

## **British Steel Pension Scheme (BSPS): Annual Allowance (AA)**

The AA is the maximum amount the Government allow the value of pension savings to increase in any year without incurring a tax charge. This leaflet provides information on the AA which you should consider prior to your retirement.

### **Q1. What is the AA?**

**A1.** Full tax relief is given on pension savings up to the AA (£50,000). Tax on any excess pension savings will effectively be at the member's highest rate of marginal income tax.

- increases in defined benefit (DB) pension benefits, such as those accrued in the BSPS, will be valued at 16:1
- BSPS members will determine their pension savings each year by comparing the value of their pension accrued at the beginning of the Scheme year (1 April) with the value at the end (next 31 March);
- pension already accrued at the beginning of each Scheme year will be revalued using changes in the Consumer Price Index (CPI) over the year to September before the beginning of the tax year, so for 2011-12, the index used will be CPI for September 2010;
- the AA will apply throughout a member's career, including at retirement (except in some Incapacity cases);
- unused AA can be carried forward up to three years

### **Q2. Am I affected by the new regime?**

**A2.** Whether you are affected or not will depend on your individual circumstances. Factors which will increase the value of your pension savings against the AA include:

- High earnings combined with long service;
- Significant real earnings growth in relation to CPI;
- Significant pensionable service accrued through Additional Voluntary Contributions (AVCs);
- Added Years service credit on early retirement from age 60;
- Additional pension benefits accrued in other registered arrangement(s); and
- electing for the high/low pension option

Even if your total pension savings are more than the AA for the tax year you might still not have to pay the AA charge. You can carry forward any AA that you have not used from the previous three tax years to the current tax year.

### **Q3. Where will I find information regarding the value of my pension savings?**

**A3.** You will be advised of the value of your BSPS pension savings in an "Annual Allowance: Pensions savings statement" at your retirement.

The statement details your BSPS pension savings at retirement, together with any unused allowances from the preceding three years. If you have accrued pension savings subject to an AA charge, you will be required to notify HM Revenue and Customs (HMRC).

If you have accrued savings in any other registered pension arrangement during the year, these savings will also count towards your AA and you will therefore need to get in touch with the administrators of these arrangements.

#### **Q4. What happens if my pension savings are above the AA?**

**A4.** Even if pension savings are more than £50,000 you may not incur a charge if you haven't used all your AA from the previous three years. The unused AA will be carried forward automatically – you don't need to make a claim to HMRC.

If, after taking into account any unused AA from the past three years, your pension savings still exceed the AA you will be taxed on the amount above the AA. This will be at your marginal rate of income tax.

#### **Q5. Are there any circumstances in which the AA test may not apply?**

**A5.** The AA test does not apply on early retirement on Incapacity grounds (except for Incapacity pensions under the former Corus Engineering Steels Pension Scheme).

#### **Q6. How do I work out the value of my pension savings?**

**A6.** The broad principles of the AA calculation are described below.

Firstly, calculate the annual pension at the beginning of the Scheme Year (1 April). In this example this comes to £15,000 per annum. This whole amount is then indexed by the 12 month increase in the CPI to the September before the start of the tax year for which the AA is being calculated. This ensures that accrued benefits are "inflation proofed". This example assumes CPI of 3%, therefore the calculation is  $£15,000 \times 1.03 = \mathbf{£15,450 \text{ per annum}}$ .

Then calculate the annual pension at retirement. In this example this is **£17,500 per annum**.

The increase during the year is calculated by taking the indexed value of annual pension accrued at the start of the year from the value of annual pension accrued at retirement, in this case **£2,050** (£17,500 - £15,450). The increase in the value of pension savings during the year is this figure multiplied by 16, i.e. **£32,800**.

This figure is less than the AA of £50,000. Therefore there is no tax charge.

Please note that the AA applies to all registered pension arrangements you accrue benefits in during the year, not just the BPS.

#### **Q7. What options are available to help me pay the annual allowance charge?**

**A7.** The Government has decided that if you incur an annual allowance charge in excess of £2,000 you can elect for up to the full liability to be met by the Scheme with your pension benefits reduced accordingly.

#### **Q8. What sources of information are available?**

**A8.** Further information on the new regime is available on the HMRC website:  
[www.hmrc.gov.uk/pensionschemes/annual-allowance/index.htm](http://www.hmrc.gov.uk/pensionschemes/annual-allowance/index.htm)

Enquiries about your Scheme benefits can be made to the Pensions Office:

Write to: Telephone: 0330 440 0800 Email: [pension.enquiries@tatasteel.com](mailto:pension.enquiries@tatasteel.com)  
Freeport RLXS-ZXKT-AUER Fax: 0141 248 5299  
British Steel Pension Scheme  
GLASGOW G2 7BW