



welcome to brighter



LGPS Pension Tax Awareness Workshop

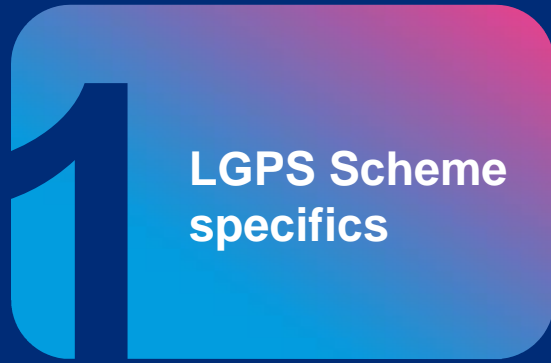
Shropshire County Pension Fund

10 October 2023

Neville Khorshidchehr
Principal, Mercer

A business of Marsh McLennan





Agenda

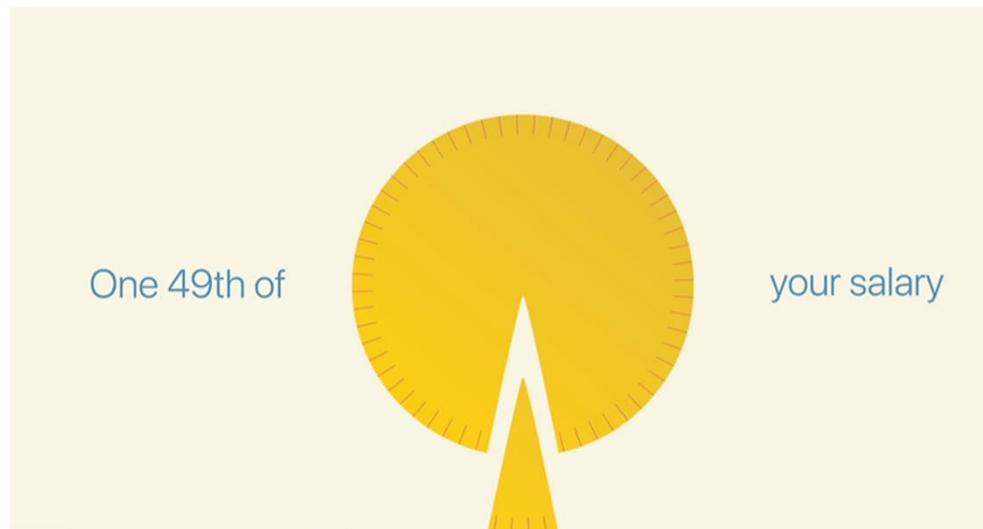


LGPS Scheme specifics


lgps Scheme

Overview

Local Government Pension Scheme (LGPS) is one of the largest pension schemes in the UK. It is a defined benefit (DB) pension scheme which means the pension is based on your salary and how long you pay into the Scheme. The LGPS is administered locally by 86 local funds in England & Wales



[Paying in | Shropshire County Pension Fund](#)

 **Latest news**

Sep

20

2023

[Pay your pension some attention! 2023 Campaign](#)
The Pensions and Lifetime Savings Association (PLSA) and Ass...

Sep

15

2023

[Local Government's financial position and your LGPS pension](#)
How can I know my pension is safe? We understand that membe...

Sep

14

2023

[Pensions Tax Webinar 2023](#)
Want to find out more about Pensions Tax? Mercers will be ru...

[More news »](#)

www.shropshirecountypensionfund.co.uk

lgps Scheme

Contribution rates and accruals

Member contribution rate 2023/24	
Pensionable salary	Contribution rate
£25,901 - £42,100	6.5%
£42,101 - £53,300	6.8%
£53,301 - £74,700	8.5%
£74,701 - £105,900	9.9%
£105,901 - £124,800	10.5%
£124,801 - £187,200	11.4%
£187,201 or more	12.5%

- Plus cost of AVC and APC
- Tax relief on contributions at your marginal rate of tax

	Pre-2008 Accrual	2008-2014 accrual	Post 2014
Benefits	Linked to Final Salary Pay	Linked to Final Salary Pay	Linked to Career Average Pay
Accrual rates	1/80 th	1/60 th	1/49 th
Normal retirement age	65*	65	State Pension Age
Pension	1/80 x Final Pensionable salary x years service up to 2008	1/60 x Final Pensionable salary x years service from 2008 to 2014	1/49 x Pensionable salary each year (increases with CPI inflation to retirement)
Tax free cash	3/80 x Final Pensionable salary x years service up to 2008	Need to give up pension (12:1 rate)	Need to give up pension (12:1 rate)

* for certain members part of the pension is available unreduced from 60 or CRA under the protected 'Rule of 85'

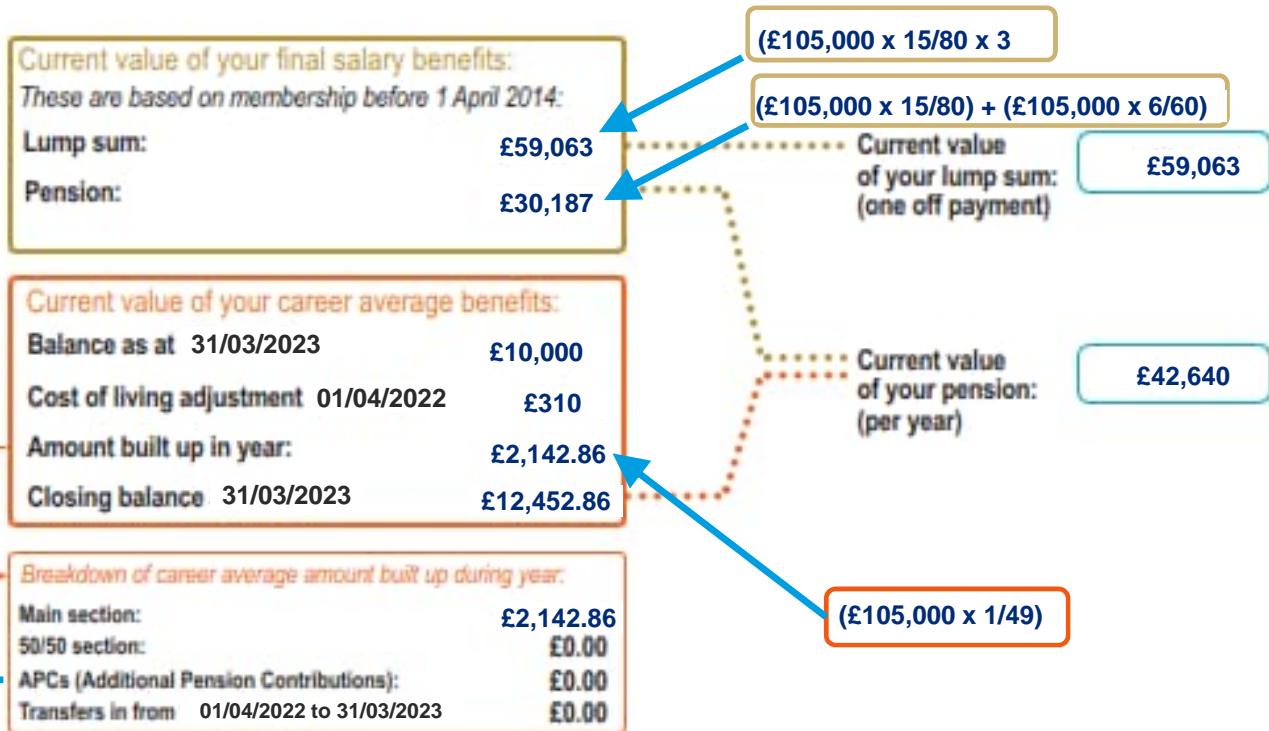
Annual Benefit Statement

Pension accrual

Annual Benefit Statement 2023

Additional Pension Contributions (APC)

- Lump sum or over a number of years
- Tax relief available on pension contributions up to 100% of your taxable earnings
- Need to reclaim tax relief
- Maximum pension to purchase in 2023/24 is £7,579



NB: Annual Benefit Statements run from 1st April to 31st March. However, the Annual Allowance test runs in line with the tax year (6th April to 5th April).

A large, stylized number '2' in a dark blue color, positioned on the left side of the slide. It is partially overlaid by a colorful gradient shape.A large, irregular shape with a gradient from light blue to pink, positioned in the center of the slide. It contains the text 'Budget update' and is partially overlaid by the number '2' logo.

**Budget
update**

Overview of pension tax regime

Regime between 6 April 2006 and 5 April 2023

Annual Allowance (AA)

The maximum permitted value of pension savings built up each year before an additional tax charge applies.

Lifetime Allowance (LTA)

The maximum permitted value of lifetime pension benefits at retirement before an additional tax charge applies..

Tax Free Cash

Tax free cash lump sum restricted to 25% of the capitalised value of pension benefits, subject to a maximum of 25% of the LTA*

*certain protections are available that convey a right to a higher tax free lump sum

Overview of pensions tax

Who is likely to be impacted by existing limits up to 6 April 2023?

**Promotion
and/or pay rises
Permanent or
Temporary**

**Pay above
certain levels can
lead to increased
tax charges
(45% rate)**

**High Level of
pensionable
service**

**When we have
low inflation**

**When inflation
increases
considerably
compared to
the previous
year**

Final salary
section
members with
longer service
receiving
material
pay rises

Those with pensionable
salaries > £125,000 in the
Career average section

Higher earners (Basic
salary > £226,000) who are
subject to a reduced AA

Longer service members, for example
c.40 years service and final salary of
£85,000

Individuals who have sought to maximise
pension savings with additional savings
i.e. added years or AVC etc

Overview of pension tax regime

Regime 6 April 2023

Annual Allowance (AA)

The maximum permitted value of pension savings built up each year before an additional tax charge applies.

Lifetime

The LTA tax charge will no longer apply to benefits taken after 6 April 2023

Tax Free Cash

Tax free cash lump sum restricted to 25% of the capitalised value of pension benefits, **subject to a maximum of 25% of the LTA***

*certain protections are available that convey a right to a higher tax free lump sum

Overview of pensions tax

What other changes might affect you?

When inflation increases considerably compared to the previous year

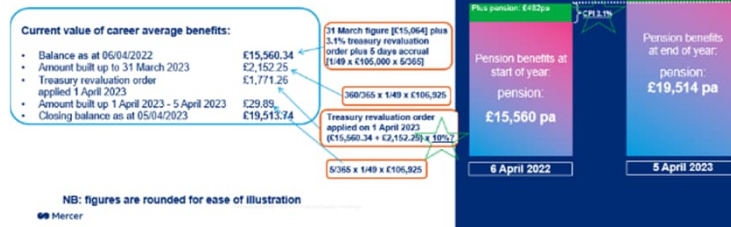
LGPS Scheme revaluation date changes

CARE Scheme revaluation date changed from 1 April to 6 April

Annual Allowance

2022/23 – Inflation issue for CARE members!

Members with CARE benefits will be impacted by the disconnect between inflation that will apply to the CARE revaluation and the CPI figure for Annual Allowance purposes



IMPACT: Pension Savings for Annual Allowance purposes will have reduced by potentially up to 50%

Overview of pensions tax

Who is likely to be impacted now?

