



Welcome



New Tax Rules from 6th April 2006 - "A-Day"

Background

The Government has passed important legislation, the Finance Acts 2004 and 2005, affecting all pension schemes, including the HPSS Superannuation Scheme (HPSS). From 6th April 2006 (A Day), HM Revenue and Customs (HMRC) is changing the way it limits tax-free pension savings in approved schemes, like the HPSS Superannuation Scheme.

For most people, this change will increase opportunities for tax efficient saving for retirement. Only consistently high earners with long membership and/or substantial other pensions savings are likely to be adversely affected.

One aim of the tax changes is to make it easier for employers who wish to review their pension schemes and consider more flexible arrangements. Future HPSS Superannuation Scheme arrangements including the impact of tax changes are currently under review, more information can be found at <http://www.dhsspsni.gov.uk/index/hrd/superann>

Changes to existing earnings, contributions or membership limits or improvements to current main scheme benefits are unlikely to be made from A-Day. However, the rules will be changed to allow higher savings in the separate HPSS Money Purchase (MPAVC) scheme and to allow lump sums of up to 25% of the AVC fund only. More information about this change will be published when it becomes available.

The information in this section of our website is based on our current understanding of the new tax regime and is designed to tell you about the main changes and where to find more information if you are likely to be affected. The information will be updated as it becomes available, so you may wish to come back at a later date. It does not constitute legal or financial advice and does not over-ride any provision in Scheme Regulations, the Finance Acts or any other legislation. You should carefully consider taking independent financial advice before making any decisions affecting your personal finances.

Click on the appropriate link below for more information about:

- [The Lifetime Allowance](#)
- [Lifetime Allowance Charge](#)
- [The Lifetime Allowance Estimator Tools](#)
- [Options at A-Day \(transitional Protection\)](#)
- [The Annual Allowance](#)
- [Additional Notes for General Medical, Dental & Ophthalmic Practitioners](#)
- [Frequently Asked Questions and Answers](#)
- [More Sources of Information](#)
- [Glossary of Terms Used](#)

The Lifetime Allowance (LTA)

From A-Day, HMRC is replacing the current tax-free limits on pension savings with an individual lifetime allowance (LTA).

To find out whether you are likely to be over the LTA, you will need to add together your HPSS and any other pension benefits you may have. If your TOTAL benefits from all pension schemes are over the LTA when you retire there may be some tax to pay.

HMRC has announced the basic value of the 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 LTA values will be reset every five years.

Tax-free lump sum

From A-Day, the HMRC's current tax-free lump sum rules will be replaced with more flexible arrangements for individuals to receive up to 25% of their total LTA as a lump sum and take the remainder as pension. For 2006/07, this will amount to a maximum tax-free lump sum of £375,000.

However, as the new tax-free lump sum limit is not compulsory for schemes, the HPSS Superannuation Scheme benefits will remain unchanged and any main scheme lump sum flexibilities will not be introduced.

Whether you retire before or after A-Day the HPSS Superannuation Scheme benefits will remain as a pension and a lump sum (which can be up to three times your pension).

Are your HPSS Superannuation benefits likely to be over the LTA?

There are rules for valuing pensions. The important thing to remember is that the LTA applies to the total amount of your pension saving - whether in occupational (employer-sponsored) pension schemes such as the HPSS Superannuation Scheme or personal pensions.

Money purchase pensions such as personal pensions or Additional Voluntary Contributions have a fund value associated with them. The value of these pensions is the fund value. For current or deferred members - you can check the likely LTA value (sometimes called Capital Value) of your HPSS benefits simply by multiplying your annual pension by 20 and then adding your lump sum.

$$\text{(Annual Pension x 20) + Lump Sum} = \text{LTA Value}$$

This rule applies to deferred pensions from previous schemes as well as to any pension currently being built up.

Example 1

With 40 years Scheme membership and superannuable pay of £100,000 a year at retirement: Pension benefits are valued, for LTA tax purposes, as follows:

Pension:	£50,000 x 20	= £1,000,000
Lump sum:		= £150,000
Capital Value:		= £1,150,000

Example 2

With 35 years Scheme membership, superannuable pay of £130,000 a year and a MPAVC, which has a fund value of £30,000 at retirement:

Pension benefits are valued, for LTA tax purposes, as follows:

Pension:	£56,875 x 20	= £1,137,500
Lump sum:		= £170,625
AVC fund:		= £30,000
Capital Value:		= £1,338,125

For those already receiving their Scheme benefits - if all of your pension investments are already in payment before A-Day, and you have no intention of starting a new pension, you do not need to worry about the LTA.

