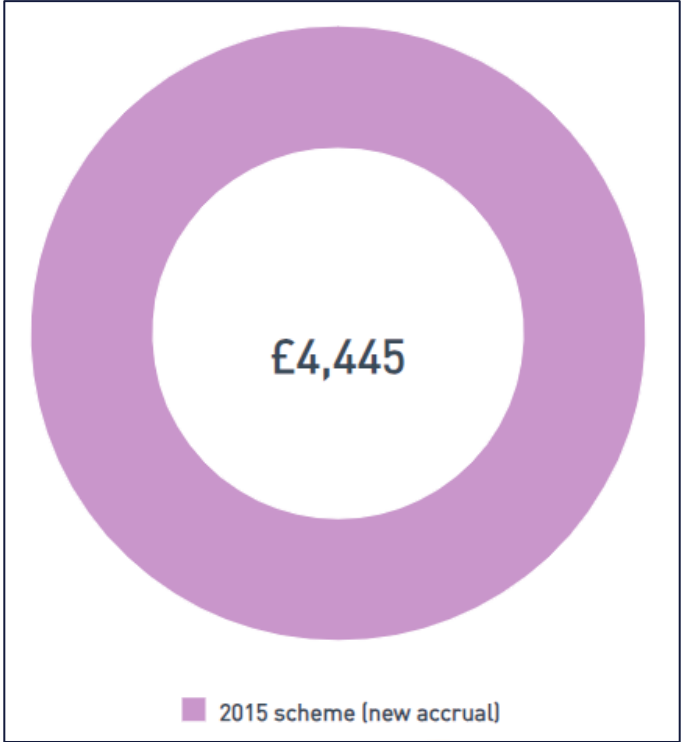
Example 1



Example 2



Example 3



2024/25 pension tax

Example 1

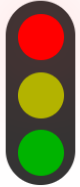
Example 2

Example 3

| | | | |
|-------------------------------|--|--|---------------------|
| 1995 PIA | £65,194 | | £-76,380 |
| 2015 PIA | £22,462 | £41,237 | £73,511 |
| Total PIA | £87,656 | £41,237 | £0 |
| Threshold income [?] | £65,625 | £109,375 | £210,000 (breached) |
| Adjusted income [?] | Not calculated as threshold income is estimated to be under £200,000 | Not calculated as threshold income is estimated to be under £200,000 | £210,000 |
| Annual Allowance [?] | £60,000 | £60,000 | £60,000 |
| Breach [?] | £27,656 | £0 | £0 |

Summary

Example 1



We have given you a Red rating

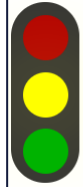
We have given you a red rating for 2024/25 as you are projected to breach the Annual Allowance. This is based on estimated calculations and your data inputs. Your true position will only be known when all data has been collected and assessed after the end of the tax year.

Based on your inputs, the ready reckoner estimates that:

- The estimated total cost of scheme membership over 2024/25 is £27,150, of which your "net" contribution was £5,625.
- The estimated extra pension built up over 2024/25 is £6,077 paid every year for life from retirement.
- The estimated breach of the Annual Allowance in 2024/25 is £27,656, although this may be lower or zero depending on any unused AA you may have to carry forward. The AA tax charge from any breach will depend on your taxable income over the year with your marginal rate of income tax applying to the breach – likely to be 40% to 45%.

If you have an AA tax charge to settle, then there are options on how it is paid – including Scheme Pays. This is a facility where the scheme will pay the charge on your behalf, record this debit on your account, increase this debit with interest and a deduction will be made to your benefits at retirement. For example, where the AA tax charge from the 2015 Scheme amounts to £1,000 when retiring at age 65, the deduction to pension at retirement would be $£1,000 / 18.33 = £55$ pa (using the current Scheme Pays recovery factor).

Example 2



We have given you a Amber rating

We have given you an amber rating for 2024/25 as you are projected to be reasonably close to the Annual Allowance. This is based on estimated calculations and your data inputs. Your true position will only be known when all data has been collected and assessed after the end of the tax year.