**Promotion
and/or pay rises
Permanent or
Temporary**

Final salary
section
members with
longer service
receiving above
inflation
pay rises

**Pay above
certain levels can
lead to increased
tax charges
(45% rate)**

Those with pensionable
salaries > £184,000 in the
Career average section

Higher earners (Basic
salary > £226,000) who are
subject to a reduced AA

**High Level of
pensionable
service**

Lifetime
Allowance
(cap on tax
free cash)

**When we have
low inflation**

Certain individuals may still be affected by some
tax free cash related changes:
Those with one of the existing LTA protections

Individuals who have already accrued pension
savings close to the LTA, may find their future
pension savings cannot provide for additional tax
free cash at retirement

Political uncertainty

Could the rules change?

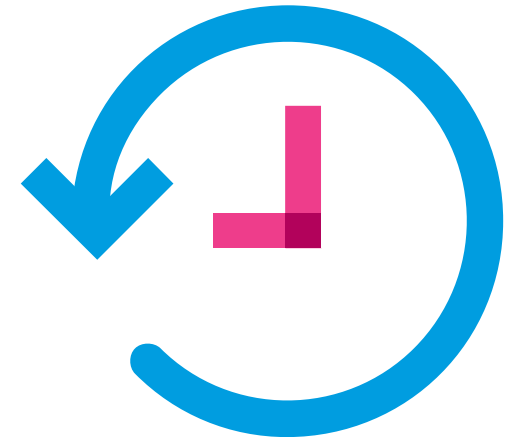


General election due in 2024
or by Jan 2025 at the latest.

Labour are the “bookies
favourite” to win.



The Labour party had pledged
to reverse changes.



Any changes introduced are
unlikely to be retrospective.
In the past, protections have
always been made available
for affected individuals.



Annual Allowance

Annual Allowance

Regime from 6 April 2023



Annual Allowance
rises from
£40,000 to £60,000

The Annual Allowance covers all pension savings into defined benefit pensions like the LGPS, as well as any money purchase/defined contributions savings, like AVCs. The value is measured over the tax year and is known as your **Pension Input Amount**.



Minimum Tapered Annual Allowance
rises from
£4,000 to £10,000

The Tapered Annual Allowance applies to “high earners” if you have Threshold Income (broadly total UK taxable income) of more than £200,000 p.a. and Adjusted Income (broadly Threshold Income plus value of pension savings) of more than £260,000 p.a.



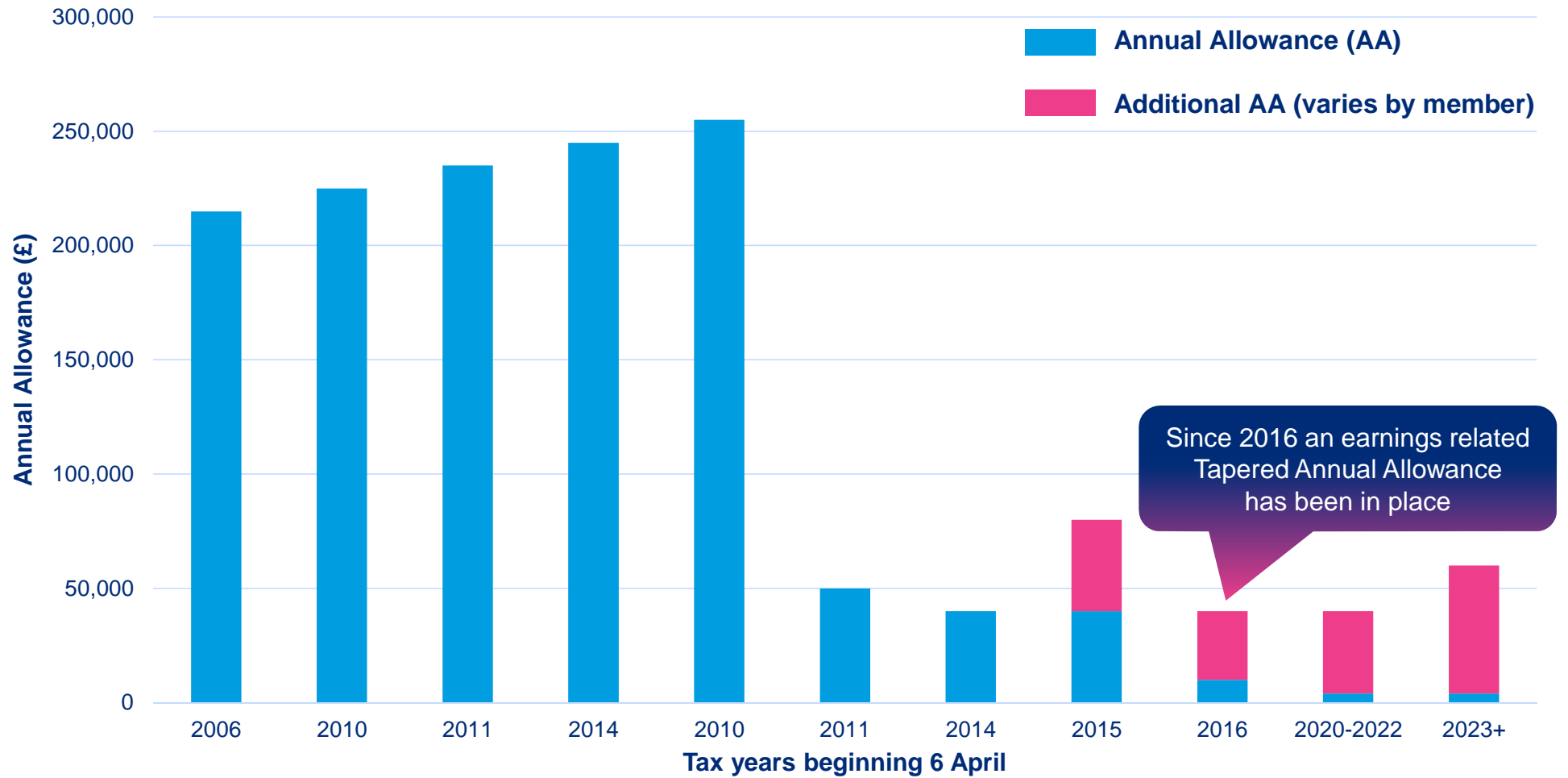
Money Purchase Annual Allowance
rises from
£4,000 to £10,000

The Money Purchase Annual Allowance limit on tax relief applies to money purchase contributions for individuals who have already flexibly accessed their money purchase benefits

Higher level of annual pension savings possible before additional tax charge applies

Annual Allowance

Changes over time



Annual Allowance

Tapered Annual Allowance

From 6 April 2023 onwards

For individuals with:

- Threshold Income of more than **£200,000**
- Adjusted Income of more than **£260,000**

Annual Allowance reduced by £1 for every
£2 of Adjusted Income in excess of **£260,000**

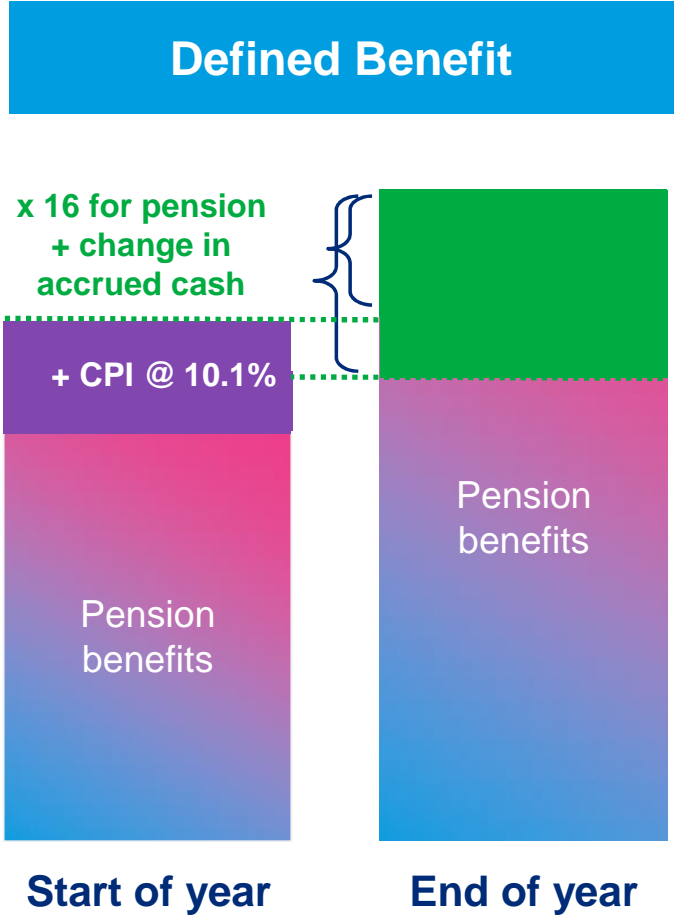
Subject to a minimum of **£10,000** for individuals
with Adjusted Income of more than **£360,000**

	Tax years 2016/17 to 2019/20	Tax years 2020/21 to 2022/23	Tax years 2023/24 onwards
Standard Annual Allowance	£40,000	£40,000	£60,000
Minimum tapered Annual Allowance	£10,000	£4,000	£10,000
“Threshold Income limit”	£110,000	£200,000	£200,000
“Adjusted Income limit”	£150,000	£240,000	£260,000
Adjusted Income “upper bound” where minimum Annual Allowance applies	£210,000 or more	£312,000 or more	£360,000 or more

Far less individuals impacted by Tapper Annual Allowance post 2023/24

Annual Allowance

Pension input amount - calculation



+

CPI
adjustment to opening value

2008/09	1.80%
2009/10	5.20%
2010/11	1.10%
2011/12	3.10%
2012/13	5.20%
2013/14	2.20%
2014/15	2.70%
2015/16	1.20%*
2016/17	0.00%
2017/18	1.00%
2018/19	3.00%
2019/20	2.40%
2020/21	1.70%
2021/22	0.50%
2022/23	3.10%
2023/24	10.10%
2024/25	??

* Later changed to 2.5% for AA purposes

Additional Voluntary Contributions
(Money Purchase)

Throughout year

**Your employee
contributions are
not your Pension
Input Amount (PIA)**

or

**Pension Savings for
Annual Allowance
purposes**

Pension Saving Statements

What Pension saving statement letter did you get?



Date: 6th October 2023
e-mail: pensions@shropshire.gov.uk

My ref
PSS23LG-1

Tel (01743)
252130

Please ask for
Pension Services

Dear X

Shropshire County Pension Fund - Pension Savings Statement 2022/23

Please see Page 3 for your 2022/23 Pension Savings statement. It sets out the increase in your pension savings in respect of your Local Government Pension Scheme (LGPS) benefits in the Shropshire County Pension Fund over the 2022/23 tax year for comparison against the HM Revenue & Customs (HMRC) annual allowance threshold.

You will see that, based solely on your LGPS benefits in the Shropshire County Pension Fund and using the standard Annual Allowance of £40,000, you have exceeded the annual allowance for pension savings by £10,000.

It is important to note that you can carry forward unused annual allowances from the three previous tax years, 2019/20, 2020/21 and 2021/22. According to our calculations, again based solely on your LGPS benefits in the Shropshire County Pension Fund, although you have breached the annual allowance in 2022/23, you have **not incurred a tax charge** as you have enough carry-forward from the previous three tax years.