If you have other pension investments, which will not be in payment at 6 April 2006 (for instance, if you have another job or you have a personal pension fund which you have not yet used to buy an annuity), then you should value your pensions at 5 April 2006. You can check the likely LTA value of any HPSS benefits already in payment at A-Day simply by multiplying your current annual pension amount by 25.

Current Annual Pension x 25 = LTA Value

If the combined valuation of your pension(s) in payment plus any additional pension investment, not in payment, is more than the LTA then you should consider registering with HMRC for transitional protection. This would allow you to "protect" the value of your pension savings at its 5th April 2006 level. More information about HMRC's Transitional Protection arrangements can be found on the "Options at A-Day" page.

Example 3

This example illustrates a member who has already claimed Scheme benefits and is over the LTA.

A member who retired before A-Day has a pension in payment of £70,000 a year. In addition there is a deferred pension of £12,500 a year (but no lump sum) from an earlier job, but this will not come into payment until age 65.

Pension benefits already in payment are valued, for LTA tax purposes, as follows:

Pension in payment:	£70,000 x 25	= £1,750,000
Deferred Pension:	£12,500 x 20	= £250,000
Total:		= £2,000,000

What happens if I exceed the LTA?

If your pension benefits are worth more than the LTA when you draw your benefits, extra tax will be due, this is known as a "Recovery Charge". See the next section.

Lifetime Allowance Charge (LTAC)

Amounts exceeding the Lifetime Allowance (LTA), if taken as pension, must be subjected to a LTA recovery charge, at the time benefits are taken. The individual will then pay income tax on their pension.

Recovery of the LTAC

The LTAC is a tax on the individual for which the individual and the scheme are jointly liable. There is an expectation on schemes to pay any LTAC to HMRC 'up front' and recoup the cost by reducing the benefits paid to the individual.

The arrangements that the HPSS Superannuation Scheme will operate are as follows:

- Any LTAC will be paid to HMRC by the HPSS Superannuation Branch upon payment of benefits.
- If your HPSS benefits exceed or cause you to exceed your LTA limits, then a recovery will have to be made against some or all of your benefits. This could be a charge of 55% against your lump sum and 25% against your pension.
- Your retirement benefits will be reduced in order to recoup the charge. In some circumstances the spouses/civil partner pensions will also be reduced. Child's Allowance will not be reduced.
- Spouses/civil partner pensions will not be reduced if they are less than half the value of that proportion of the member's pension that is deemed to be below the LTA.
- The reductions are permanent. This is because the calculation of the recovery of the LTAC reflects "pooled life expectancy" within the Scheme. The amount each individual actually re-pays over his or her lifetime is, therefore, not tracked.

With 40 years Scheme membership and superannuable pay of £140,000 a year at retirement. Pension benefits are valued, for LTA tax purposes, as follows:

Pension:	£70,000 x 20	= £1,400,000
Lump sum:		= £210,000
Total:		= £1,610,000

Excess over the LTA: £1,610,000 - £1,500,000 = £110,000

LTA charge tax = 25% x £110,000 = £27,500 payable to HMRC

The tax charge is recovered by reducing the annual pension by £1375 (£27,500 / 20)

This will result in a net pension of £68625 a year and lump sum of £210,000.

The pension will be subject to income tax in the normal way, but the lump sum will remain tax-free.

Lump sums on death

All lump sums paid on death (other than those covered by the transitional arrangements outlined below) are free of tax up to the LTA. Any benefits paid as dependant's pension will not be tested against the LTA.

Transitional arrangements apply to lump sums paid following the death of a Scheme pensioner where:

- the payment is made as a result of a scheme 'five year guarantee period' as per HPSS Superannuation Scheme regulations. This is where a member dies within 5 years of retiring and a death deficiency lump sum is payable.

AND

- the pension was already in payment before A-day (ie on or before 5 April 2006). In these circumstances the lump sum will be paid as normal and will be protected from the post A-Day rules.

Life Time Allowance (LTA) Estimator Tools

Introduction

We hope to have the Lifetime Allowance Estimator Tools available on line as soon as possible. There will be 2 Estimator Tools one for use by Medical, Dental and Ophthalmic Practitioner members and the other for use by all other Scheme members. Until then, you can view the Tools on the NHS Pensions Agency Website at www.nhspa.gov.uk/LAC/frontdoor.cfm#3.

