Draft amendments to the Registered Pension Schemes Manual (RPSM) for the draft Finance Act 2004 (Registered Pension Schemes and Annual Allowance Charge) (Amendment) Order

Draft amendments to an existing page of the RPSM are highlighted

RPSM06106010 - Technical pages: annual allowance: from 6 April 2011: pension input periods: the basics where the first pension input period starts on or after 6 April 2011

[Section238 Finance Act 2004] [Paragraph 27(2) Schedule 17 Finance Act 2011] [The Finance Act 2004 (Registered Pension Schemes and Annual Allowance Charge) (Amendment) Order 20XX (20XX/XXXX)]

The guidance on this page applies to **arrangements** where the first **pension input period** starts on or after 6 April 2011.

For arrangements where the first input period started before 6 April 2011 see RPSM06106060 and RPSM06106070.

What is the pension input period?
When does a pension input period start and end?
Example of pension input period start and end dates
Pre-6 April 2006 deferred members

How is pension saving measured against the annual allowance when the pension input period is not the same as the tax year?
What happens if an individual has more than one arrangement which have different pension input periods?
When do pension input periods stop for an arrangement?

What is the pension input period?

The following applies to arrangements where the first pension input period starts on or after 6 April 2011.

A pension input period is the period over which the amount of pension saving (**pension input amount**) under an arrangement is measured. The measurement works on the principle of how much was saved from the start of the pension input period to the end of the pension input period.

A pension input period for an arrangement under a **registered pension scheme** does not have to be exactly the same as the tax year.

An individual can have more than one pension input period. For example an individual could have

- a different pension input period for each scheme that they are a member of, or
- different pension input periods for each arrangement they have under the same registered pension scheme.

A pension input period normally runs for a year, for example from 1 January to 31 December. A pension input period can be less than a year. The first pension input period for an arrangement cannot be longer than 12 months but a subsequent pension input period for that arrangement can be longer than 12 months.

An individual cannot have more than one pension input period relating to the same arrangement ending in the same tax year.

The pension input period for an arrangement under an overseas pension scheme (where that overseas pension scheme is not a registered pension scheme) will always be the same as the tax year. RPSM13102300 has more details about how the annual allowance applies in relation to overseas pension schemes.

When does a pension input period start and end?

The following applies to arrangements where the first pension input period starts on or after 6 April 2011.

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The first pension input period in respect of an arrangement will start when benefits begin to build up under that arrangement unless the arrangement is an **other money purchase arrangement**.

For a **defined benefits arrangement** or **cash balance arrangement** benefits beginning to build up under the arrangement means benefits starting to accrue to, or in respect of, the individual. Typically this will mean the first pension input period coincides with the setting up of a new arrangement.

However, a first pension input period might start at some point after an existing arrangement has been established, for example where

- benefits to or in respect of the individual start to accrue again under an existing arrangement where the last such accrual had ceased before 6 April 2006 (more information under heading 'Pre-6 April 2006 deferred members' further down this page), or
- benefits to or in respect of the individual have continued to accrue since before 6 April 2011 under an existing arrangement, or start to accrue again on or after 6 April 2011 under an existing arrangement, where the individual has enhanced protection (see RPSM06105050 and more information under the heading 'Enhance protection' further down this page).

For other money purchase arrangements the first pension input period will start from the date that the first contribution is paid to the arrangement. RPSM06107020 has more details about the meaning of a contribution for this purpose.

That first pension input period will end on the following 5 April unless an earlier or later end date is nominated. This nominated end date must be within 12 months of the starting date of the pension input period. A nomination for an end date later than 5 April can be made after 5 April but this cannot be a date before the nomination is made.

Note, if the first pension input period actually starts on a 5 April it will end on that same 5 April (and not the following 5 April) unless a later end date is nominated. Such a nominated end date must be within 12 months of that 5 April. A nomination for a later end date can be made on or after that 5 April but this cannot be a date before the nomination is made.

The next (second) pension input period starts the day following the end of the first pension input period. It will end on the anniversary of the date on which the first pension input period ended, unless another end date for the second pension input period is nominated. This nominated end date can be any date but it

- must be in the tax year that follows the tax year in which the previous (first) pension input period ended, and
- cannot be a date before the date the nomination is made.

The requirements relating to the start and end dates for later pension input periods (third, fourth, fifth etc) follows the same requirement above as for the second pension input period.

