

The Chief Executive of:
Each Health and Social Services Board
Each HSS Trust
Finance Director of:
Each Health and Social Services Board
Each HSS Trust
Human Resource Director of:
Each Health and Social Services Board
Central Services Agency
Northern Ireland Practice and Education Council
NI Medical and Dental Training Agency

HSS(S) 04/06

GP Practices
Out of Hours Providers
The Directional Bodies

British Medical Association
British Dental Association
Staff Side Representatives

7 March 2006

Dear Colleagues

This circular contains important information about tax changes affecting the HPSS Superannuation Scheme from 5 April 2006 (A-Day), in particular:

- 1. Revision of Form AW6 (Benefit claim form)**
- 2. Revision of 'A Guide for Pensioners and Dependants'**
- 3. Applications for HMRC Transitional Protection**
- 4. Further Information**

1. Revision of Form AW6 (Benefit claim form)

The pension application form (AW6) is being revised to capture additional information required to comply with the new tax regime. Unfortunately the revised form will not be immediately available and employers should therefore continue to use existing form AW6 until they receive a supply of the revised form. The revised form will also be available on the HPSS Superannuation Branch website at www.dhsspsni.gov.uk/superann. Supplies will be issued to employers.

Pending receipt of the revised print of form AW6, employers should issue to members intending to **retire after 5 April 2006** a copy of form AW6 (Transitional), which is attached at **Annex A**, along with the guidance notes attached at **Annex B**

Please note that during these interim arrangements both form AW6 and the AW6 (Transitional) must be completed. The AW6 Transitional should be attached firmly to the front of the form AW6 and forwarded to HPSS Superannuation Branch.

In cases where a form AW6 has already been received by HPSS Superannuation Branch for benefits payable after 5th April 2006, Superannuation Branch will issue the AW6 (Transitional) and Notes directly to the member for completion.

2. Revision of 'A Guide for Pensioners and Dependants'

The booklet 'A Guide for Pensioners and Dependants' is also being revised to include information on the new limits on tax-free pension benefits. Employers will be issued with stocks of the new guide once it is available. The revised guide will also be available on the HPSS Superannuation Branch website.

3. Applications for HMRC Transitional Protection

Salaried staff

Where a member is retiring soon after A-Day and believes that the capital value of their pension benefits is likely to be close to, or exceed, the lifetime allowance, they will need details of the value of their scheme benefits at 5 April 2006 (not the date of retirement) in order to make a provisional application to HMRC for transitional protection (primary or enhanced).

In order for Superannuation Branch to provide this it is important that employers supply Superannuation Branch with an accurate as possible Total Superannuation Remuneration (TSR) figure and membership details as at 5 April 2006. Employers will be required to provide this information only on request.

Employers should advise members enquiring about HMRC protection to contact Sinead McDermott on 028 71 319287 or Trevor Blair on 028 71 319140 or e-mail their enquiries to: - superannbr@dhsspsni.gov.uk.

General Practitioners

General Medical and Dental practitioners retiring soon after A-Day can make a provisional application to HMRC for protection based on a 'best estimate' of their Scheme benefits as at 5 April 2006, as accurate profit figures and final dynamising factors will not be available until some time after A-Day. GP's who think they will require protection should contact the Central Services Agency (CSA) at 2 Franklin Street, Belfast BT2 8DQ.

4. Further Information

If you have any queries on the content of this circular please contact Maighread McLaughlin on 028 71 319140, or via e-mail at: maighread.mclaughlin@dhsspsni.gov.uk/superann

Yours sincerely

Phil McCusker
HPSS Superannuation Scheme Manager

**Annex A
AW6 (Transitional)**

Surname:

SB No:

Other names

HM REVENUE AND CUSTOMS (HMRC) INFORMATION

To comply with HMRC legislation please read the guidance notes issued with this form and then answer the following questions:

1. Have you any retirement arrangements outside the HPSS Superannuation Scheme, whether in payment or not. This includes money purchase AVCs, but excludes the State retirement pension?