However, under HMRC rules, we must still provide you with details of this breach, so you can assess your own pension growth from other pension savings you may have and establish if you do have to pay a tax charge.

It is your personal responsibility to pay the correct amount of tax and therefore please take your time to read and understand this information. Pensions taxation is a complex area, and you are responsible for ensuring you have dealt with it correctly, so you may need to take independent financial advice to ensure you understand your tax position.

Shropshire County Pension Fund have partnered with our advisors Mercer and will be running an information webinar for individuals potentially affected by pensions tax rules. More information can be found in the enclosed leaflet.

1

“although you have breached the annual allowance in 2022/23 you have not incurred a tax charge as you have enough carry-forward from the previous three tax years.”



Date: 6th October 2023
e-mail: pensions@shropshire.gov.uk

My ref
PSS23LG-2

Tel (01743)
252130

Please ask for
Pension Services

Dear X

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Important please read

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You will need to ensure you take the actions set out in this letter to work out and pay the correct tax charge, making sure any pension growth elsewhere is included and, if applicable, the correct tapered annual allowance is applied.

You will need to declare the tax charge and how you will pay the tax charge on your self-assessment tax return by the deadline of 31/01/2024.

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<https://shropshirecountypensionfund.co.uk/about-the-scheme/tax-and-pension-benefits/annual-allowance/>

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1 of 8

“You will need to ensure you take the actions set out in this letter to work out and pay the correct tax charge”

Annual Allowance Case Study

Pension Saving Statement – no tax charge



Date: 6th October 2023

e-mail: pensions@shropshire.gov.uk

My ref
PSS23LG-1

Tel (01743)
252130

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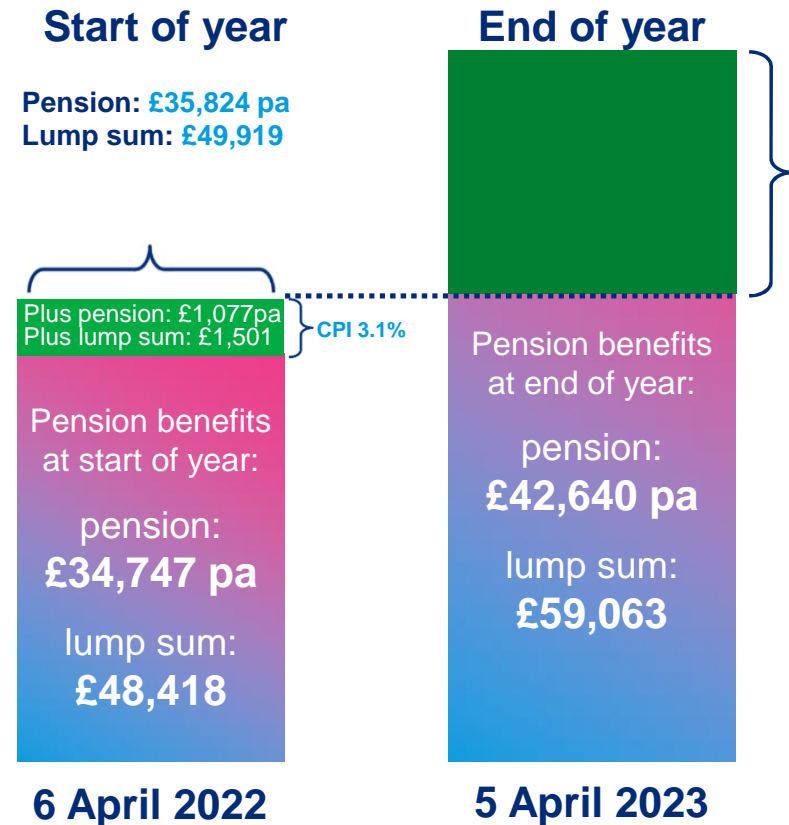


30 years service with pensionable
salary increasing from £86,000 to
£105,000 First big promotion



Annual Allowance

Pension Input Amount calculation



Pension Input Amount (PIA):

$$\begin{aligned}\text{Pension: } & (42,640 - 35,824) \times 16 &= \text{£ } 109,060 \\ \text{Lump sum: } & (59,063 - 49,919) \times 1 &= \text{£ } 9,144 \\ & & \underline{\text{£118,204}}\end{aligned}$$

SCPF will only provide these figures to you in your Pension Savings Statement if you exceed the standard Annual Allowance of £40,000 only.

NB: figures are rounded for ease of illustration

Annual Allowance

Pension Saving Statement – no tax charge



**Shropshire
County
Pension Fund**

Current PIP

Pension Input Period (PIP)	Standard Annual Allowance for PIP	Pension Input Amount (PIA)
2022/23 6 April 2022 to 5 April 2023	£40,000	£118,204

Previous three PIPs

Pension Input Period (PIP)	Standard Annual Allowance for PIP	Pension Input Amount (PIA)
2021/22 6 April 2021 to 5 April 2022	£40,000	£15,000
2020/21 6 April 2020 to 5 April 2021	£40,000	£15,000
2019/20 6 April 2019 to 5 April 2020	£40,000	£10,000

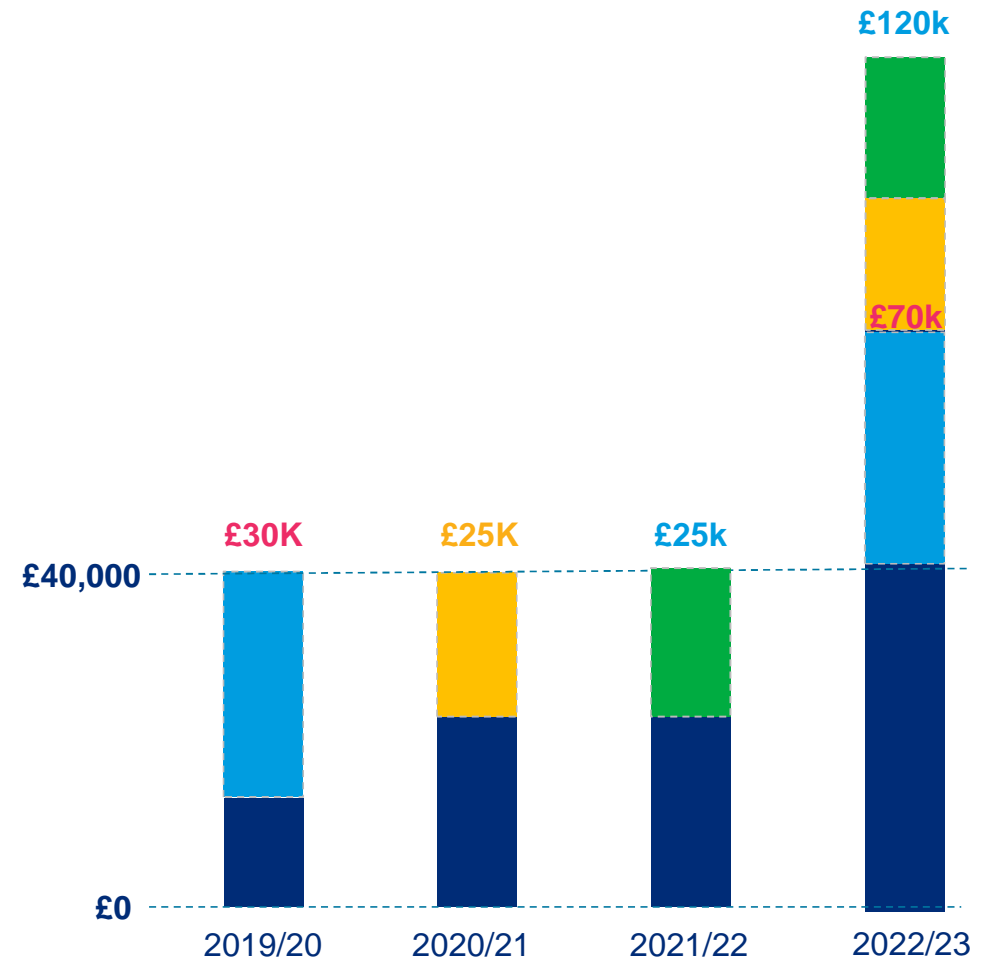


Annual Allowance

Pension Saving Statement (no tax charge) – carry forward of unused allowances

Carry forward

Any unused Annual Allowance in the previous three years can be used in the current year



Annual Allowance

HMRC calculator to work out unused allowances to carry forward to future years

6 April 2022 to 5 April 2023		6 April 2020 to 5 April 2021	
Your result	Amount	Your result	Amount
Available annual allowance	£120,000	Available annual allowance	£70,000
Available money purchase annual allowance	£0	Available money purchase annual allowance	£0
Pension savings	£118,204	Pension savings	£15,000
Amount on which tax is due	£0	Amount on which tax is due	£0
Unused annual allowance	£1,796	Unused annual allowance	£55,000

6 April 2021 to 5 April 2022		6 April 2019 to 5 April 2020	
Your result	Amount	Your result	Amount
Available annual allowance	£95,000	Available annual allowance	£40,000
Available money purchase annual allowance	£0	Available money purchase annual allowance	£0
Pension savings	£15,000	Pension savings	£10,000
Amount on which tax is due	£0	Amount on which tax is due	£0
Unused annual allowance	£80,000	Unused annual allowance	£30,000

If you don't have any tax to pay, you don't need to report anything!

Don't forget all pension savings count in the tax year so don't just rely on the letter from SCPF

<https://www.tax.service.gov.uk/pension-annual-allowance-calculator/>

My Pension Online

Registration



MY PENSION ONLINE

Sign Up

An activation key will be sent to the email address provided. Please note, this may take up to 3 working days if your email address is not held on our records.

Please do not submit another sign up request during this time

Surname	<input type="text" value="Surname"/>
National insurance number	<input type="text" value="NATIONAL INSURANCE NUMBER"/>
Date of birth	<input type="text" value="dd/mm/yyyy"/>
Email address	<input type="text" value="Email address"/>
<input type="button" value="Sign Up"/> <input type="button" value="Cancel"/>	

Call us:
01743 252 130

Write to us:
Pensions, PO Box 4826,
Shrewsbury, SY1 9LJ

Email us:
pensions@shropshire.gov.uk

My Pension Online

View your pension account and update your personal details.




[Register - My Pension Online
\(shropshirecountypensionfund.co.uk\)](https://shropshirecountypensionfund.co.uk)

[My Pension Online - Steps for a new sign ups
\(shropshirecountypensionfund.co.uk\)](https://shropshirecountypensionfund.co.uk)

My Pension Online

Dashboard



Shropshire
County
Pension Fund

YOUR TASKS

MY I

IE

YOUR ACCOUNT -

ADMIN -

Scheme: Shropshire County Pension Fund Member ref: Status: Active

Welcome

YOUR DETAILS >

Check and update your personal details.

DOCUMENTS >

View the documents that relate to you and your pension.

- [Scheme documents](#)
- [My documents](#)

CONTACT US >

Comments, questions, complaints? Get in touch.

MEMBERSHIP DETAILS >

View your employment details.