The details of who can change the end date of a pension input period vary depending on the type of arrangement. Full details on pension input periods for the different types of arrangements can be found at

RPSM06106020 – for other money purchase arrangements

RPSM06106030 – for **defined benefits** and **cash balance arrangements**

RPSM06106040 – for **hybrid arrangements**.

Example of pension input period start and end dates

The following applies to arrangements where the first pension input period starts on or after 6 April 2011.

The first pension input period starts on 1 June 2011.

No nominations made

First pension input period runs from 1 June 2011 to 5 April 2012. First pension input period applies for tax year 2011-12.

Second pension input period starts on 6 April 2012 and ends on 5 April 2013. Second pension input period applies for tax year 2012-13.

Third pension input period starts on 6 April 2013 and ends on 5 April 2014. Third pension input period applies for tax year 2013-14.

And so on for subsequent pension input periods.

Nominations made in some years

First pension input period runs from 1 June 2011 and ends on the **nominated date** of 31 May 2012. First pension input period applies for tax year 2012-13 and not the tax year 2011-12 that would have applied with no nomination.

Second pension input period starts on 1 June 2012 and ends on 31 May 2013. No nomination made in respect of the end date for the second pension input period. Second pension input period applies for tax year 2013-14.

Third pension input period starts on 1 June 2013 and ends on the nominated date of 31 December 2014. The nomination date means that the third pension input period is longer than 12 months but the third pension input period still ends in the tax year following the tax year in which the second pension input period ended. Third pension input period applies for tax year 2014-15.

Fourth pension input period starts on 1 January 2015 and will end on 31 December 2015 unless another end date, that falls in 2015-16, is nominated instead. The fourth pension input period will apply for tax year 2015-16.

And so on for subsequent pension input periods.

Enhanced protection

An individual who has enhanced protection is fully liable to the annual allowance provisions with effect from 6 April 2011.

This is primarily a consideration for individuals with a defined benefits and/or cash balance arrangement as the individual could continue to meet the conditions for enhanced protection but still have pension input amounts to measure against the annual allowance.

For individuals with such an arrangement that was in existence on 6 April 2011 the first pension input period for that arrangement will start on 6 April 2011 if benefits to or in respect of the individual have continued to accrue under the arrangement since before that date.

Otherwise the first pension input period for such an existing arrangement (or a new arrangement) will start on the date on or after 6 April 2011 that benefits to or in respect of the individual first start to accrue, or start to accrue again, under the arrangement.

For individuals with an other money purchase arrangement, enhanced protection would be lost immediately a relevant contribution is paid under the arrangement (see RPSM03104510).

Pre-6 April 2006 deferred members

The annual allowance provisions do not apply to a defined benefits arrangement or cash balance arrangement where the individual became a **deferred member** (as defined for the purpose of the tax rules) under that arrangement prior to 6th April 2006, and has remained so from then on.

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Draft amendments to the Registered Pension Schemes Manual (RPSM) for the draft Finance Act 2004 (Registered Pension Schemes and Annual Allowance Charge) (Amendment) Order

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If benefits start to accrue to or in respect of the individual again under the arrangement on or after 6 April 2006 the first pension input period for the arrangement will start when that post-5 April 2006 accrual started and the annual allowance provisions will apply.

RPSM06107210 has more information about pre-6 April 2006 deferred members including details on where an individual may have ceased to accrue retirement benefits but nevertheless does not count as being a deferred member for the purpose of the tax rules since before 6 April 2006.

How is pension saving measured against the annual allowance when the pension input period is not the same as the tax year?

To work out if an individual's pension saving is more than the **annual allowance** for a particular tax year the pension savings for pension input periods that end in that tax year is taken into account.

Example

Linda needs to work out how much pension saving she has for the 2011-12 tax year. She has one pension arrangement and the first pension input period for that arrangement starts on 1 June 2011 and ends on 31 December 2011 (which is a nominated end date). The second pension input period starts on 1 January 2012 and ends on 31 December 2012 (there is no nominated end date for the second pension input period)

Her pension savings (pension inputs amounts) are:

1 June 2011 to 31 December 2011 - £15,000

1 January 2012 to 31 December 2012 - £35,000

The pension input period ending in the 2011-12 tax year is the period 1 June 2011 to 31 December 2011. This means Linda's pension saving for 2011-12 is £15,000 and this is the amount that is measured against the annual allowance for 2011-12. In this example, Linda's pension savings has not exceeded the annual allowance for 2011-12.