Options at A-Day (Transitional Protection)

What options do I have at A-Day?

From 6th April 2006 HMRC have set up transitional protection arrangements for those members whose total benefits were within the pre A-Day regimes, but who could now exceed the new tax regime. There are two different types of protection and you will be able to register with HMRC for either or in some cases both.

These are known as Primary and Enhanced Protection. You have until 5th April 2009 to apply to HMRC for protection provided you meet the set criteria. HMRC will issue protection certificates confirming protection.

Primary protection

This is available to Scheme members whose total benefits at A-Day are valued higher than the standard Lifetime Allowance (SLA) of £1.5m. It protects benefits by permitting an individual increase to the LTA, as calculated at April 2006.

Further benefits can be accrued, but a 'recovery charge' will be applied to any excess over the individual protected benefits.

The example below illustrates primary protection.

A member has total benefits valued at £1.8 million at A-Day and successfully applies for Primary protection. The individual then has a protected LTA value of 120% of the LTA level (i.e. $\text{£1.8 million} \div \text{£1.5 million} = 120\%$).

When the member retires, tax-approved benefits may be taken at a level of up to 120% of the LTA applying in the year of retirement.

This means that if they were to retire on 31 October 2010, they would have individual LTA protected benefits of £2.16 million (i.e. 120% of £1.8 million, the LTA for 2010/2011).

Enhanced protection

Can be applied for even if the Capital Value of your benefits do not exceed the LTA. It is designed for those members who believe that the growth in their pension fund will be greater

than the increase in the LTA. If a person applies for Enhanced Protection, they normally cannot pay further pension contributions to a Registered Scheme. However, this does not apply to the HPSS Superannuation Scheme, but does apply to any associated MPAVC's, FSAVC's etc. which the member may have.

If you are considering registering for Enhanced protection and you are currently contributing to other pension arrangement(s) then you should contact the provider directly to establish if you can continue to pay pension contributions. If you contribute to a scheme when further contributions are not allowed then you may not be able to apply for this protection, or you could lose enhanced protection.

Enhanced protection can also be lost if your total benefits, including added years contributions, grow too much. To establish if this has occurred, then at retirement your benefits must be tested against Relevant Benefit Accrual, which is explained below.

In summary: Enhanced protection removes the LTA charge completely but is subject to several important conditions:

- Benefits at A-Day must also be subject to a test against the current pre A-day Revenue limits
- Members cannot continue to pay contributions to a defined contribution scheme, including money purchase additional voluntary contributions schemes
- Members can continue to pay contributions to a defined benefit scheme, such as the HPSS Superannuation Scheme, and can continue to build up Scheme membership
- The further permitted increase to benefits is subject to a ceiling known as 'Relevant Benefit Accrual' (RBA).

Pension share order

If you are in receipt of a pension share order before 6th April 2006 you can register with HMRC for protection of this amount. You have until 05.04.2009 to apply. If you become entitled to a pension share order on or after A-Day then you will need to contact HMRC or your financial advisor to confirm its affect upon your LTA position.

Relevant benefit accrual (RBA)

This is the test that is applied to those who have registered for Enhanced protection to ensure that their benefits have not grown above prescribed limits set by HMRC. The limit has been set at the greater of 5% or the growth in the retail price index for each year after A Day.

The following two examples illustrate how RBA is applied.

Example 1

At 5th April 2006 a member has 35 years Scheme membership and pensionable pay of £155,100 a year. This gives a pension of £67,856.25, a lump sum of £203,568.75 and a capital value of £1,560,693.75. This is in excess of the LTA. The member applies for and receives Primary and Enhanced Protection.

The member retires 5 years later on 5th April 2011. Scheme membership is now 40 years and superannuable pay has increased by about 3% each year to £179,700. This gives the member the following retirement benefits: a pension of £89,850.00 and a lump sum of £269,550.00, with a capital value of £2,066,550.

To test if RBA has occurred then the capital value at retirement must be lower than at least one of the following two amounts:

1. The capital value at 05.04.2006 increased by the greater of 5% or RPI each year. At 2011, assuming an increase of 5% each year, the capital value would be increased to £1,991,884.66.
2. The value of the annual pension based on membership at 05.04.2006 but using the pensionable pay at retirement plus the revised lump sum.

$$\text{ie } (£179,700 \times 35/80) = (£78,618.75 \times 20) + (78,618.75 \times 3) = £1,808,231.25$$

As the 2011 retirement capital value of £2,066,550 exceeds the values in both tests 1 and 2 above, Enhanced Protection is lost. As the member still has Primary Protection, the benefits up to a capital value of £1,872,000 (2011 standard LTA plus the Primary Protection factor) will remain protected.