- [Membership details](#)
- [Financial details](#)

NOMINATIONS >

Make sure your loved ones are cared for should anything happen to you.

- [Death grant nomination details](#)

NEWS >

View the latest news for members of the Local Government Pension Scheme

PENSION BENEFITS >

Views the benefits you'll get at retirement.

- [Latest valuation](#)
- [Benefit projections](#)
- [Annual benefit statements](#)
- [Additional benefits](#)

SETTINGS >

Update your settings.

- [Change your password](#)
- [Change your security questions](#)
- [Consent withdrawal](#)
- [Communication Preferences](#)

Call us:

01743 252 130

Write to us:

Pensions, PO Box 4826,
Shrewsbury, SY1 9LJ
[Accessibility Statement](#)
[Cookie Information](#)

Email us:

pensions@shropshire.gov.uk

My Pension Online

Annual Allowance – pension savings



Annual allowance										
Tax year start	Annual allowance	Opening pension	Closing pension	Opening lump sum	Closing lump sum	DC contributions	Pension input	Unused annual allowance	Adjusted unused annual allowance	Taxable pension input
06/04/2022	£40,000.00	£18,861.40	£21,439.44	£16,395.54	£18,758.98	£0.00	£43,612.08	-£3,612.08	£0.00	£0.00
06/04/2021	£40,000.00	£16,826.96	£18,294.28	£15,707.30	£15,902.56	£0.00	£23,672.38	£16,327.62	£16,327.62	£0.00
06/04/2020	£40,000.00	£15,667.41	£16,743.24	£15,469.35	£15,629.15	£0.00	£17,373.08	£22,626.92	£22,626.92	£0.00
06/04/2019	£40,000.00	£14,550.22	£15,405.52	£15,291.84	£15,210.77	£0.00	£13,603.73	£26,396.27	£22,784.19	£0.00
06/04/2018	£40,000.00	£13,383.54	£14,209.20	£15,058.68	£14,933.44	£0.00	£13,085.32	£26,914.68	£26,914.68	£0.00
06/04/2017	£40,000.00	£12,026.17	£12,993.73	£14,620.14	£14,620.08	£0.00	£15,480.90	£24,519.10	£24,519.10	£0.00
06/04/2016	£40,000.00	£10,909.89	£11,907.10	£14,332.15	£14,475.39	£0.00	£16,098.60	£23,901.40	£23,901.40	£0.00
06/04/2015	£80,000.00	£10,128.95	£10,909.89	£14,452.16	£14,332.15	£0.00	£12,375.03	£30,927.20	£30,927.20	£0.00
06/04/2014	£40,000.00	£9,218.91	£9,881.90	£14,402.14	£14,099.67	£0.00	£10,305.37	£29,694.63	£29,694.63	£0.00
06/04/2013	£50,000.00	£8,369.88	£8,976.54	£14,175.55	£14,023.51	£0.00	£9,554.52	£40,445.48	£40,445.48	£0.00

Previous **1** 2 Next

Annual Allowance Case Study

Pension Saving Statement – tax charge



Date: 6th October 2023

e-mail: pensions@shropshire.gov.uk

My ref
PSS23LG-2

Tel (01743)
252130

Please ask for
Pension Services

Dear X

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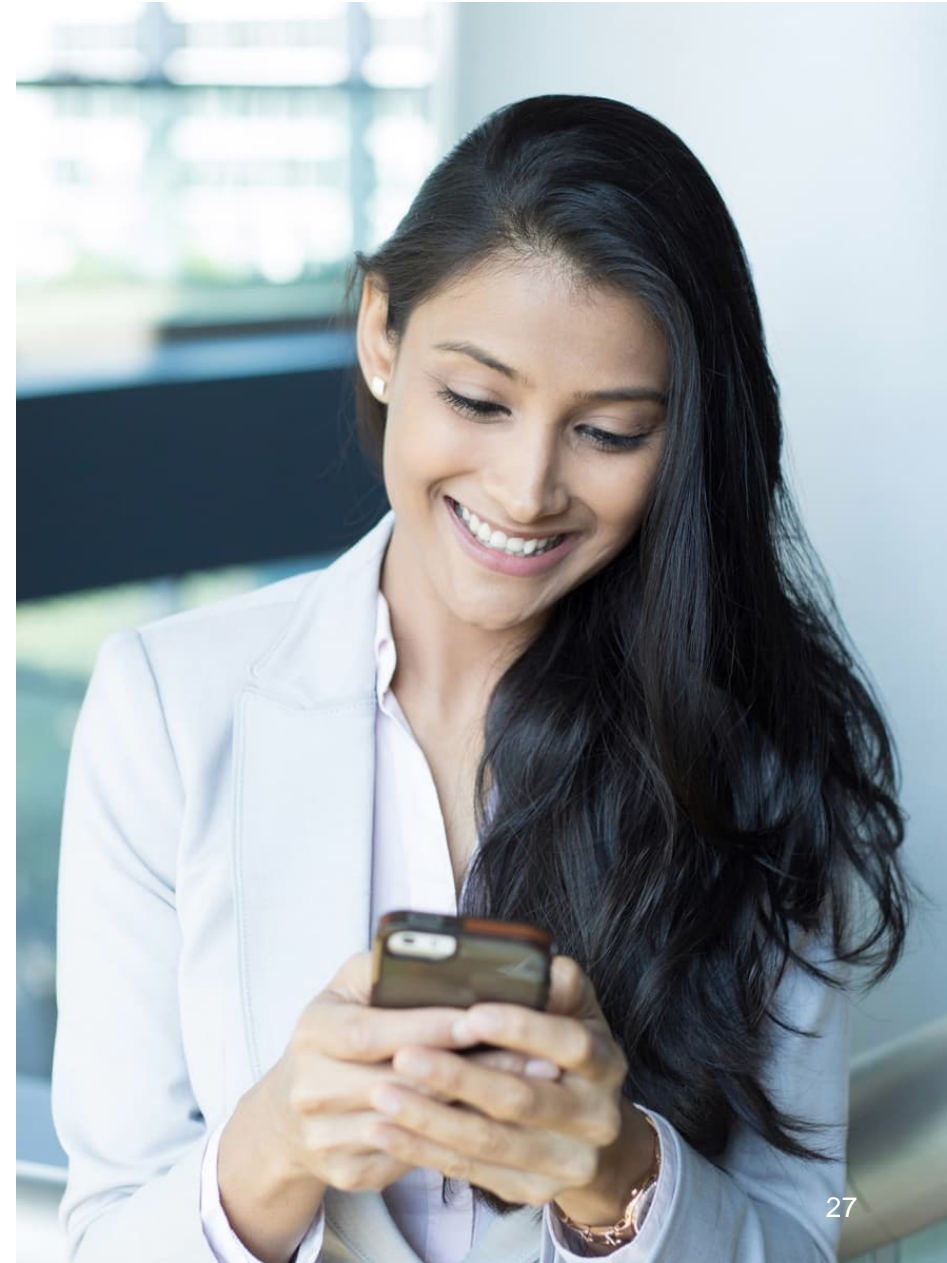
<https://shropshirecountypensionfund.co.uk/about-the-scheme/tax-and-pension-benefits/annual-allowance/>

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1 of 8

**30 years
service with
pensionable
salary
increasing
from £86,000 to
£105,000**

**Second big
promotion**



Annual Allowance

Pension Saving Statement – tax charge

Current PIP

Pension Input Period (PIP)	Standard Annual Allowance for PIP	Pension Input Amount (PIA)
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Previous three PIPs

Pension Input Period (PIP)	Standard Annual Allowance for PIP	Pension Input Amount (PIA)
2021/22 6 April 2021 to 5 April 2022	£40,000	£90,000
2020/21 6 April 2020 to 5 April 2021	£40,000	£20,000
2019/20 6 April 2019 to 5 April 2020	£40,000	£10,000
2018/19 6 April 2018 to 5 April 2019	£40,000	£20,000



Locate the figure in
2021/22 pension
saving statement or

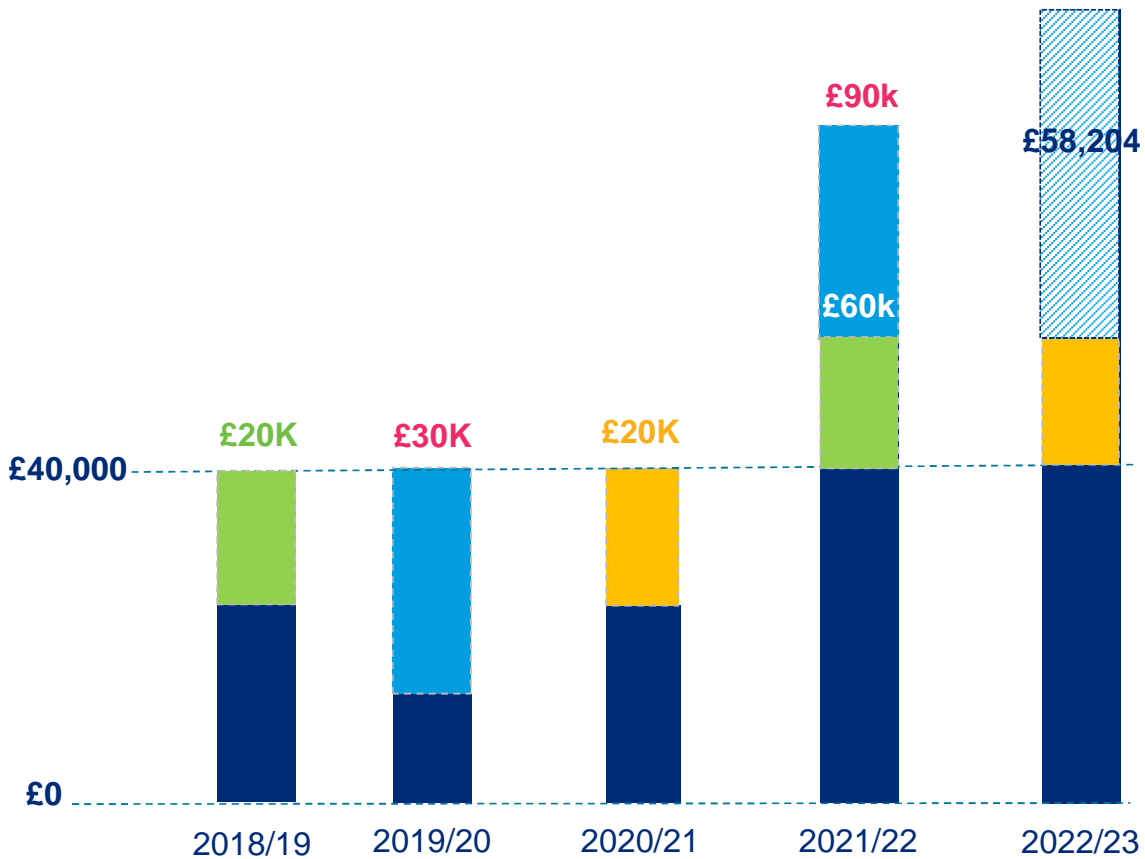
My Pension Online

View your pension account and update
your personal details.