What happens if an individual has more than one arrangement which have different pension input periods?

The annual allowance for a tax year is tested against pension saving for pension input periods ending in that tax year.

Example

Judy is a member of two pension schemes.

Scheme A has a pension input period in line with the tax year.

Scheme B has a pension input period that runs to 31 December.

Her pension savings in Scheme A for the period 6 April 2011 to 5 April 2012 are £20,000.

In Scheme B her pension savings are £15,000 for the year to 31 December 2011.

Judy's total pension savings for 2011-12 are £35,000 so she does not have to pay any annual allowance tax charge for that year as her total pension savings have not exceeded the annual allowance.

On 1 June 2011 Judy joins pension scheme C, and makes pension savings of £50,000 in the year to 31 May 2012 (the pension input period for Scheme C has a nominated end date instead of the period ending on 5 April 2012) in that scheme. Even though some of the contributions to scheme C may have been made in 2011-12, they do not count towards her annual allowance in that year. Instead they are taken into account in 2012-13, the tax year in which the pension input period for scheme C ends.

When do pension input periods stop for an arrangement?

When the individual becomes entitled to all benefits under an arrangement the pension input period in which that happens will be the last pension input period for the arrangement. The pension input period does not stop when all the benefits are taken; it will continue until the due

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end date for that period. For example, a member crystallises all benefits on 1 September 2011 (which is in the 2011-12 tax year). However, this crystallisation is in the pension input period running from 1 June 2011 to 31 May 2012, which ends in the 2012-13 tax year.

This also applies when all benefits are transferred from the arrangement.

When a member becomes entitled to all their benefits under an arrangement, that will be the last pension input period and, therefore, after this has ended there will be no need to test the benefits in payment against the annual allowance. This means that if a **BCE** 3 occurs in respect of the member at a later date, then this will only need to be included in the pension input amount if it occurs after the member has become entitled to their benefits but before the end of the final pension input period. A BCE3 that occurs after the end of the last pension input period is not included in calculating the pension input amount.

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Draft amendments to the Registered Pension Schemes Manual (RPSM) for the draft Finance Act 2004 (Registered Pension Schemes and Annual Allowance Charge) (Amendment) Order

Draft amendments to an existing page of the RPSM are highlighted

RPSM06107020 - Technical pages: annual allowance: from 6 April 2011: pension input amounts: under an other money purchase arrangement

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[Section 233 Finance Act 2004 and section 52(7) & (10) Finance Act 2013] [The Finance Act 2004 (Registered Pension Schemes and Annual Allowance Charge) (Amendment) Order 20XX (20XX/XXXX)]

The amount of pension savings under an **other money purchase arrangement** is simply the total of contributions paid into the arrangement during the **pension input period**. This is the **pension input amount** for the **arrangement**.

What is included in the pension input amount
What is not included in the pension input amount
Date contribution paid – personal and group personal pension schemes
Date contribution paid – net pay arrangements
Date of contribution – information held for existing contracts

What is included in the pension input amount

The following is included in the pension input amount for an other money purchase arrangement:

- any **relievable pension contribution** paid by the member
- any relievable pension contribution paid by someone else on behalf of the member
- any contribution paid in respect of the member by an employer of the member.

A relievable pension contribution should include any basic rate tax relief paid to the scheme by HMRC on the member's behalf; that is, the gross amount of the contributions.

Also a relievable contribution will include the amount of any part of that contribution paid by, or on behalf of, the member that does not actually get any relief. For example, the amount of the relievable pension contributions exceeds the member's **relevant UK earnings** that are chargeable to income tax for the tax year. Such amounts that do not actually get any relief are still included even if the amounts are refunded to the member as a **refund of excess contributions lump sum**, as those amounts were, nevertheless, paid during the pension input period concerned.

If an employer pays contributions to the scheme that have not been allocated to a specific member, but are later put into the member's arrangement, these employer contributions should be included in the pension input amount when they are actually allocated to the member's arrangement.