Example 2.

At 5th April 2006 a member has 35 years Scheme membership and pensionable pay of £166,100 a year. This gives a pension of £72,668.75, a lump sum of £218,006.25 and a capital value of £1,671,381.25. This is in excess of the LTA. The member applies for and receives Primary and Enhanced Protection.

The member retires 5 years later on 5th April 2011. Scheme membership is now 40 years and pensionable pay has increased by about 2% each year to £183,387.82. This gives the member the following retirement benefits: a pension of £91,693.91 and a lump sum of £275,081.73, with a capital value of £2,108,959.93.

To test if RBA has occurred then the capital value at retirement must be lower than at least one of these two amounts:

1. The capital value at 05.04.2006 is increased by the greater of 5% or RPI each year. At 2011, assuming an increase of 5% each year the capital value would be increased to £2,133,153.08.
2. The value of the annual pension based on membership at 05.04.2006 but using the pensionable pay at retirement plus the revised lump sum.

i.e. $(£183,387.82 \times 35/80) = (80,232.17 \times 20) + (80,232.17 \times 3) = £1,845,339.91$

As the 2011 retirement capital value of £2,108,959.93 is lower than the value at test 1 above, Enhanced Protection is retained, and no recovery charges are payable

Registering for protection

Members have until **5th April 2009** to make their decisions and register their total pre A-Day benefits with HMRC including the draft registration form can be found on the HMRC website at:

www.hmrc.gov.uk/manuals/rpsmmanual/RPSM03200020.htm

www.hmrc.gov.uk/pensionschemes/protection-of-existing-rights.pdf

Members may register with HMRC for BOTH Primary and Enhanced Protection, if appropriate.

In order to register for Primary and/or Enhanced protection you will need to provide HMRC with a valuation of the capital value of your NHS Scheme benefits as at 05.04.2006. It will not be possible for your employer to calculate an accurate 2006 capital value figure until after the

end of the 2005/06 tax year. Remember you have until 5th April 2009 to make an application to HMRC.

If you require an estimate of the capital value of your HPSS Superannuation Scheme benefits for Lifetime Allowance planning purposes before your accurate 2005/06 earnings figure is available, please contact your employer.

Individuals who would be eligible to claim protection are nevertheless free to decline to register for 'protection' and to receive benefits reduced by the relevant [Lifetime Allowance Charge \(LTAC\)](#).

The Annual Allowance (AA)

The Annual Allowance (AA) is the maximum tax-free increase in the capital value of a members pension benefits, allowable in any one year. If the growth in the capital value of the benefits is greater than the AA the member will be liable for an additional tax bill.

The AA will first be set at £215,000 and will rise to £255,000 by 2010/11, as shown in the following table. The basis for indexation beyond that date will be reviewed, possibly on the basis of RPI or earnings.

Tax Year	Annual Allowance
2006-2007	£215,000
2007-2008	£225,000
2008-2009	£235,000
2009-2010	£245,000
2010-2011	£255,000

From April 2007, affected members of the HPSS Superannuation Scheme will be required to supply HMRC with confirmation of the amount that their benefits have grown compared with the previous year. Those members that exceed the AA will be liable for an additional tax bill. An AA is not applied in the financial year that the member takes their benefits.

The following will count towards the AA:

- Increases in the capital value of defined benefit pensions, like the HPSS Superannuation Scheme, including lump sums for active members and added years, whether due to superannuable pay increases, normal accrual or augmentation
- Contributions made by the member to money purchase arrangements (including money purchase AVCs) and by the employer

The following (exemptions) will not count towards the AA:

- Contributions for death in employment benefits (unless part of 'ordinary' contributions to a money purchase arrangement)
- Any member contributions not qualifying for tax relief

For defined benefit arrangements the growth in the capital value of the benefits is the difference between the benefit accrued at the start of the year and the benefit accrued at the end.

Below is an example of how the **AA** is tested for the HPSS Superannuation Scheme.

Membership and Superannuable Pay at 6th April 2006 = 38 years and £120,000 a year

Membership and Superannuable Pay at 5th April 2007 = 39 years and £160,000 a year

Pension at 6th April 2006 = £57,000

Lump Sum at 6th April 2006 = £171,000

$£57,000 \times 10 + £171,000 =$ Opening Value of £741,000

Pension at 5th April 2007 = £78,000

Lump Sum at 5th April 2007 = £234,000

$£78,000 \times 10 + £234,000 =$ Closing Value of £1,014,000

Deemed value of Increase = $£1,014,000 - £741,000 = £273,000$

As the deemed value is more than the annual allowance of £215,000 for 2006/07 a tax liability would arise in this example.

