lgps | Local Government Pension Scheme

Suffolk County Council

Pension Section Contact Details

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What is Annual Allowance?

The Annual Allowance, set by HM Revenue and Customs (HMRC), is the maximum amount of pension savings that you can receive tax relief on each year. The total growth in the value of Local Government Pension Scheme benefits and other pension arrangements is currently capped at £40,000, increasing to £60,000 in 2023/2024.

If the growth in your pension savings is more than the Annual Allowance then a tax charge may be payable on the amount over £40,000. This is called the Annual Allowance Charge. All pension savings, except a State Pension, must be tested against the Annual Allowance each tax year. This includes any other pension savings that you may hold outside the Local Government Pension Scheme.

Please note that if the Tapered Annual Allowance applies, you may have a reduced Annual Allowance. Please see the below section on Tapered Annual Allowance for more information.

How is my Pension Input Amount calculated?

The value of your pension savings for each tax year is known as your Pension Input Amount.

Your Pension Input Amount is calculated as 16 times the increase in your Annual Pension (from the start of the tax year to the end), plus the value of the increase of your lump sum, plus any AVC you (or your Employer) have paid during the year. The value of your pension benefits at the start of the tax year are adjusted for inflation (for the purposes of this calculation only) so that they can be more equally compared to the value at the end of the tax year one year later.

Example:

Member with 21 years service has a salary increase of £20,000 in the tax year

Opening Value of pension as at 6 April:	£19,700
Opening Value of Lump Sum as at 6 April:	£7,500

Opening values adjusted for inflation of 1.7%:

Opening Value of pension as at 6 April:	£20,034.90
Opening Value of Lump Sum as at 6 April:	£7,627.50

Closing Value of pension as at following 5 April:	£27,500
Closing Value of Lump Sum as at following 5 April:	£10,500

The value of annual pension has increased by £7,465.10

The value of lump sum has increased by £2,872.50

(16 x increase in annual pension) + increase in lump sum			=	Pension Input Amount
16 x £7,465.10	+	£2,872.50	=	Pension Input Amount
£119,441.60	+	£2,872.50	=	£122,314.10

In this example the Pension Input Amount is therefore £122,314.10 which is £82,314.10 over the Annual Allowance limit of £40,000.

What happens if I exceed the Annual Allowance?

If you exceed the Annual Allowance you may have a tax charge. However, if you have unused allowance from the previous three tax years, this can be used to offset the amount of your pension savings in excess of the Annual Allowance.

If your unused allowance does not cover your pension savings in excess of the Annual Allowance, you will have a tax charge.

How is the tax charge calculated?

The current income tax bands are as follows:

Band	Taxable income	Tax rate
Personal Allowance	Up to £12,570	0%
Basic rate	£12,571 to £50,270	20%
Higher rate	£50,271 to £150,000	40%
Additional rate	over £150,000	45%

The Annual Allowance tax charge is normally charged at your current tax rate. However, if your taxable income plus your excess pension savings crosses into a higher band, then two different tax rates will be applied to your excess pension savings.

The amount of excess pension saving:

- over the higher rate limit will be taxed at 45 per cent
- over the basic rate limit but below the higher rate limit will be taxed at 40 per cent
- below the basic rate limit will be taxed at 20 per cent.

Example:

Taxable Income:	£130,000
Pension savings in excess of annual allowance limit:	£30,000
Total amount:	£160,000 (£10,000 over £150,000)

Therefore tax on £10,000 of the excess pension savings of £30,000 will be charged at 45%, and the remaining £20,000 of the pension savings excess will be charged at 40%.

The resulting annual allowance tax charge would be:

£10,000 x 45%	= £4,500
£20,000 x 40%	= £8,000
Total tax charge	= £12,500

How do I pay the tax charge?

If you have an Annual Allowance tax charge you will need to complete a Self-Assessment tax return (if you do not already do so).

You have two options:

1. Pay the tax charge yourself – You need to report the tax charge on your Self-Assessment tax return and pay the tax charge directly to HMRC.

2. Scheme Pays – You can elect for the Suffolk Pension Fund to pay the tax charge on your behalf, in exchange for a reduction to your pension. This means that you don't have to immediately pay the tax charge, but it will be recovered from your annual retirement pension.

The 'Scheme Pays' deduction would be applied to your annual pension for life.

The amount of pension deduction is calculated with reference to Government advised calculation factors. These calculation factors are designed to recover the cost to the Pension Fund of paying your tax charge. Since your life expectancy can only be estimated the reduction to your pension applies for life. Please note that the reduction to your pension still applies once the balance of your tax charge has been paid off. Similarly, if you were to die before the balance of the tax charge had been paid off, your estate would not be expected to pay the balance.

Annual Allowance Timescales

We send an Annual Benefit Statement by 31 August each year which includes a summary of your Pension Input Amount for the tax year which finished on 5 April of the same calendar year.