Based on your inputs, the ready reckoner estimates that:

- The estimated total cost of scheme membership over 2024/25 is £45,250, of which your "net" contribution was £6,250.
- The estimated extra pension built up over 2024/25 is £2,315 paid every year for life from retirement.
- A green or amber rating does not necessarily mean that your pension growth will be under the Annual Allowance in practice as the outcome depends on your data inputs and there are several limitations as stated throughout the Ready Reckoner.

Example 3



We have given you a Green rating

We have given you a green rating for 2024/25 as you are projected to be well under the Annual Allowance. This is based on estimated calculations and your data inputs. Your true position will only be known when all data has been collected and assessed after the end of the tax year.

Based on your inputs, the ready reckoner estimates that:

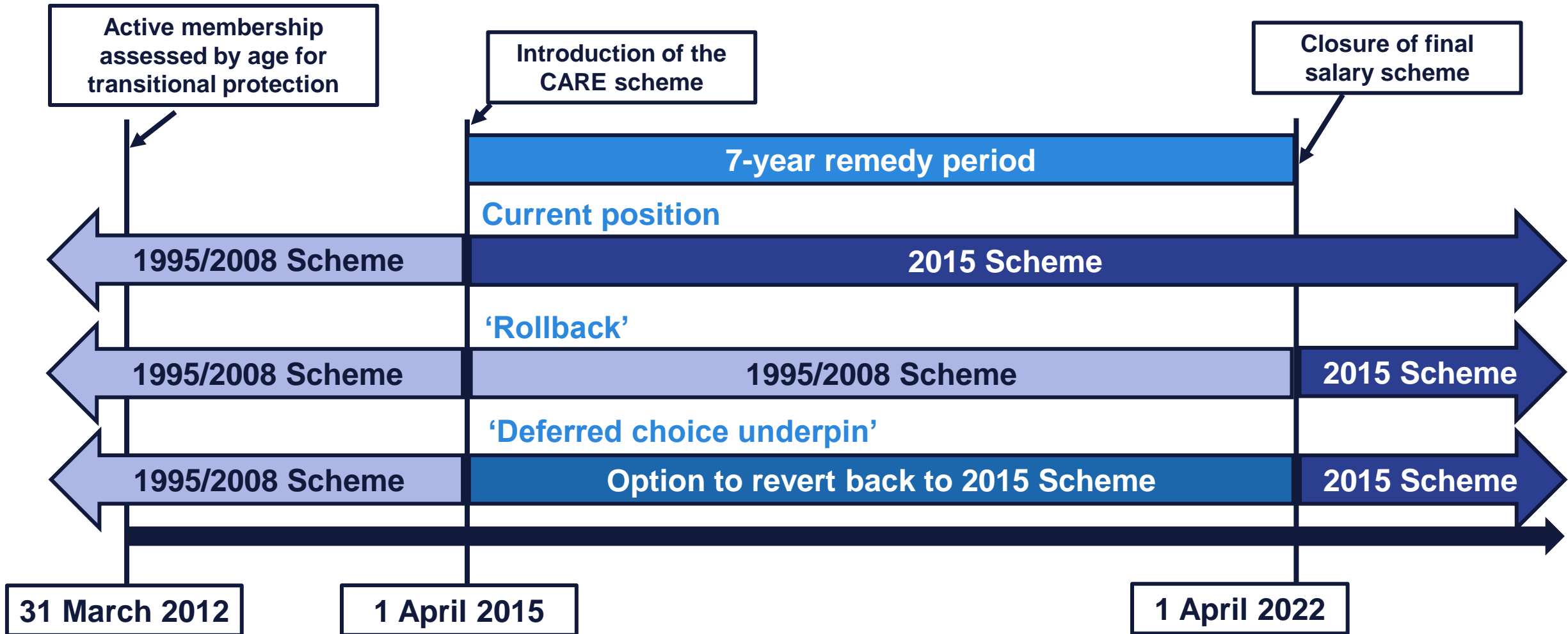
- The estimated total cost of scheme membership over 2024/25 is £86,880, of which your "net" contribution was £16,500.
- The estimated extra pension built up over 2024/25 is £4,445 paid every year for life from retirement.
- A green or amber rating does not necessarily mean that your pension growth will be under the Annual Allowance in practice as the outcome depends on your data inputs and there are several limitations as stated throughout the Ready Reckoner.