What is not included in the pension input amount

The following is not included in the pension input amount

- relievable pension contributions that are paid by, or on behalf of, the individual during the pension input period but are subsequently returned to the individual by way of a **refund of excess contributions lump sum** that is made in a pension input period ending in the tax year 2014-15 or a later tax year
- contributions paid by the individual, or by someone other than the individual's employer, after the individual has reached age 75
- contributions that are life assurance premium contributions that do not qualify for tax relief – see RPSM05101220
- investment income or returns; and
- where the arrangement is contracted out of the State Second Pension, minimum payments paid by employers (including amounts recovered by the employer from the individual) and rebates and minimum contributions paid by HMRC.

Note – for the exclusion from the pension input amount mentioned in the first bullet point above the refund of excess contributions lump sum could occur during the same pension input period in which the contributions were paid or in a later pension input period. A refund of excess contributions lump sum that is paid in a pension input period ending in the tax year 2013-14, or an earlier tax year, would not have the effect of reducing the pension input amount for the pension input period during which the contributions were paid.

Note - the exclusion from the pension input amount mentioned in the final bullet point above of minimum payments paid by employers (including amounts recovered by the employer from the individual) was removed with effect from 6 April 2013. The exclusion is no longer needed as such minimum payments stopped with effect from 6 April 2012.

However, such minimum payments that were made before 6 April 2012 continue to be excluded from pension input amounts for pension input periods ending in the tax years 2009-10, 2010-11, 2011-12 and 2012-13 for the purposes of carry-forward of unused annual allowance.

Date contribution paid – personal and group personal pension schemes

It is common for an employer to act as the collector of employee contributions for a group personal pension scheme. Group administration processing can cause some delay between the employer deducting the contribution from the employee's pay and the date that the pension provider is authorised to take money by direct debit from the employer's bank account or the money is paid by BACS direct credit. For example, a delay may occur because individual figures need adjustment for part-timers or leavers.

When there is a delay after the deduction from the employee's pay, the date of receipt by the pension provider is taken as the date of payment of the contribution. This could have a bearing when a contribution is deducted from the employee's pay close to the end of a pension input period.

More information about the date of payment of a contribution can be found in RPSM05300080 and RPSM05300100. This information applies to other types of pension schemes as well except for contributions deducted under net pay arrangements.

Date contribution paid – net pay arrangements

The pension input amount for other money purchase arrangements includes the relievable pension contribution 'paid during the pension input period'. The date of payment in the case of a contribution made under a net pay arrangement is the date of deduction from the employee's pay (in the same way as for the member getting relief on relievable contributions 'paid during the tax year').

For annual allowance purposes, a **scheme administrator** may not readily be able to identify the date of deduction from pay from their member records. In these circumstances the scheme administrator may either use the date the money was received by the pension scheme or an estimate of the date the payment was deducted from salary for the purposes of determining

- commencement dates for the first pension input period in respect of an arrangement, and
- details of pension input amounts attributable to pension input periods, which are provided to members either automatically or on request.

Where the scheme administrator issues a statement to a member on this basis, the member may rely on the information for Self Assessment purposes for annual allowance purposes.

Date of contribution – information held for existing contracts

The date a contribution was paid may not have been of relevance to scheme administrators in the past for annual allowance purposes. For example the Occupational Pension Schemes (Disclosure of Information) Regulations (Statutory Instrument SI1996/1655) require the date a contribution is "credited". In some cases this may be the date the contribution "should" have been paid to the scheme ignoring what actually happened. For example, records for a pension provider might show notional credit dates for an individual whose entry into the scheme was delayed but arrears payments were made.

Also, a variety of practices may have been adopted under some insurance contracts. For example old contracts may have “X days of grace”. So long as the contribution is received within X days of the date due, it is given a notional credit date of the date the contribution was initially due and the date the contribution was initially due is what has appeared in statements sent to members.

In these circumstances the scheme administrator may use the notional credit date as date of the contribution for the purposes of determining

- commencement dates for the first pension input period in respect of an arrangement, and
- details of pension input amounts attributable to pension input periods, which are provided to members either automatically or on request.

Where the scheme administrator issues a statement to a member on this basis, the member may rely on the information for Self Assessment purposes for annual allowance purposes.