Annual Allowance

Pension Saving Statement (tax charge) – carry forward of unused allowances



Annual Allowance

HMRC calculator to work out tax liability

6 April 2022 to 5 April 2023

Your result	Amount
Available annual allowance	£60,000
Available money purchase annual allowance	£0
Pension savings	£118,204
Amount on which tax is due	£58,204
Unused annual allowance	£0

6 April 2021 to 5 April 2022

Your result	Amount
Available annual allowance	£110,000
Available money purchase annual allowance	£0
Pension savings	£90,000
Amount on which tax is due	£0
Unused annual allowance	£20,000

6 April 2020 to 5 April 2021

Your result	Amount
Available annual allowance	£90,000
Available money purchase annual allowance	£0
Pension savings	£20,000
Amount on which tax is due	£0
Unused annual allowance	£70,000

6 April 2019 to 5 April 2020

Your result	Amount
Available annual allowance	£60,000
Available money purchase annual allowance	£0
Pension savings	£10,000
Amount on which tax is due	£0
Unused annual allowance	£50,000

6 April 2018 to 5 April 2019

Your result	Amount
Available annual allowance	£40,000
Available money purchase annual allowance	£0
Pension savings	£20,000
Amount on which tax is due	£0
Unused annual allowance	£20,000

The tax man cometh...



<https://www.tax.service.gov.uk/pension-annual-allowance-calculator/>

Annual Allowance

Calculating your tax charge

Step 1:

Establish taxable income after allowable deductions and your Personal Allowance* (if applicable)

Step 2:

Identify value of pension savings that will be subject to an Annual Allowance tax charge

Step 3:

Add together the reduced net income (from step 1) and the amount of excess pension savings (from step 2)

Step 4:

The value of excess pension savings will then be taxed as follows for tax year 2022/23:

Taxable income plus excess value pension savings are:	Less than £37,700	- Excess value pension savings taxed at 20%
	Between £37,701 and £150,000	- Excess value pension savings taxed at 40%
	More than £150,000	- Excess value pension savings taxed at 45%

If tax bands are straddled, different rates of tax could apply to the excess value pension savings.

*The Personal Allowance is £12,570 for tax year 2022/23 and will be reduced by £1 for £2 of income in excess of £100,000 until extinguished completely

If in doubt, seek financial advice

Annual Allowance

Calculating the tax liability

Step 1 - Calculate taxable income	£
Basic Salary (less 10.5% LGPS pension membership cost)	93,975
Deduct personal allowance	(12,570)
Taxable income	81,405

Pay has increased from £86,000 to £105,000 but this has resulted in an Annual Allowance tax charge of

£23,281!



Calculate annual allowance tax charge	£
Step 2 - Pension savings (£118,204) less carry forward of unused allowances in last three tax years (£20,000) less Standard Annual Allowance (£40,000)	£58,204
Step 3 - Taxable income (£81,405) plus excess above the Annual Allowance (£58,204) to determine what tax rate applies.	
Step 4 - As £139,609 is less than £150,000, so all the excess is taxed at 40%	
Annual Allowance tax charge : £58,204 x 40%	£23,281

Figures are rounded for ease of illustration If in doubt, seek financial advice

Annual Allowance

Tax charge payment options

If you exceed the Annual Allowance and have an Annual Allowance tax charge, then you could ask the Fund to pay tax charge on your behalf by reducing your pension benefits or pay it from your own resources.



Scheme Pays

Reduced annual pension
(age related factor)

£1,700 p.a. (e.g. 50yr old)

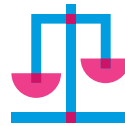
vs



Pay the tax yourself

You need to find a lump sum to pay the tax bill
out of your post-tax income, savings or debt

£23,281



Instead of pension increasing from £34,747 p.a. to £42,640 p.a. if after using scheme pays it would increase to £40,940 p.a. instead!

Key considerations

- Payment to HMRC is paid from gross pension benefits that have not yet been taxed (but would otherwise have been subject to income tax when in payment) – so more tax efficient
- Cash flow efficient as Annual Allowance tax charge is paid from your Scheme benefits (that are reduced accordingly)
- The “value” provided by the Scheme Pays debit factors may be viewed differently depending on your outlook, including life expectancy (NB: they are regularly reviewed)
- Using Scheme Pays reduces your ultimate pension benefits, and therefore would have previously helped to reduce any eventual Lifetime Allowance charges, not relevant now

- You could pay the tax charge yourself, but as this may well be out of income that has already been taxed – this is generally tax inefficient
- You may be targeting a specific income level in retirement, and do not wish to erode the expected pension benefits.
- Cash flow problems – you may not have the money readily available.

Figures are rounded for ease of illustration If in doubt, seek financial advice

Annual Allowance

Voluntary and Mandatory Scheme Pays

Scheme pays option	Tax liability £	Value in excess of the Tapered Annual Allowance/ standard Annual Allowance £
Voluntary Scheme pays	< 2,000	4,000 – 40,000
Mandatory Scheme pays (requirement for all pension schemes to offer this option – hence why it is mandatory)	> 2,000	40,000+

The reporting requirements and due dates for the payment of the Annual Allowance tax charge are different for each Scheme pays option.

If in doubt, seek financial advice

Annual Allowance

Scheme Pays timeline (2022/23)

Mandatory Scheme pays timeline

31 Jan 2024

Member **notifies HMRC on self assessment tax return** of excess value above Annual Allowance and confirms they want to use Scheme pays. Member will also need to request a **Mandatory Scheme pays election form**

31 July 2024

Latest date for members to return **Mandatory Scheme pays election form** to SCPF

31 Dec 2024

Date when **tax payable from scheme** becomes due

28 Feb 2025 onwards

HMRC matches up **scheme tax payments with elections** by members for Scheme Pays on tax returns

6 Oct 2023

SCPF informs members who have exceeded the **standard £40,000 Annual Allowance**

31 Jan 2024

Notify HMRC on self assessment tax return of excess value above Annual Allowance and confirms use of Scheme pays.
This is the date when **tax payable from Scheme** becomes due
HMRC matches up scheme paying the tax payments on behalf of members immediately

18 Dec 2023

You must request your **Pension savings** if you think you might be impacted!

Latest date for members to return **Scheme pays election form** if you want SCPF to guarantee **payment of your tax charge by the 31 Jan 2024 deadline**

SCPF will **not guarantee** that the tax will be paid before 31 Jan 2024 if forms are **received after that date** and the **member will be liable** for any late payment charges and interest that they incur.

Voluntary Scheme pays timeline

Annual Allowance

Scheme pays form



**Shropshire
County
Pension Fund**

Annual Allowance - Scheme Pays Election Form

Part 2: Annual Allowance details

To be completed if you would like Shropshire County Pension Fund to pay some or all of the Annual Allowance charge you are liable for as a result of the growth in your scheme benefits. Charges from other pension schemes must not be included.

Tax-year in which the AA charge occurred (e.g. 2020/21):

2022/23

Type of charge (tick one or both boxes as appropriate):



Mandatory



Voluntary

Total amount of AA tax charge you require Shropshire County Pension Fund to pay HM Revenue & Customs:

£

£23,281

If you have a tapered Annual Allowance what is it tapered to? (Leave blank if not applicable)

£

Are you amending a previous Scheme Pays election for the relevant tax-year?



Yes



No

If yes, what is the rate of tax payable in the relevant tax-year applicable to the charge? (Please enter a percentage)

40%



Annual Allowance return

HMRC registration process to do a tax

Step 1:

<https://www.gov.uk/log-in-register-hmrc-online-services/register>

Your Government Gateway user ID is:

Step 2:

We need to ask some questions to prove your identity

You will be asked to give details about two items you may have, like your:

- UK Passport
- Payslips or P60
- Self Assessment
- Tax credits and Voice ID
- Northern Ireland driving licence

You may also be able to answer questions about your credit record.

We ask these questions to protect you against malicious or fraudulent attempts to access the service.

Step 3:

You now have access to Self Assessment

**HMRC Telephone helpline:
0300 200 3310**

Annual Allowance

HMRC tax return

Tailor your return

Page 1 of 3

This section aims to ensure you only answer questions relevant to you. Include **all income** even if the income has been **taxed at source**.

In the tax year 6 April 2020 to 5 April 2021:

Were you an employee (or director or office holder) or agency worker in the year to 5 April 2021?

☒ Yes ☐ No

[Help about: Tailor your return 01 - Employee, director, office holder or agency worker](#)

How many employments or directorships did you have?

Please select

If you are self-employed or in a partnership, you must register to pay Class 2 National Insurance.

[Help about: Tailor your return 02 - If you are self-employed or in a partnership, you must register to pay Class 2 National Insurance](#)

Was your turnover more than **£1,000** in total from all **self-employments**? Please check help

☐ Yes ☒ No

[Help about: Tailor your return 03 - Self Employed](#)

Were you in a **partnership**?

☐ Yes ☒ No

[Help about: Tailor your return 04 - Partnership](#)

Did you receive income from **UK land and/or property** (including income from foreign property) over **£1,000**? Please check help before selecting

☐ Yes ☒ No

[Help about: Tailor your return 05 - Income from UK property](#)

If you received any foreign income, do you need to complete the **foreign** section? Please check help before selecting

☐ Yes ☒ No

[Help about: Tailor your return 06 - Foreign income or income gains](#)

If you disposed of any chargeable assets, or had any chargeable gains, or you wish to claim an allowable loss, or make any other claim or election, do you need to complete the **Capital Gains** section? Please check help before selecting

☐ Yes ☒ No

[Help about: Tailor your return 07 - Capital gains](#)

File a return menu

1. Welcome
 2. Tell us about you
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 6. View your calculation
 7. Save your return
 8. Submit your return
- [Provide feedback](#)
[Tax return options](#)
[How to pay](#)

Tailor your return

Page 2 of 3

In the tax year 6 April 2020 to 5 April 2021:

Did you receive any **interest**, for example, from UK banks, UK building societies, UK unit trusts (or untaxed foreign interest up to £2,000)?

☒ Yes ☐ No

[Help about: Tailor your return 08 - Interest \(UK\)](#)

Did you receive any **dividends**, for example, UK companies, authorised unit trusts, open-ended investment companies, foreign companies (up to £2,000)?

☐ Yes ☒ No

[Help about: Tailor your return 09 - Dividends \(UK\)](#)

Did you receive any **UK pensions, annuities or state benefits**, for example, state pension, occupational pension, retirement annuity, Incapacity Benefit?

☐ Yes ☒ No

[Help about: Tailor your return 10 - UK pensions, annuities or state benefits](#)

Did you or your partner (if you have one) get **Child Benefit** during the year 2020-21 (this applies if someone else gets **Child Benefit** for a child who lives with you and pays you for the child's upkeep)?

☐ Yes ☒ No

[Help about: Tailor your return 11 - High income Child Benefit charge](#)

Did you incorrectly claim an amount of a coronavirus support payment?

☐ Yes ☒ No

[Help about: Tailor your return 14 - Incorrectly claimed coronavirus support payments](#)

Did you receive any **other UK income**, for example, employment lump sums, share schemes, life insurance gains?

☐ Yes ☒ No

[Help about: Tailor your return 16 - Any other UK income](#)

Have you made any **income tax losses** in the year 2020-21?

☐ Yes ☒ No

[Help about: Tailor your return 17 - Have you made any income tax losses](#)

Are you liable to **pension savings tax charges** or have you received payments from overseas pension schemes?