Additional notes for General Medical, Ophthalmic and Dental Practitioners

Effect of new General Medical Services contract on the LTA

On 20 June 2003 General Medical Practitioners (GMP) accepted a new contract of services, negotiated by the British Medical Association (BMA) and the NHS Confederation. This contract has evolved in partnership between the NHS Confederation and the General Practitioners Committee (GPC) of the British Medical Association (BMA), and creates greater flexibility for GMPs.

The new arrangements will apply to all GMPs. Under the revised arrangements the Dynamising Factor (DF) will be based on the actual rate of increase in GMP HPSS superannuable earnings. The increase will be determined by measuring the rate of change in certified HPSS Superannuable profits for all GMP's, when their accounts for the relevant year are closed.

Pensions awarded or estimated will initially be calculated using an interim DF. The interim DF will be applied to pension calculations in the same way, as DFs in previous years but the figure will be revised when final data is available after year-end accounts are finalized. Any pensions in payment affected by the change in DF will automatically be adjusted by the HPSS Superannuation Branch.

The interim DF for any year will be set at a conservative level agreed by professional and NHS Employer representatives and will aim to provide a confidence level of 90% that the final figure should be higher.

For Example:

Professional and NHS Employer representatives anticipated a rise in average GMP superannuable earnings of around 8.8% over the year to 31 March 2004, which, if borne out, would be the final DF for 2003/2004. Using the agreed 90% confidence level, this translates into an interim DF for the year of 7.2%.

We are currently working with three interim DFs.

If you wish to apply for Primary and or Enhanced Protection HMRC will only accept a valuation of HPSS Superannuation Scheme benefits if the actual final DF and final profit have been used.

From April 2007, affected members of the HPSS Superannuation Scheme will be required to supply HMRC with confirmation of the amount that their benefits have grown compared with the previous year. Those members that exceed the Annual Allowance (AA) will be liable for an additional tax bill. An AA is not applied in the financial year that the member takes their benefits.

HMRC have confirmed that they **will** accept valuations based on interim DFs on your 'self assessment form' for the purposes of the AA. However, if you exceed the AA once the final DFs are known **you** will have to contact HMRC with the revised amounts and pay any additional tax liability that may be due.

Dental Practitioners

You also will not be able to provide an accurate 5th April 2006 valuation for LTA purposes to HMRC as the latest Dental DF and your final pay figure will not be available until some time later.

LTA Examples

Example 1

Dr A expects to retire with 36 years total scheme membership including 30 years as a GP. His earnings as a GP are as follows:

For each year between	Average Superannuable Pay
1976 & 1980	£8,000
1981 & 1985	£18,000
1986 & 1990	£33,000
1991 & 1995	£48,000
1996 & 2000	£59,000
2001 & 2005	£73,000

A GP with the length of Scheme membership and GP earnings around the figures shown in the above table could expect to receive the following benefits

Predicted pension = £40,000 a year

Lump sum = £120,000 (ie 3 times the annual pension)

LTA example calculation:

Pension (£40,000 x 20) = £800,000

PLUS Lump Sum = £120,000

LTA value = £920,000

You can see that even with long Scheme membership and average rates of pay, the HPSS benefits of £920,000 are comfortably within the LTA limit of £1,500,000.

Example 2

Mrs B will have been a general dental practitioner (GDP) for 35 years by her retirement, each year earning the maximum superannuable pay for dentists. She also has an HPSS MPAVC fund and a private pension plan for her non-HPSS earnings. This example uses the maximum superannuable earnings permitted in the HPSS Superannuation Scheme for the years illustrated.

Year Ending	Maximum Superannuable Pay
31.03.96	£77,000
31.03.97	£80,000
31.03.98	£82,000
31.03.99	£85,000
31.03.00	£88,000
31.03.01	£90,900
31.03.02	£94,400
31.03.03	£101,300
31.03.04	£105,800
31.03.05	£108,900

A GDP with a 35 years HPSS career and earnings around the figures shown in the above table can expect to receive the following benefits

Predicted HPSS Pension = £50,000

HPSS Lump Sum = £150,000

LTA example calculation:

HPSS Pension (£50,000 x 20) = £1,000,000

PLUS HPSS Lump Sum = £150,000

LTA value of HPSS main Scheme benefits = £1,150,000

+ HPSS MPAVC fund value = £50,000

+ Private pension fund value = £200,000

TOTAL LTA value of ALL pension benefits to measure against the LTA = £1,400,000

Mrs B's total benefits are approaching the LTA so she should consider taking independent financial advice about options for protecting her pension funds at A Day from additional tax.