Yes please continue
No go to question 4

2. Will your annual pension from **all** your pension arrangements, including the HPSS Scheme, be more than £50,000 per year?

Yes please continue
Don't know please continue
No go to question 4

3. What percentage of the standard lifetime allowance (LTA) will have been used prior to your HPSS Superannuation Scheme benefits being taken?

% go to question 4
Don't know please continue

If you are unable to provide us with the percentage of the LTA used prior to your HPSS Superannuation Scheme benefits being taken we will only be able to process your application if we treat your HPSS Superannuation Scheme benefits as entirely in excess of the LTA. **This will mean the scheme paying 55% of your lump sum and 25% of your pension directly to HMRC.**

If you would like us to do this, please tick this box.

Alternatively please wait until you know what percentage of the LTA has been used before returning this form. You may need to contact the Scheme Administrator of your other pension arrangements for this.

4. Have you any valid certificates from HMRC that either enhance your LTA or provide you with enhanced protection?

Yes please give details below
No

Certificate Number	Enhancement type	Enhancement factor	Protected lump sum value (£)

Valid enhanced protection certificate number

DECLARATION. TO BE SIGNED AND DATED BY ALL APPLICANTS.

- **I declare** that I am retiring from HPSS employment
- I have read the guidance notes issued with this declaration.
- I understand that, if I have chosen to retire early or I am retiring on normal age grounds, my pension **MAY BE SUSPENDED** if I return to HPSS employment within **one month**. Work in the HPSS totaling 16 hours or less a week is ignored for this purpose.
- I understand that, if I have chosen to retire, (except Voluntary Early Retirement (VER) 'not agreed') and return to HPSS employment before age 60, my pension and 're-employed' earnings combined, cannot exceed my earnings prior to retirement. If they do, I understand that I will have to pay back any overpayment of pension.
- **I declare** that the information I have given is correct and complete to the best of my knowledge and belief. If I become aware of any change in the information given on the form, or any further new information relevant to the form, after I have sent it I hereby agree to notify HPSS Superannuation Branch of those changes and that further or new information at the earliest possible opportunity.
- **I apply** for my benefits from the HPSS Superannuation Scheme.

Please sign here

Date

/ /

Annex B

[These notes are an extract from 'A guide for pensioners and dependants' – revised March 2006]

Limits on tax-free pension benefits

From 6 April 2006 HM Revenue and Customs (HMRC) changed the way it limits tax-free pension savings in registered schemes like the HPSS Superannuation Scheme. The previous limits on length of scheme membership and maximum contributions have been replaced with an individual lifetime allowance (LTA). For most people, this change increases opportunities for tax efficient savings for retirement. **Only consistently high earners with long Scheme membership and/or substantial other pensions savings are likely to be adversely affected.** If you think you will be affected by the new tax regime, you should seek professional financial advice. However, everyone applying for their Scheme benefits must complete a declaration or supply the relevant information in order that the capital value of their pension benefits can be tested against the LTA. (See – Completing the claim form AW6).

HMRC has announced the standard LTA for the first five tax years as follows:

Tax Year	LTA
2006-2007	£1.5m
2007-2008	£1.6m
2008-2009	£1.65m
2009-2010	£1.75m
2010-2011	£1.8m

The standard LTA values for subsequent years will be set by HMRC on an on-going basis. Transitional Protection measures are available in certain circumstances.

How benefits are tested against the LTA

The capital value of retirement benefits paid after 5 April 2006 is required to be tested against the LTA limit. This limit applies to **all** pension rights you have built up including HPSS Superannuation benefits, money purchase AVC funds, personal pensions and other occupational pensions. Your state pension benefits, however, are not included within this limit.

