Pensions Bulletin June 2011

Annual Allowance and Pension Input Periods

The purpose of this bulletin is to notify you of a looming deadline after which **retrospective** changes to a scheme's **'Pension Input Period' (PIP)** will not be possible.

Within certain limits it will still be possible to change a scheme's PIP going forward.

Unless you are aware of specific circumstances within your scheme, we believe the safest option for most schemes is not to make any retrospective changes, i.e. allow the legislation to set past PIPs (unless of course you have already made a specific choice in relation to the date on which your Scheme's Pension Input is measured).

To put things into perspective most members will not be affected by **Annual Allowance (AA)** limits, indeed many schemes will have no affected members.

However until the end of this month **(30 June 2011),** schemes will be able to retrospectively change their PIP if they wish.

Recap

The **Annual Allowance** is the maximum amount of pension saving each year that can benefit from tax relief. This includes pension savings that an individual makes themselves plus any made for them by someone else - for example, their employer. There is no limit on the amount that can be saved in a pension scheme, but there is a limit on the amount that can get tax relief each year. If the amount of pension saving is more than the Annual Allowance a tax charge will be made on the amount in excess of the annual allowance.

The amount of the annual allowance for 2010-11 is £255,000. For 2011-12 the amount of the annual allowance will be £50,000.

For Defined Benefit Schemes the "amount of pension savings" over the year is measured by placing a value on the increase in accrued benefit over a period. (See our earlier bulletin for examples of how this calculation is carried out.)

For Defined Contribution Schemes, the amount of pension savings will be the actual amount of contributions made by the member and the employer.

For individuals contributing to more than one arrangement, it will be the total increase in all pension savings that is compared with the Annual Allowance.

The **Pension Input Period** is the period over which the total pension savings is measured.

Does it really matter when the PIP is?

There are 2 main reasons why the dates over which the PIP are measured may be particularly important at the moment

- The AA has been substantially reduced for 2011/2012 compared to 2010/2011 as shown above.
- The calculation method has been altered so that the AA is more likely to be breached for members of final salary schemes.

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The tax position of members with high salaries, long service and /or large pay increases may be affected significantly by the choice of the PIP under these circumstances.

Note that if a decision is made to change the PIP the position in relation to all previous years since 2006 may be affected.

How is the PIP normally set?

The concept of Pension Input and the **PIP** was created when the AA was introduced on 6 April 2006.

For DB schemes, Pension Input is measured by reference to the increase in a member's benefits over the **PIP**. Importantly it is not when the increase in benefits actually takes place but the tax year in which the **PIP** ends that is important.

Schemes can choose their own PIP but if they don't do this then the default set by legislation will apply. Due to a quirk in the original legislation, the default 1st **PIP** for existing DB schemes ended on 6th April 2007. This meant that, unless a different **PIP** end date was chosen, members would not have any Pension Input during the tax year ended 5/4/2007.

Assuming a scheme has not changed its **PIP**, this situation still remains - PIP's are running from 7th to 6th April meaning that Pension Input is tested in the tax year after it appears to happen.

For a Money Purchase Arrangement, the first pension input period is determined by the date when the first contribution was paid on or after 6 April 2006.

For a DB Scheme the PIP applies to the Scheme as a whole. For Money Purchase arrangements individual members can if they wish specify their own PIP.

Going Forward

Regardless of the looming deadline for retrospective changes, the incoming legislation will allow schemes to change future **PIP**s. For example, to make it easier to comply with new reporting requirements (particularly relevant when a member exceeds the **AA**), a scheme can choose to have its **PIP** end at the same time as the scheme year (or any other date when the relevant information is already obtained).

More details regarding annual allowance reporting will be given in a future bulletin. The first deadline for automatic reporting, which involves giving prescribed information to affected members i.e. those exceeding the **AA** is 6 October 2013.

If you are a Trustee and you have any urgent questions concerning the above please contact Karl Millward or Adam Davies on 01527 598688.

Alternatively if as an employer you are concerned that you have individual employees who may be affected by this issue and you wish to explore the position further please contact your usual Quattro Pensions Adviser.

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