(You can see that a GDP earning the maximum permitted with no outside pension investments would be well with the LTA.)

Example 3

Dr C will have been in the Scheme for 40 years at retirement including 30 years as a GP. His earnings as a GP have been consistently high and are as follows:

For each year between	Average Superannuable Pay
1976 & 1980	£20,000
1981 & 1985	£36,000
1986 & 1990	£51,000
1991 & 1995	£73,000
1996 & 2000	£89,000
2001 & 2005	£113,000

A GP with this length of scheme membership and GP earnings around the figures shown in the above table can expect to receive the following benefits:

Predicted Pension = £65,500

Lump Sum = £196,500

LTA example calculation:

Pension (£65,500 x 20) = £1,310,000

PLUS Lump Sum = £196,000

LTA value = £1,506,500 - **£6,500 over the LTA.**

A member in this position exceeds the LTA and needs to seek financial advice about options for protecting their pension funds.

For those who currently take advantage of the A9 tax concession, you should speak to your accountant/IFA to decide if this is still appropriate.

Relevant benefit accrual (RBA)

This is the test that is applied to those who have registered for Enhanced protection to ensure that their benefits have not grown above prescribed limits set by HMRC. The limit has been set at the greater of 5% or the growth in the retail price index for each year after A Day.

Due to the complexities of calculating practitioner benefits it is not possible to provide a meaningful example of the RBA test.

Frequently Asked Questions

Below are some frequently asked questions and answers. The answers reflect the HPSS Superannuation Branch's current understanding, and do not constitute any financial or legal advice.

These pages will be updated with further questions and answers as they become available.

General

What is the Lifetime Allowance?

From A-Day, HMRC is replacing the current tax-free limits on pension savings with an individual lifetime allowance (LTA). The LTA limit will be £1.5 million for the tax year 2006/07. Member funds must be tested against the LTA at each benefit payment (or benefit crystallisation) event.

Individuals may accrue benefits in excess of the LTA limit, but any 'excess benefits' must be subjected to a tax known as a Lifetime Allowance Charge (LTAC).

What is the Annual Allowance (AA)?

This is the maximum tax-free increase in the capital value of a members pension benefits, allowable in any one year. If the growth in the capital value of the benefits is greater than the Annual Allowance the member will be liable for an additional tax bill.

What will count towards the Annual Allowance Limit (AAL)?

The following will count towards the AAL:

- Increases in the capital value of defined benefit pensions, like the HPSS Superannuation Scheme, including lump sums for active members and added years, whether due to pensionable pay increases, normal accrual or augmentation
- Contributions made by the member to money purchase arrangements (including money purchase AVCs) and by the employer

What will not count towards the AAL?

The following will not count towards the AAL:

- Contributions for death in employment benefits (unless part of 'ordinary' contributions to a money purchase arrangement)
- Any member contributions not qualifying for tax relief

Do I need to include my State pension benefits?

No. Your state pension is not valued for LTA purposes.

Current Scheme members

Will I be able to contribute more than 15% of my pay into the HPSS Superannuation Scheme?

No. The HPSS Superannuation Scheme contribution limit will remain after A-Day for the time being. This means members will continue to pay their normal 5 or 6% basic Scheme contribution and be able to contribute further up to a total of 15%, in order to purchase additional Scheme membership.

Will Scheme membership limits remain after A-Day?

Yes. The HPSS Superannuation Scheme membership limits will remain after A-Day for the time being. These are:

- A maximum of 40 years membership at normal retirement age and 45 years in total thereafter.
- Members are also limited to no more than whole-time employment.

Will I be able to take a lump sum of up to 25% on retirement?

No. Whether you retire before or after A-Day the HPSS Superannuation Scheme benefits will remain unchanged for the time being. These are a pension and a lump sum (which can be up to three times your pension).

Will I be able to contribute more into a Money Purchase AVC Scheme?

Yes. HPSS Superannuation Scheme regulations will be changed from A-Day to allow members to contribute more into their MPAVC fund.