The capital value of pension benefits not yet in payment in a defined benefits scheme (such as the HPSS Superannuation Scheme) is calculated by the following formula:

$$(\text{Annual pension} \times 20) + \text{Lump sum} = \text{Capital Value}$$

If you are taking other benefits from another pension provider then the capital value of those benefits must be included when testing against the LTA. If the total Capital Value is more than your personal LTA, then a LTA charge will be applied.

If you have taken pension benefits before 6 April 2006, then the pension you are receiving at 5 April 2006 must also be included in your Capital Value calculation. To do this you need to use the following formula:

$$(\text{Annual pension at 5 April 2006} \times 25) = \text{Capital Value}$$

This is added to the Capital Value of the benefits you are about to receive and if the total is more than your LTA, whether standard or personal, then a LTA charge will be applied. Money purchase pensions such as personal pensions or Additional Voluntary Contributions have a fund value associated with them. The Capital Value of these pensions is the fund value.

If you have such fund(s) these need to be included in your Capital Value calculation, and if the total is more than your LTA, then a LTA charge will be applied.

We will tell you the percentage of the standard LTA used by the benefits in the HPSS Superannuation Scheme when you retire. You may need it in the future so please keep it in a safe place.

If you have accrued a very small amount of benefits with the HPSS Superannuation Scheme and any other providers where the total Capital Value is less than 1% of the standard LTA, then you may be able to have your pension and lump sum paid as a one-off payment. If this is possible we will write to you again to explain the amounts payable and confirm the details needed to be able to do this.

Lifetime Allowance Charge (LTAC)

Up to 25% of the capital value of your benefits or your available LTA, whichever is the lower, is allowed by HMRC to be taken as a tax-free lump sum. We will check if the lump sum you take, which will be calculated in accordance with the Scheme regulations, exceeds 25% of the Capital Value of the benefits or your available LTA. Without valid Transitional Protection any lump sum in excess of this limit will be subject to a LTA charge of 55%. We will also check to see if the payment of your lump sum takes you over your personal LTA. If it does then the excess lump sum over the LTA will be subject to a LTA charge at 55%.

Without valid Transitional Protection if the capital value of the pension is in excess of the LTA the surplus is charged at 25%, i.e. 25% of each instalment of your pension in excess of your available LTA, is withheld.

The HPSS Superannuation Scheme will pay any LTAC directly to the HMRC and recoup the cost by reducing your pension and/or lump sum accordingly. We will inform you of:

- the chargeable amount of your retirement benefits
- how the chargeable amount was calculated
- the tax due and that we have accounted for the tax to HMRC

Note: If you do not complete the relevant questions on the application form AW6 then the recovery charge will be automatically applied to all of your benefits, unless you instruct HPSS Superannuation Branch to defer payment of your benefits until you have gathered the necessary information.

Ordering Retirements

If you have accrued benefits with more than one pension arrangement and their total Capital Value is close to or in excess of your available LTA, then you need to carefully decide the order in which you take your benefits. This is important, because the order in which you take your benefits could determine which pension provider has to make a LTA charge against some or all of your benefits.

If this applies to you, you should seek professional financial advice before deciding the order in which you take your benefits.

Waiver of Benefits

It may be possible to waive part or all of your entitlement from the Scheme to remain below your relevant benefit accrual level, and thereby retain Enhanced Protection. A waiver must be made in writing at the time benefits are applied for. If you have been granted Enhanced Protection by HMRC, and after taking professional financial advice, you are considering waiving part or all your entitlement then you should write to HPSS Superannuation Branch for more information.

Completing the claim form AW6

General guidance on completion is included within the form.

Completing AW6 (transitional)

It is important that you complete these questions fully and correctly and supply any information asked for. Failure to do so will delay the payment of your pension and lump sum and/or cause all your benefits to have the LTA charge applied to them.

If you answer “No” to questions 1 or 2 on the application form you should omit question 3 and answer question 4 only. This will be the case for **most** applicants.