If you exceed the Annual Allowance, we will write to you separately (by 5 October) to advise that you have exceeded the Annual Allowance. We will also confirm whether a tax charge is due and provide your options.

Your Self-Assessment tax return is due to be completed by the 31 January of the following year (i.e. if you exceed the Annual Allowance in 2022/23 this would need to be included in your Self-Assessment tax return due by 31 January 2024).

What is included in the pension savings statement?

The statement shows the growth in your LGPS benefits, known as the **pension input amount**. The pension input period in the LGPS is from 6 April to the following 5 April.

Please remember that your annual allowance statement does NOT include:

Any additional pension savings that you may hold with another pension provider. You will need to add the pension input amounts from your other pension providers to the pension input amount quoted in our statement in order to calculate your total pension input amount.

What is Tapered Annual Allowance?

Since April 2020, if you have an 'adjusted income' of over £240,000 for a tax year, you will have your Annual Allowance reduced for that tax year by £1 for every £2 of income you receive over £240,000. If your adjusted income is £312,000 or over, your Annual Allowance will be reduced to £4,000, but no lower.

If the Tapered Annual Allowance applies you are more likely to exceed the Annual Allowance.

How can I calculate whether Tapered Annual Allowance will apply to me?

The government guide to calculating your Tapered Annual Allowance can be found at www.gov.uk/guidance/pension-schemes-work-out-your-tapered-annual-allowance.

Please note that individuals are responsible for calculating their Tapered Annual Allowance tax charges as this calculation may involve taxable income and tax reliefs that are not related to their Local Government Pension Scheme employment. Individuals may wish to obtain independent financial advice.

The first step is to calculate whether your **'threshold income'** exceeds £200,000. Information regarding calculating this is shown on the government guide. If your threshold income' is less than £200,000 your Annual Allowance amount of £40,000 will not be reduced.

If you exceed the 'Income Threshold' you then need to calculate whether your '**adjusted income**' is less than £240,000. If your adjusted income is less than £240,000 your Annual Allowance amount of £40,000 will not be reduced.

Please note that when working out your adjusted income you will need the value of the pension savings made for you by your employer. As the value of contributions paid by your employer do not directly relate to the value of benefits you receive, this figure is calculated by subtracting the amount of your employee contributions from your pension input amount.

Where can more information about the Annual Allowance be obtained?

It is important to remember that we are unable to provide advice on personal tax circumstances. We would recommend that independent advice is sought if you have any uncertainty about the tax implications. More detailed information about Annual Allowance can also be found on HMRC's website here

Lifetime Allowance

The lifetime allowance is the total value of all the pension benefits you can have without you having to pay a tax charge when you draw them. If the value of your pension benefits when you draw them is more than the lifetime allowance you will have to pay tax on the excess benefits.

The lifetime allowance covers any pension benefits you may have in all tax-registered pension arrangements – not just the LGPS. This does not include any state retirement pension, state pension credit or any survivor's/dependant's pension you may be entitled to.

The lifetime allowance limit is currently £1,073,100. The Government has confirmed that no-one will pay a lifetime allowance tax charge from 6 April 2023. If a tax charge arose before this date it is still payable. The lifetime allowance will be abolished completely from 6 April 2024.

We provide an estimate of your lifetime allowance each year in your Annual Benefit Statement. The lifetime allowance estimate you receive from the Suffolk Pension Fund does NOT include any additional pension savings that you may hold with any other pension provider.

When you draw your benefits your Lifetime Allowance will be affected if:

- Your benefits are reduced for early retirement. This would also reduce the capital value of your benefits.

- You give up some pension to increase your lump sum. This would also reduce the capital value of your benefits.

What happens if the value of my pension benefits is more than the lifetime allowance?

The lifetime allowance tax charge is

- 55% of any amount you take from your pension savings as a lump sum that is over the lifetime allowance.

and

- 25% of any amount you take from your pension savings as pension income that is over the lifetime allowance.

50/50 Section: Restricting Pension Build-up

The LGPS offers you the flexibility to pay half your normal contribution rate and build up half your normal pension for that period whilst retaining full life and ill-health cover. This is called the 50/50 section of the LGPS.

Each year (since 1 April 2014) your actual pensionable pay in a year accrues a pension at a rate of 1/49th of your actual pensionable pay. For the period in which you are in the 50/50 section you would accrue pension at the rate of 1/98th instead.

The 50/50 option is designed to be a short term solution only. You will be auto enrolled back into the main section of the Scheme in line with your employer's automatic re-enrolment date, so at least after three years. You will also be put back into the main section of the Scheme during any period of absence due to absence or injury where you are receiving no pay. If you wish to continue to use the 50/50 option you must make a further election to your employer.

You can of course choose at any time yourself to move back to the main section of the Scheme and your employer will do that from the pay period following your written option.

The associated election forms can be found at the following link (using keyword form):
[Resources | Suffolk Pension Fund]