Local Government Pension Scheme

Annual allowance

UNDERSTANDING

What we do for members

Each tax year we identify your members who exceed the annual allowance tax threshold of £60,000 set by the government.

When members exceed the threshold we have to send them, by the statutory deadline of 6 October, a Pension Savings Statement that tells them

- their pension savings growth in that tax year, and
- their pension savings growth in the previous three tax years.

The calculation is based on the growth in pension benefits from the start to the end of the tax year (6 April to 5 April) and includes any AVCs paid in the year. This is the Pension Input Period (PIP).

What members do for themselves

Members have to assess if they have a tax charge and if they do, complete a tax return and arrange payment of the charge to HMRC. In some cases, members can ask the scheme to pay the charge in exchange for a reduction to their pension.

How we identify potential breaches of the threshold

Members' annual allowance calculations will run during any of these processes:

- an annual statement for an active member
- a deferred benefit calculation for a member who has left, or
- a retirement calculation for a member who is retiring.

If the calculation shows the member is near to or over the £60,000 threshold, we carry out a thorough annual allowance check – this is when we **need your help** to provide specific pay information.

What we need from you throughout the tax year

Look out for the **INFORMATION FOR HMRC CHECK** emails we send mainly from April to August but throughout the tax year. They're for annual allowance checks and you should respond **urgently.**

We will need:

- accurate final pay and cumulative pensionable pay so we can calculate benefits at the end of each of the relevant tax years (see important note about arrears of pay below), and
- member and employer AVCs (in-house as well as salary sacrifice shared cost) in the tax year.

  We'll need this data from you **on time** so we can send members the information they need before the 6 October statutory deadline.

HMRC can impose fines for missed deadlines and fines may be passed on to employers if they're at fault for not providing the requested information on time.

West Yorkshire Pension Fund
Lincolnshire Pension Fund
London Borough of Hounslow
BARNET LONDON BOROUGH

What about...

Arrears of pay

When you calculate final pay for annual allowance checks, include pay award amounts as detailed below.

Pay increase is agreed before the end of the relevant tax year

If a pay increase is agreed before the end of the tax year (so it was known about at the relevant 5 April) you should take the pay increase into account when providing the pay.

Pay increase is agreed after the end of the relevant tax year

If a pay increase is agreed after the end of the tax year the pay increase should not be included when providing the pay.

AVCs

Sometimes we may need additional information about AVCs that have been paid so we can differentiate between

- Life cover AVCs (these are excluded from annual allowance calculations)
- Member AVCs (these count in the tax year they're deducted)
- Employer AVCs like shared cost/salary sacrifice (these count in the tax year the AVC provider receives them)

Which members are more at risk of breaching the annual allowance?

Breaches tend to affect members in one or more of these scenarios:

- they are higher earners
- they have a lot of scheme membership and receive a significant pay increase
- they pay a high level of additional contributions
- they have linked periods of LGPS or public sector scheme membership on a higher pay (if such periods retain final pay protection).

For more information and further detailed guidance please see:

Info for members
Annual Allowance (wypf.org.uk)

Calculating pay
Leavers (wypf.org.uk)

Source: LGPC Annual Allowance guide

Pay: Points 104-107,110

AVCs: Point 34