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Draft amendments to the Registered Pension Schemes Manual (RPSM) for the draft Finance Act 2004 (Registered Pension Schemes and Annual Allowance Charge) (Amendment) Order

Draft amendments to an existing page of the RPSM are highlighted

RPSM06107030 - Technical pages: annual allowance: from 6 April 2011: pension input amounts defined benefits arrangement

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[s234 – s236 FA04] [The Finance Act 2004 (Registered Pension Schemes and Annual Allowance Charge) (Amendment) Order 20XX (20XX/XXXX)]

The amount of pension savings under a **defined benefits arrangement** is the increase in the value of the individual's promised benefits over the **pension input period**. This increase is the **pension input amount** for the pension input period. The increase is the difference between the value of the individual's benefits at the start of the pension input period (the opening value) and the value of the individual's benefits at the end of the pension input period (the closing value). If the difference is a negative amount for a pension input period then the individual's pension savings (or pension input amount) for the arrangement is nil for that pension input period.

How to find the opening value
How to find the closing value
Adjustments to the closing value
If there has been a transfer into the arrangement in the pension input period
If there has been a transfer out of the arrangement in the pension input period
If there has been a pension debit in the pension input period
If there has been a pension credit in the pension input period
If there has been a BCE during the pension input period
If there has been a reduction in the member's benefits rights in the pension input period because the scheme administrator has paid an amount of the member's annual allowance charge for any tax year
If there have been any minimum payments because the arrangement is contracted out of the State Second Pension

How to find the opening value

The opening value of the member's benefits can be thought of as the amount of money that might be needed to provide the expected benefit. It is a notional 'capital' value and is determined as follows.

Step 1

Find the amount of the member's annual pension that had built up immediately before the beginning of the pension input period (i.e. the amount of pension that had built up at the end of the immediately preceding pension input period).

(This is the amount of built up pension prior to the pension input period in question that would be paid to the member if the member retired at that time having already reached normal pension age and without any extra benefits for ill health.)

Step 2

Multiply the annual amount of that pension by 16.

Note: If it is the first pension input amount for the arrangement because the member's benefits have started to build up for the first time under the arrangement the opening value of the member's pension is nil. Typically this will be the case where the first pension input amount is for a new arrangement.

If it is the first pension input amount for the arrangement because the member's benefits have started to build up again under the arrangement, the opening value of the member's pension is the amount of pension that had built up immediately before the beginning of the pension input period. Typically this will be the case for an arrangement where the member became a **deferred member** (as defined for the purpose of the tax rules) under that arrangement prior to 6 April

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2006 and has remained so from then on until a point on or after that date when benefits start to build up again under that arrangement.

RPSM06107210 has more information about pre-6 April 2006 deferred members including details on where a member may have ceased to accrue retirement benefits but nevertheless does not count as being a deferred member for the purpose of the tax rules since before 6 April 2006.

Step 3

If the member's rights under the arrangement include a separate lump sum in addition to the pension, for example many public sector schemes provide a lump sum without having to give up pension, add the amount of the lump sum built up immediately before the beginning of the pension input period (i.e. the amount of lump sum which had built up at the end of the immediately preceding pension input period) to the amount found after step 2.

Note: If it is the first pension input amount for the arrangement because the member's benefits have started to build up for the first time under the arrangement the opening value of the member's separate lump sum is nil. Typically this will be the case for the first pension input amount for a new arrangement.

If it is the first pension input amount for the arrangement because the member's benefits have started to build up again under the arrangement, the opening value of the member's separate lump sum is the amount of lump sum that had built up immediately before the beginning of the pension input period. Typically this will be the case for an arrangement where the member became a deferred member (as defined for the purpose of the tax rules) under that arrangement prior to 6 April 2006 and has remained so from then on until a point on or after that date when benefits start to build up again under that arrangement.

RPSM06107210 has more information about pre-6 April 2006 deferred members including details on where a member may have ceased to accrue retirement benefits but nevertheless does not count as being a deferred member for the purpose of the tax rules since before 6 April 2006.

Step 4

Increase the total after step 3 by the 12 month increase in the **CPI** to the September before the start of the tax year for which the calculation is being done.

Example

Fiona is a member of a scheme that gives her a pension of 1/60th pensionable pay for each year of being a scheme member. Although she can take a lump sum from her scheme, Fiona can only do this by giving up (commuting) pension to provide the lump sum. At the start of the pension input period Fiona's pensionable pay is £50,000. She has 15 years 214 days service at the start of her pension input period.