- The output is neither definitive nor financial advice
- Based on the inputs and simplifications
- Limitations are explained throughout
- Flags potential next steps

4. Pensions tax and McCloud



Overview of the McCloud remedy



Interaction of the McCloud remedy with pensions tax

- **Remedial Pension Savings Statements (RPSS):** To be issued in stages from October 2024
 - To be sent to members who exceeded the AA in the remedy period (2015/16 to 2021/22) or 2022/23
 - Will show pension growth in remedy period and 2022/23 (old and new figures)
- **What should members do with these statements:**
 - Use the HMRC digital service within 3 months from the date of receiving correct RPSS
 - *“Calculate your Public Service Pension Adjustment”*
 - www.gov.uk/guidance/calculate-your-public-service-pension-adjustment
- **And then what happens:**
 - Can trigger tax refunds or higher benefits (all years, 2015/16 to 2022/23)
 - Can trigger (extra) tax charges or lower benefits (only years 2019/20 to 2022/23)

And what about 2023/24?

- **‘Normal’ Pension Savings Statements (PSS):** To be issued after RPSS (only if this relevant)
- **2023/24 self assessment tax return deadline:** 31 January 2025
- **What if someone has not received their 2023/24 PSS before the end of January?**
 - NHS Pensions have worked with HMRC to agree the following guidance
 - www.nhsbsa.nhs.uk/public-service-pensions-remedy-mccloud/understanding-effect-rollback-annual-allowance
 - If someone thinks they have an AA tax charge:
 - Stick to the 31 January 2025 deadline to avoid a late-filing penalty
 - Use provisional figures in the tax return
 - *“calculate the estimated charge to the best of your ability and keep records of the calculation”*
 - Confirm how to pay the tax charge
 - If by Scheme Pays, then complete the NHSPS election form by 31 July 2025
 - Have until 31 January 2026 to provide final figures

And what about 2023/24? (continued)

- **If someone has “*reasonable grounds*” that they have not breached the £60,000 AA...but later does:**
 - No need to submit a self assessment tax return by the 31 January 2025
 - Should not face a late-filing penalty...but this will be for HMRC to decide
 - So, it’s a good idea to keep records of any calculations

NHS Cost Claim Back Scheme

- **Who is eligible?**
 - “*Small minority*” of remedy members with more complex situations
- **What costs can be claimed back?**
 - Professional advice about moving to the 2015 Scheme, which no longer applies
 - Additional advice due to the application of the McCloud remedy
 - Not services that could have been “*reasonably obtained*” from the scheme administrator without charge
- **How much can be claimed back?**
 - Up to **£500** for Independent Financial Adviser (IFA) services
 - Up to **£1,000** for accountancy services
 - Per piece of advice; including VAT
- **When do claims need to be made?**
 - No more than 12 months after receiving RPSS (or first RSS)

5. Resources to support you



NHS Employers

- **Annual allowance web page:** www.nhsemployers.org/publications/annual-allowance
- **Options for affected staff:** www.nhsemployers.org/publications/annual-allowance-guide
- **Pensions tax guidance:** www.nhsemployers.org/publications/pension-tax-guidance-employers
- **IFA list:** www.nhsemployers.org/publications/access-pension-tax-guidance-and-advice
- **McCloud:** www.nhsemployers.org/articles/mccloud-remedy
- **Flexible retirement to attract and retain staff:** www.nhsemployers.org/articles/changes-nhs-pension-scheme-attract-and-retain-staff

Signposting

- **HMRC online tool:** www.gov.uk/guidance/calculate-your-public-service-pension-adjustment
- **NHS Cost claim back scheme:** www.nhsbsa.nhs.uk/public-service-pensions-remedy-mccloud/nhs-cost-claim-back-scheme
- **RPSS corrective action NHSBSA website:** www.nhsbsa.nhs.uk/public-service-pensions-remedy-mccloud/understanding-effect-rollback-annual-allowance
- **HMRC** has published [guidance](#) on the steps members should take if they don't have the information they need to complete their self-assessment tax return accurately

6. Q&A



Thank you.

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- Evaluation