☒ Yes ☐ No

[Help about: Tailor your return 18 - Pension savings tax charges](#)

[Save and continue](#) [Back](#)

File a return menu

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[Tax return options](#)
[How to pay](#)

Tailor your return

Page 3 of 3

In the tax year 6 April 2020 to 5 April 2021:

Did you make contributions towards a **personal pension or retirement annuity**? This does not include payments you make to your employer's pension scheme, which are deducted from your pay:

☐ Yes ☒ No

[Help about: Tailor your return 19 - Contribute to personal pension or retirement annuity](#)

Did you give to **charity**?

☐ Yes ☒ No

[Help about: Tailor your return 20 - Charitable giving](#)

If you, or your spouse or civil partner, were born before 6 April 1935 do you want to claim married couple's allowance?

☐ Yes ☒ No

[Help about: Tailor your return 21 - Married couple's allowance](#)

Do you want to claim **other tax reliefs** and deductions, for example, community investment tax relief, venture capital trust shares, maintenance / alimony payments?

☐ Yes ☒ No

[Help about: Tailor your return 24 - Other tax reliefs and deductions](#)

Have you had any 2020-21 Income Tax refunded or set-off by us or JobCentre Plus?

☐ Yes ☒ No

[Help about: Tailor your return 25 - Income tax refunded or set off](#)

Did you have a tax adviser?

☐ Yes ☒ No

[Help about: Tailor your return 26 - Tax adviser](#)

Have you used one or more tax avoidance schemes?

☐ Yes ☒ No

[Help about: Tailor your return 27 - Tax avoidance schemes](#)

Do you need to disclose any income from disguised remuneration avoidance schemes? If you received any disguised remuneration loans and they have not been fully repaid or you still owe tax on an amount outstanding on 5 April 2020, select "yes"

☐ Yes ☒ No

[Help about: Tailor your return 28 - Disguised remuneration avoidance scheme](#)

Are you acting in capacity on behalf of someone else?

☐ Yes ☒ No

Annual Allowance

HMRC tax return: pension tax charges

Increase in value of benefits in tax year after allowing for **any available carry forward** for the three previous tax years in respect of registered pension scheme

Completed if Scheme Pays option exercised

Enter the amount of **Annual Allowance excess tax charge paid or payable** by the scheme administrator, who you will have told how much tax has been paid. **Where more than one pension scheme has paid such a tax charge, enter the total**

Amount saved towards your pension, in the period covered by this return, in excess of the Annual Allowance:

£

▶ [Help about: Pension savings tax charges 05 - Amount saved towards your pension in excess of the Annual Allowance](#)

£58,204

Round down!

Annual Allowance tax paid or payable by your pension scheme:

£

▶ [Help about: Pension savings tax charges 06 - Annual Allowance tax paid or payable by your pension scheme](#)

£23,281

Round down!

Value of pension benefits transferred subject to the overseas transfer charge:

£

Tax paid by your pension scheme on your overseas transfer charge:

£

Pension scheme tax reference number:

▶ [Help about: Pension savings tax charges 07 - Pension scheme tax reference number \(PSTR\)](#)

If Scheme Pays is being considered, enter the Pension Scheme tax reference number here

(00328030RD for SCPF)

Annual Allowances

Further considerations

Transfers

Temporary Pay rises



Annual Allowances

Temporary pay rises!

**30 years service
with pensionable
salary increasing
from**

£45,000 to £65,000

**Temporary
promotion/
honorary and
now pay has
reduced back to
previous levels**

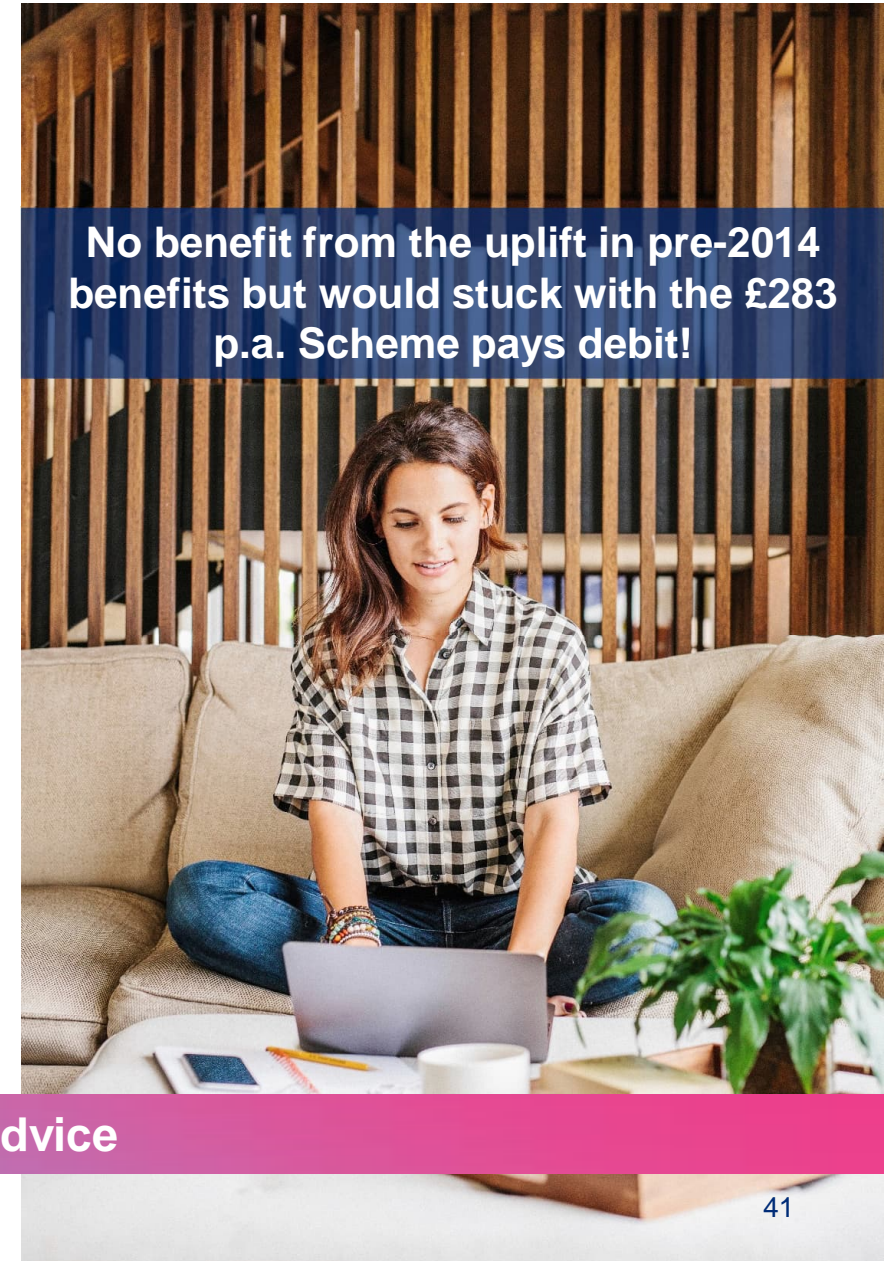
Temporary pay rise has triggered a tax liability of £4,000. If using scheme pays the reduction in pension for a 52 year old would be £283 p.a.

Instead of pension increasing from £21,500 p.a. to £27,500 p.a. if after using Scheme pays it would increase to £27,217 p.a.

However, if you don't take benefits in the next 3 tax years your final pensionable salary will fall back to the current pensionable salary

If in doubt, seek financial advice

No benefit from the uplift in pre-2014 benefits but would stuck with the £283 p.a. Scheme pays debit!



Annual Allowances

Further considerations

Transfers

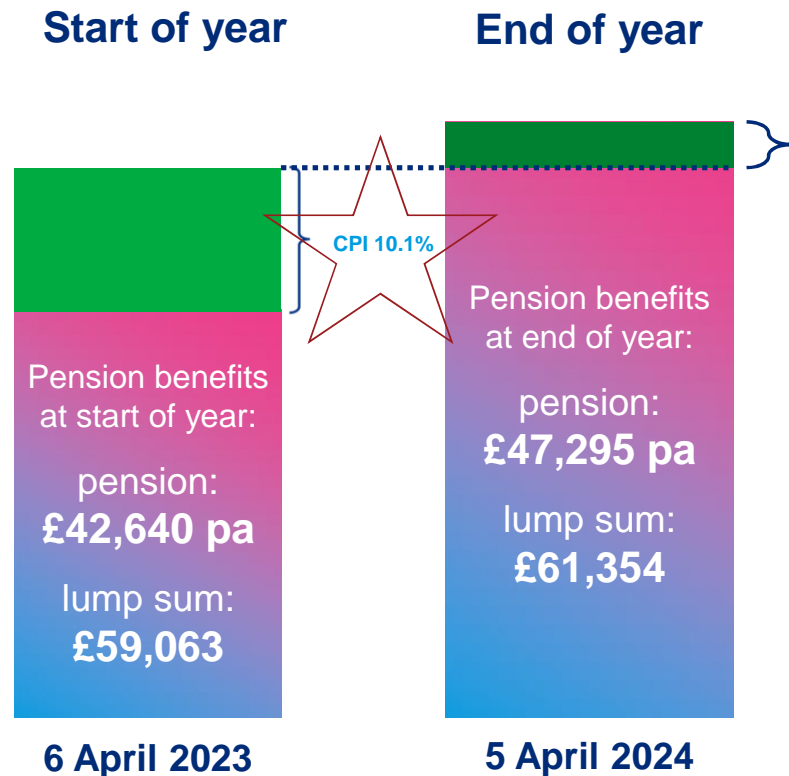
Temporary Pay rises

When is inflation your friend?