1. Find the amount of pension entitlement at the start of the input period

This is calculated as (15 + 214/365)/60 x £50,000 = £12,988.58

2. Multiply result by 16

£12,988.58 x 16 = £207,817.28

3. Add on any separate lump sum

Fiona's scheme does not give her a separate lump sum, so the running total is still £207,817.28

4. Increase amount for CPI

The calculation is being done for the tax year 2011-12. Annual increase in CPI to September 2010 is taken as 3% for the purpose of this example.

A 3% increase brings the opening value to £214,051.79

How to find the closing value

The closing value is the notional 'capital' value of the expected benefits at the end of the pension input period in the same way as the opening value, but missing out the final step in respect of the CPI increase. So:

Step 1

Find the amount of annual pension that had built up by the end of the pension input period.

Step 2

Multiply that amount of pension by 16.

Step 3

If the member's rights under the arrangement include a separate lump sum in addition to the pension, for example many public sector schemes provide a lump sum without having to give up pension, add the amount of the lump sum to amount found after step 2.

Example

At the end of the pension input period Fiona's pensionable pay has increased by 10 per cent to £55,000 and her pensionable service is now 16 years 214 days.

1. Find annual rate of pension

This is calculated as (16 + 214/365)/60 x £55,000 = £15,204.11

2. Multiply result by 16

£15,204.11 x 16 = £243,265.76

3. Add on any separate lump sum

Fiona's scheme does not give her a separate lump sum, so the running total is still £243,265.76.

No adjustments need to be made to Fiona's closing value as, during the pension input period, she has not had any transfers in or out, BCEs, pension debits or credits, or reduction in benefits because the scheme has paid an annual allowance charge for Fiona.

Fiona's pension saving for this arrangement is the difference between her opening value and her closing value. This is £29,213.97 (£243,265.76 - £214,051.79).

Adjustments to the closing value

Certain events can cause the closing value of the member's benefits to be bigger or smaller than they would otherwise be. These events include where a transfer payment has been made or received by the pension scheme in relation to the member or, following a pension share (on divorce there is a pension debit or credit attached to the member's benefits), or a **benefit crystallisation event** has occurred. In these circumstances an adjustment must be made to the amount of the closing value in the pension input period in which the event occurred, as shown below. (The most likely **BCE** is where the member starts to take some or all of their benefits from the arrangement.)

If there has been a transfer into the arrangement in the pension input period

Deduct the amount of pension (and separate lump sum if appropriate) that relates to the transfer in from the expected benefits at the end of the pension input period before working out the closing value.

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There must be a direct link between the amount of the transfer payment and the amount of the increase in pension and, if applicable, separate lump sum (the 'benefits') relating to the transfer. The deduction from the pension input amount is the amount of benefits that are funded by the transferred amount.

If the amount of benefits relating to the transfer in is more than the amount of benefits that could have been funded by the transfer payment, the 'excess' amount of benefits is included in the pension input amount calculation.

An exception to these conditions is where

- accrued benefits are transferred from one registered pension scheme to another as part of a 'block transfer', and
- the value of the benefits given up in the transferring scheme is equal (or virtually equal) to the value of the benefits granted in the receiving scheme in connection with the block transfer, but
- due to underfunding in the transferring scheme, the sums and assets transferred does not support the value of the accrued benefits being transferred.

RPSM06107090 has more details about the adjustments made to the closing value in relation to a transfer in.

RPSM06107095 has more details about 'block transfers'.

If there has been a transfer out of the arrangement in the pension input period

If the transfer is to another **registered pension scheme** or an overseas scheme that is a **qualifying recognised overseas pension scheme** add the amount of pension (and separate lump sum if appropriate) that relates to the transfer out to the expected benefits at the end of the pension input period before working out the closing value.

Normally the decrease in pension and, if applicable, separate lump sum (the 'benefits') will be fully reflected in the amount of the transfer payment, so the full amount of the decrease is added back to the closing value.

Where the decrease in benefits occurs as part of a block transfer but (due to underfunding in the transferring scheme) the transfer payment does not support the amount of benefits transferred, the full amount of the decrease is usually added back to the closing value.

RPSM06107090 has more details about the adjustments made to the closing value in relation to a transfer out.

RPSM06107095 has more details about 'block transfers'.

If the transfer is not to a registered pension scheme or a qualifying recognised overseas pension scheme there is no need to make this adjustment before calculating the closing value. The transfer out is an **unauthorised member payment**. See RPSM06107090.