If however you need to complete question 3, you must tell us to two decimal places, (e.g. 43.21) what percentage of the standard LTA you have used. It needs to include any other benefits occurring on the same day that you wish us to consider having occurred prior to your HPSS Superannuation benefits being taken. Your other pension provider(s) should have given you this figure at the time you took those benefits.

If you cannot provide the percentage figure, treating your HPSS Superannuation Scheme benefits as entirely in excess of the standard LTA and applying the LTA charge of 55% of your lump sum and 25% of your pension, is the only way your application can be processed, unless you instruct HPSS Superannuation Branch to defer payment of your benefits until you have gathered the necessary information.

If you answer “Yes” to question 4, enter details of any valid HMRC certificates you hold that enhance your LTA for example primary protection, pension credit etc. If you hold a valid enhanced protection certificate, provide the certificate number only in the separate box.

Death benefits

The benefits that **may** be paid on your death are:

- a death gratuity
- a survivor's pension for a spouse or civil partner
- a child allowance

Death Gratuity

A Death Gratuity is a lump sum which may be paid when you die. Whether a Death Gratuity can be paid, and how much it may be, depends on how much retirement benefit you had from the Scheme up to the date of your death.

A death gratuity paid to a surviving spouse, civil partner or named beneficiary is normally tax free. However, if you retired after 5 April 2006 and if payment partly or wholly causes you to exceed the lifetime allowance (LTA), then the excess payment above the LTA will be subject to a lifetime allowance charge (LTAC).

This death gratuity can be treated for lifetime allowance purposes in one of two ways. These are:

- a "Defined Benefits Lump Sum Death Benefit". In this case all the lump sum paid in these circumstances in excess of the LTA will be taxed at 55%. As most members will not exceed the LTA, death gratuities will be treated on this basis, unless you notify us differently in writing that you wish the death gratuity to be treated as a Pension Protection Lump Sum Death Benefit;
- a "Pension Protection Lump Sum Death Benefit". In this case all the lump sum paid will be taxed at 35% regardless of whether you actually exceed the LTA. If your benefits are already over or close to the LTA then you should consider this option. Before you take this decision you should take appropriate financial advice.

If you decide to have your potential death gratuity paid as a "Pension Protection Lump Sum Death Benefit", then **you** must write to NHS Pensions confirming your decision. You can take this option at anytime prior to your death.

Irrespective of which of the two ways you decide to treat your death gratuity, if a death gratuity becomes payable then we will inform your legal personal representative (LPR) of the amount and percentage of the standard LTA represented by the death gratuity within 3 months of the final payment. Your LPR is responsible for notifying this figure to HMRC. The beneficiary of the death gratuity is legally responsible for paying any LTAC that may become due.

In addition to the possible liability to a LTAC as described above, a death gratuity paid to a nominee or into a deceased person's estate may be subject to inheritance Tax, so you should check your own position with HMRC.

If you are legally married or have formed a civil partnership, your surviving spouse or civil partner will automatically get the lump sum unless you have nominated someone else on

form DG1. You can get this form from your employer. The lump sum will then be paid to your nominee.

If you later decide to change your nominee, you can tell us on a new form DG1. A new form DG1 replaces any earlier form DG1 and any form AW237 you completed asking us not to pay to your spouse or civil partner.

If you are single, divorced or have terminated a civil partnership, the lump sum will automatically be paid to your estate unless you have nominated someone on form DG1.

If, before you retired, you nominated another person, child or organisation to receive the lump sum then it will be paid automatically to this nominee, without waiting for Grant of Probate or Letters of Administration. If you nominate a person they may wish to check their own tax position.

If you are a current member in HPSS employment, you can change your instructions on form DB1 at any time.

If you have only deferred benefits, or have taken pension for all your membership, you can cancel an earlier nomination or a request not to pay your legal spouse, but you **cannot make a new nomination** unless you rejoin the Scheme.

[These notes are an extract from 'A guide for pensioners and dependants' – revised February 2006]