Annual Allowance

Inflation is your friend - 2023/24 estimated pension input amount calculation



NB: figures are rounded for ease of illustration

Pay rise %	Pension Input Amount £
3.88%	1,900

PIA reduced due to higher inflation

Standard Annual Allowance is higher too

Annual Allowances

Further considerations

Impacted by the Tapered Annual Allowance and carry forward before 2020

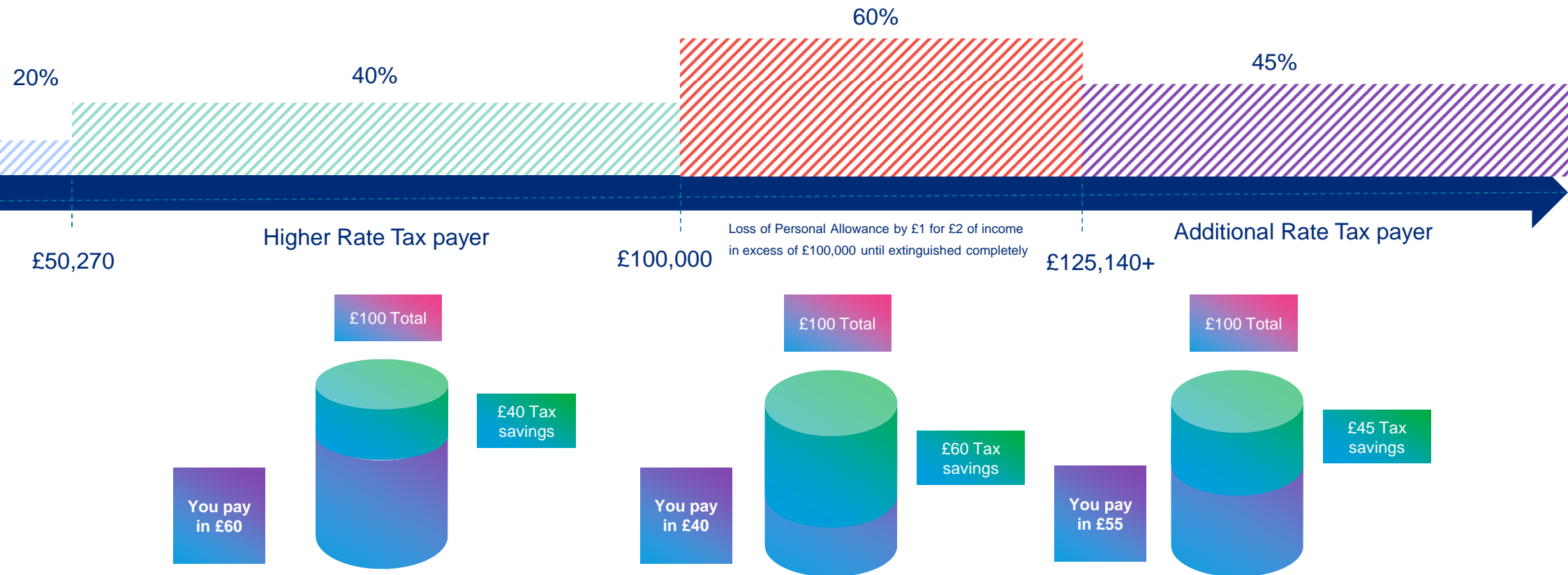
Complexities of tax calculations when breaching the tax bands (step 3)

Opportunity to benefit from tax relief by paying into AVC or APC



Annual Allowance

AVC income tax opportunity – money in

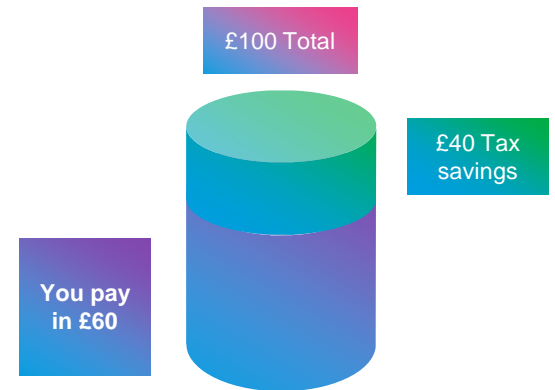


When you retire - 100% of AVC can be taken as part of your Tax free cash entitlement
This will save you having to give up some of your pension for additional Tax free cash using a commutation factor of 12:1

Annual Allowance

AVC income tax opportunity – money out

	Without AVC contribution	With £60,000 AVC contribution
Standard tax free cash	£124,275	£184,275
Pension	£52,000	£52,000



	Without AVC contribution	With £60,000 AVC contribution	Increase in gross pension
Maximum tax free cash	£268,275	£268,275	
Pension	£40,000	£45,000	£5,000

- Assuming the pension is subject to 40% income tax in retirement the net increase in pension is £4,000 per annum
- Net cost of making AVC = £36,000 (higher rate tax payer)
- Time period to live for the increase in net of tax pension to equal the net cost of making the AVC contribution to equal is 9 years ($(£36,000 \div £4,000)$)
- Average life expectancy for a female is age 88 (1 in 4 chance of attaining age 96) and for a male is age 86 (there is a 1 in 4 chance of attaining age 94) (source: Office of National Statistics)

NB: figures are rounded for ease of illustration

If in doubt, seek financial advice to optimise your situation



Lifetime Allowance

Lifetime Allowance

Regime prior to 6 April 2023

Total pension savings were tested against the Lifetime Allowance when an individual started to receive pension benefits, calculated as:

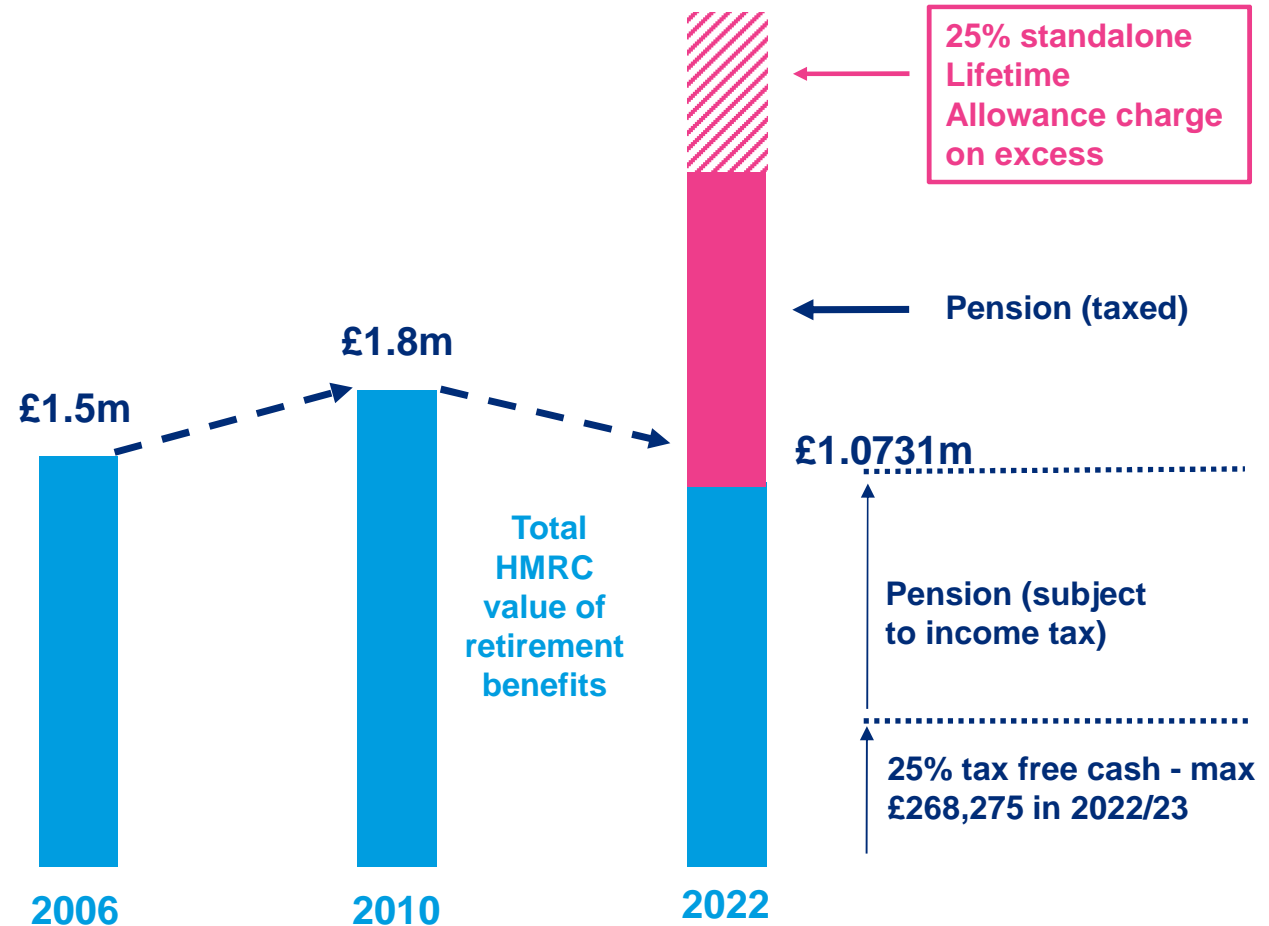
Defined benefit savings valued at this time multiplied by a factor of 20

+

Defined contribution savings value at this time

+

Tax free cash lump sum amount taken from defined benefit schemes

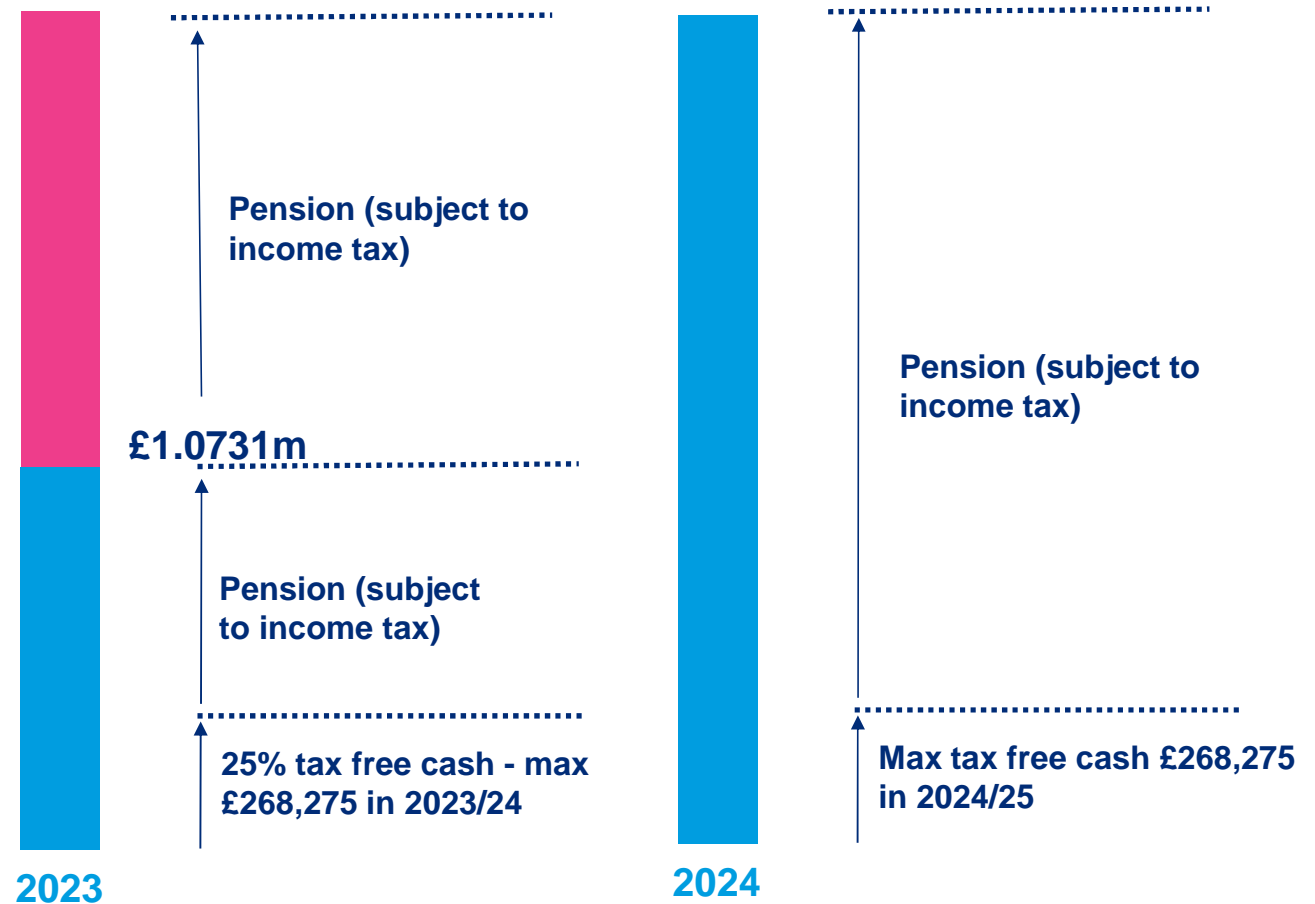


But March 2023 Summer Budget announced radical changes....