Each member should bear in mind the limits placed on contributions by the Annual Allowance. See the Annual Allowance section on this website.

Will I now be able to take a lump sum from my Money Purchase AVC?

Yes. From A-Day a new facility will be introduced to allow members who have a money purchase AVC arrangement linked to the HPSS Superannuation Scheme to take 25% of that fund as a lump sum.

Your MPAVC provider will be able to give you the necessary information about how to claim the lump sum when you take these benefits.

If you have a Free Standing AVC, then you should contact your provider directly for any information about the tax changes.

Is the HPSS Superannuation Scheme retaining an Earnings Cap?

Yes. HMRC's modification regulations allow schemes to continue to operate an earnings cap after A-Day, and these regulations may remain in force until 2011.

From 6th April 2006 the HPSS Superannuation Scheme will continue to apply the existing earnings cap to all post 1989 joiners in the same way as it does now. The cap figure will be updated annually using HMRC generated levels.

In the case of General Dental Practitioners, the Maximum Allowable Remuneration (MAR) will also continue.

Will the HPSS Superannuation Scheme be introducing a pension drawdown facility?

No, not for the time being.

What is the Capital Value?

The Capital Value is the assessment of a member's pension and lump sum. The HPSS Superannuation Branch will use a standard factor of 20:1 to calculate what the capital value, or LTA value, will be:

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

To check the likely capital value of your HPSS benefits simply, multiply the annual pension by 20 and add your lump sum.

Scheme pensioners

I am already drawing my HPSS pension. Do I need to worry about the Lifetime Allowance?

No. If all of your pension saving is already in payment, and you have no intention of starting a new pension, you do not need to worry about the Lifetime Allowance.

If I have other unclaimed pension savings how do I calculate the Capital Value for Lifetime Allowance purposes?

For Scheme pensions in payment at A-Day, the standard factor will be 25:1, to allow for lump sums assumed to have been taken at retirement.

Current Annual Pension x 25 = Capital Value

To check the likely capital value of your HPSS benefits in payment at A-Day simply, multiply your current annual pension amount by 25.

Will the Lifetime Allowance mean that my spouse or civil partner might get an extra tax bill when I die?

Dependent's pensions paid to either a widow(er) or surviving civil partner and other dependants of Scheme members will not be tested against the LTA.

However, any additional lump sums paid on your death (typically, if you die within 5 years of your pension becoming payable) will normally be tested against your LTA and may result in an extra tax charge.

Scheme leavers

Can I still transfer my HPSS Superannuation Scheme Benefits?

The current restrictions on transferring your HPSS Superannuation Scheme benefits remain, details can be found in the Guide "Leaving the Scheme" available from your employer.

However, if you satisfy those conditions, your benefits can only be transferred to another "registered" scheme.

If you request to transfer the value of your benefits abroad then again the transfer must be to another "registered" scheme abroad. You will need to write to the Agency with the details of the other scheme so that the possibility of the transfer can be investigated.

If you are able to transfer, then you should take appropriate financial advice before you make your final decision.

In what circumstances can I have a refund of my Scheme contributions?

It is possible to have a refund of your Scheme contributions only if you have less than 2 years qualifying membership.

If you are eligible for a refund, then the returned contributions are subject to a tax recovery. The tax is 20% on all contributions up to £10800, and 40% on all contributions in excess of £10800.

How do I calculate the Capital Value of my deferred (sometimes called preserved) HPSS benefits?

To check the likely capital value of your deferred HPSS Superannuation Scheme benefits simply, multiply the current value of your annual pension by 20 and add your lump sum.

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

Pensions on divorce

How are Pension Earmarking orders dealt with?

Pension Earmarking orders do not change the 'ownership' of benefits from the member to the ex spouse. This means all the members' benefits including any that are earmarked must be tested against the member's LTA before payment.

How are Pension Share orders dealt with?

Where a member loses or receives pension credits due to a pension share order, then the appropriate amount will be tested against the member's LTA.

If you receive or lose pension benefits as a result of a Pension Share order and have registered for either Primary or Enhanced Protection, then you must contact HMRC with your revised details. You will need to consult HMRC for the information that they require to update your circumstances.

Where can I find more help?

Finding an independent financial adviser (IFA)

It is against the law for HPSS Superannuation Branch or a HPSS employer to give financial advice. If you do not have a financial adviser but would like to find one, the following organisations can help:

Association of Independent Financial Advisers (020 7628 1287 or www.aifa.net)

IFA Promotions (0117 971 1177 or www.unbiased.co.uk) can give a list of 3 IFA's local to YOU.

If you belong to a Trade Union or professional organisation they may be able to offer financial advice to their members.

Ask your union or try www.fsa.gov.uk/consumer/02_HOW/Advice/information.html

Documents available on HMRC website

- www.hmrc.gov.uk/pensionschemes/pts.htm
- HMRC Newsletter 1 - June 05

www.hmrc.gov.uk/pensionschemes/newsletter1.htm#11

- HMRC Newsletter 2 - July 05

www.hmrc.gov.uk/pensionschemes/newsletter2.htm#11

- HMRC Newsletter 3 - August 05

www.hmrc.gov.uk/pensionschemes/newsletter3.htm#11

- HMRC Newsletter 4 – September 05

www.hmrc.gov.uk/pensionschemes/newsletter4.htm#11

- HMRC Registered Pension Schemes Manuals

www.hmrc.gov.uk/manuals/rpsmmanual/index.htm

Glossary of Terms

A-Day	6th April 2006, the date from which the tax changes begin.
Annual Allowance (AA)	The AA is the maximum tax-free increase in the capital value of a members pension benefits, allowable in any one year. If the growth in the capital value of the benefits is greater than the AA the member will be liable for an additional tax bill.
Benefit Crystallisation Event (BCE)	Is an event or occurrence that triggers a test of the benefits 'crystallising' at that point against the individual's available lifetime allowance. There are eight such events.
Capital Value	The value of your HPSS Superannuation benefits
Enhanced Protection	A method of protecting both pension benefits built up before A-Day and any growth in those benefits post A-Day. The registration period will run from 6th April 2006 to 5th April 2009.
Lifetime Allowance (LTA)	An overall ceiling on the amount of tax privileged pension savings that any one individual can draw. The exact figure will be whatever the 'standard lifetime allowance' for the tax year concerned is or a multiple of this figure where certain circumstances apply.
Lifetime Allowance Charge (LTAC)	A charge to income tax that arises on any chargeable amount generated at a benefit crystallisation event . The rate of charge is either 25% or 55%, depending on whether the 'event' giving rise to the charge was the payment of a lump sum or not. The scheme administrator and member are jointly liable to the charge, except where the chargeable amount arises following the death of the member. Here, the recipient of the payment giving rise to the charge is solely liable.
Pensions Tax Simplification	This is a new pensions tax regime to replace the numerous existing regimes, which currently cause considerable confusion for pension savers, employers and pension providers alike.
Personal Lifetime Allowance (PLA)	Your PLA will be either the normal LTA or a higher amount granted to you by HMRC, for example under Primary Protection.
Primary Protection	This is a method of protecting pension benefits built up before A-Day , that are in excess of £1.5m, from a future recovery tax charge on that part of the pension fund above the Lifetime Allowance . The registration period will run from 6th April 2006 to 5th April 2009.
Recovery Tax Charge	The term given to the tax payable on any amount over the Lifetime Allowance when benefits are crystallised.
Registered Pension Scheme	A pension scheme is a registered pension scheme at any time when, either through having applied for

	registration and been registered by the Inland Revenue, or through acquiring registered status by virtue of being an approved pension scheme on 5 April 2006, it is registered under Chapter 2 of Part 4 of the Finance Act 2004.
Relevant Benefits Accrual (RBA)	This is a test to ensure that your HPSS Superannuation Scheme benefits have not increased above the prescribed limits set by HMRC. The limit has been set at the greater of 5% compound per annum or the growth in retail price index for each year after A-Day.
Retail Price Index (RPI)	Compiled by the Office for National Statistics.
Scheme Administrator	For new schemes which register after 6 April 2006 the scheme administrator is the person or persons who made a declaration under section 270 Finance Act 2004.
Standard Lifetime Allowance (SLA)	This has been set for the first 5 tax years by HMRC starting off at £1.5m for 2006/2007.
Transitional Protection	These are measures introduced by HMRC to enable individuals with significant (or the expectation of significant) pension benefits to avoid potential recovery tax charge by registering for Primary Protection and/or Enhanced Protection .
Trivial Commutation Lump Sum	A lump sum benefit paid to a member of a registered pension scheme (who is aged under 75) because their pension entitlements (under both that scheme and other such schemes) are deemed trivial.
Trivial Commutation Lump Sum Death Benefit	A lump sum benefit paid to a dependant of a scheme member of a registered pension scheme (who died before age 75) because that dependant's entitlement under that scheme is deemed trivial.