Lifetime Allowance

Regime from 6 April 2023

- **Lifetime Allowance** pension tax charge was **abolished** from 6 April 2023
- **Lifetime Allowance** is set to be **abolished** from 6 April 2024
- **Tax-Free Cash sum** on pension commencement is **frozen at £268,275** unless you have a protected LTA or protected cash



No upper limit on total tax efficient pension savings an individual can have

Lifetime Allowance

Existing Lifetime Allowance Protection and tax free lump sums



HMRC have confirmed that those with Lifetime Allowance Protection held prior to the Budget 2023 announcement on 15 March 2023 will be able to resume pension savings without the loss of protection from 6 April 2023



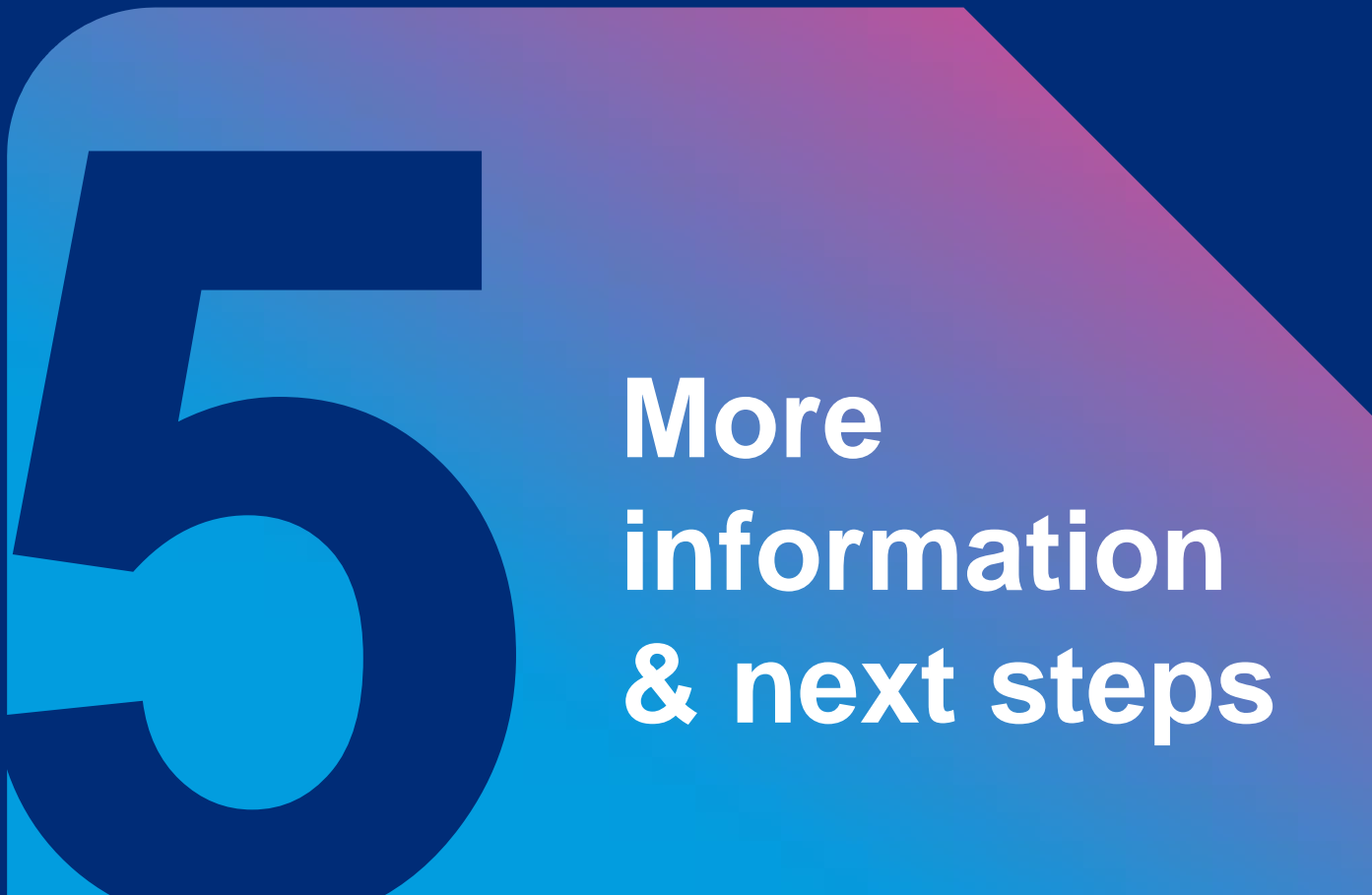
Depending on the value of pension benefits built up, re commencing pension savings may/may not increase your maximum tax free cash entitlement



If you register for fixed protection 2016 (FP16) after 15 March 2023 any pension savings made post 6 April 2023 will invalidate FP16

Registration for IP16 is available online

<https://www.gov.uk/guidance/pension-schemes-protect-your-lifetime-allowance>



**More
information
& next steps**

Options and things to think about

50:50 scheme –
opt back in?

Be mindful of temporary promotions/honorariums and impact on Final Pensionable Salary and transferring pension benefits from previous employment

AVC contributions to benefit today or build up
unused allowances for the future if inflation is higher

Consider appropriateness
of LTA protections

AVC or Private pension contributions to reduce Threshold Income to below £200k to retain full Annual Allowance in future or to reclaim the Personal Allowance for taxable earnings between £100k-£125k

Is there an optimal time or order
for taking these benefits?

Pay AA tax charges using
“Scheme Pays”

Retirement and the
McCloud judgement

If in doubt, seek financial advice

Options and things to think about

Reminder of the benefits of being a member of the LGPS

There may be future tax charges
but continue to enjoy the
benefits of the LGPS

Pension built up based on
service and salary

Spouses and dependant's
benefits

Security
of benefits

Benefits increase
in line with inflation

Employer contributes a
significant amount on your behalf

Ill-health
retirement benefit

Death in-service
benefit

Redundancy
benefits

Flexible
retirement benefits

Always consider the net
benefit to you after all taxes
rather than focusing on the
tax charges alone.



Next steps

..and your actions!

**Be aware of
the changes**

**Calculate potential
impact to you**

**Understand choices and
consider your best
outcome**

Implement your decision
(e.g. protection application
or arranging Scheme Pays
for tax bill)


**Review your
financial position**



 **Understand**

 **Calculate**


 **Choose**

 **Take action**

 **Review often**

Help available

Annual Allowance guidance




HM Revenue & Customs

Website


www.gov.uk/tax-on-your-private-pension/annual-allowance
<https://www.tax.service.gov.uk/pension-annual-allowance-calculator>

Pension Tax guidance



Shropshire County Pension Fund

My Pension Online
View your pension account and update your personal details.



Annual allowance


Scheme Pays

Lifetime allowance

AVCs

Financial advice

– typically £2,500 - £3,500 + VAT



Mercer

Seek bespoke advice from someone who is a pension tax and LGPS specialist

An overview of the pension tax allowances and their impact on you personally.

Financial analysis of the following LGPS options based on financial assumptions agreed with you:

- Full membership of the LGPS
- 50/50 section membership of the LGPS
- Opt out of the LGPS

What we consider to be the optimal option/s for you based on your personal circumstances and objectives.

We can also consider the following within our analysis:

- How to deal with exceeding the AA in 2022/23
- Impact of McCloud
- Considerations for how to deal with LGPS membership in 2023/24
- The optimal timing or order to take your pension benefits
- The optimal way in which you should take your pension benefits i.e. maximum tax free cash or income
- Impact of paying into AVCs
- Exit settlement agreements

Contact: Neville.Khorshidchehr@mercero.com | **07557031006**

Help available

1-2-1 guidance sessions 7th, 10th, 24th, 27th November via Teams/Zoom



Please book your slot contact
pensions@shropshire.gov.uk

Using your personal information, these sessions will typically help:

- If you have exceeded the AA in 2022/23 and need assistance working this out and declaring a tax liability
- If you are subject to the Tapered Annual Allowance
- Understand the Annual Allowance tax charge payment options
- Highlight your estimated position and your options for the remainder of 2023/24 and if you need assistance to make AVC contributions up to your available allowances
- If you qualify for tax free cash protection



Mercer These sessions will be for education purposes only and no formal advice will be provided

To make most effective use of the limited time we ask you to complete the following:

- **Short questionnaire** detailing your taxable earnings
- **Please also have to hand your P60 and P11D for 2022/23, 2021/22, 2020/21 and potentially further back up to 2016/17 to the meeting**



Mercer Private Wealth

Pension Guidance Session Information Request Questionnaire

Private and Confidential



Important note - Please read carefully before completing

The aim of this Information Request Questionnaire is to provide us with the necessary information we require to provide you with the appropriate guidance. The outcome of the guidance we complete for you will use the information you have provided and may not be accurate if you decline to answer the questions relevant to your circumstances or knowingly do not provide us with true and accurate information. Please let us know below, or on an additional piece of paper, if there is any other information you believe is relevant to your circumstances.

Please see guidance notes - Information Request Questionnaire
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The future

Could the rules change?



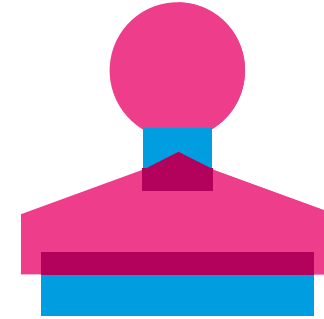
General election due in 2024 or by Jan 2025 at the latest.

Labour are the “bookies favourite” to win.

The Labour party had pledged to reverse changes.



Potential for changes to tax relief on pension contributions.



LGPS Regulatory Changes

McCloud – GOOD NEWS!! Transitional Protection arrangements when CARE scheme introduced found to be age-discriminatory. Potential for tax implications for some members on retirement.

95k Exit Cap – Value of benefits available on redundancy were capped in late 2020 but then revoked in early 2021. Potential new cap could be introduced which will have implications for members and their retirement planning.



**Open
forum /
Q&A session**

Feedback

Please complete your feedback while we take questions



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 - The information in this presentation is confidential and may not be disclosed in whole or in part to any third party without Mercer's prior written consent, unless required by law or order of a court or regulatory body.
 - The information contained herein is of a general nature and is not intended to address the circumstances of any individual or entity.
 - All factors used are the latest ones available to us from the LGPS. These are regularly reviewed and may not apply when pension benefits are taken.
 - The information provided is based on Mercer's current understanding of current UK pension tax provisions, as announced in the Spring Budget 2023 and available from HMRC guidance at time of writing.
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A business of Marsh McLennan

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