If there has been a pension debit in the pension input period

Add the amount of pension (and separate lump sum if appropriate) that relates to the pension debit to the expected benefits at the end of the pension input period before working out the closing value.

If there has been a pension credit in the pension input period

Deduct the amount of pension (and separate lump sum if appropriate) that relates to the pension credit from the expected benefits at the end of the pension input period before working out the

closing value. See RPSM06107090. A pension credit for this purpose means only a pension credit from the same or another registered pension scheme.

If there has been a BCE during the pension input period

Add the benefit resulting from the BCE to the expected benefits at the end of the pension input period before working out the closing value.

For example, for a scheme pension taken from a defined benefits arrangement (a BCE 2), add to the expected benefits at the end of the pension input period the amount of pension that resulted from the earlier BCE 2.

If the member took a lump sum (BCE 6) by exchanging (commuting) an amount of pension, add to the expected benefits at the end of the pension input period – the amount of the commuted pension.

If the member took a separate lump sum (BCE 6) – i.e. – the member did not commute any pension - add to the expected benefits at the end of the pension input period – the amount of the separate lump sum taken.

Do not adjust for a transfer to a qualifying recognised overseas pension scheme (BCE 8) as the closing value should already be adjusted for the transfer out.

For a BCE 3 add in the whole amount of the increase in the earlier pension. Where the BCE 3 has been caused by increasing benefits in accordance with a provision arising from an enactment, then this does not need to be added to the expected benefits at the end of the pension input period. An example of an increase in accordance with a provision arising from an enactment is an increase in respect of a Guaranteed Minimum Pension (GMP) where the member retires during the pension input period and later in the same pension input period reaches GMP payment age and, by law, the member's pension in payment has to be increased by a certain amount.

If there has been a reduction in the member's benefits rights in the pension input period because the scheme administrator has paid an amount of the member's annual allowance charge for any tax year

Add back the amount of the reduction in pension (and separate lump sum if appropriate) that relates to the adjustment made as a consequence of paying the amount of tax charge to the expected benefits at the end of the pension input period before working out the closing value.

See RPSM06107090 for examples where an adjustment is made to the closing value.

Note, this add back is not made if the adjustment to the member's rights

- is made in respect of a liability to the annual allowance charge that arose before XX [month] [year](date Order comes in force), and
- the adjustment is to take account of an amount of annual allowance charge that the member has elected to require a pension scheme to pay and that amount of charge is for the same tax year in which

    - the member becomes entitled to all benefits under the pension scheme in question, or

    - a BCE 5, 5A or 5B occurs in relation to the member under the pension scheme in question.

RPSM06107091 has more details about this exception.

If there have been any minimum payments because the arrangement is contracted out of the State Second Pension

Subtract from what would otherwise be the pension input amount for the pension input period the amount of any minimum payments made during the pension input period in relation to the individual in connection with the arrangement. These are minimum payments made under:

- section 8 of the Pension Schemes Act 1993, or
- section 4 of the Pension Schemes (Northern Ireland) Act 1993.

Draft amendments to the Registered Pension Schemes Manual (RPSM) for the draft Finance Act 2004 (Registered Pension Schemes and Annual Allowance Charge) (Amendment) Order

Draft amendments to an existing page of the RPSM are highlighted

RPSM06107040 - Technical pages: annual allowance: from 6 April 2011: pension input amounts: cash balance arrangement

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[s230- s232 FA04] [The Finance Act 2004 (Registered Pension Schemes and Annual Allowance Charge) (Amendment) Order 20XX (20XX/XXXX)]

The method of valuing pension savings to a **cash balance arrangement** is similar to that for **defined benefits arrangements**. The pension savings amount is the increase in the value of the **member**'s promised pension fund over the pension period. This is the difference between the value of the member's promised pension pot at the start of the **pension input period** (the opening value) and the value of the promised pension pot at the end of the pension input period (the closing value). If the difference is a negative amount for a pension input period then the pension input amount for the arrangement is nil for that pension input period.

How to find the opening value
How to find the closing value
Adjustments to the closing value
If there has been a transfer into the arrangement in the pension input period
If there has been a transfer out of the arrangement in the pension input period
If there has been a pension debit in the pension input period
If there has been a pension credit in the pension input period
If there has been a BCE during the pension input period
If there has been a reduction in the member's benefits rights in the pension input period because the scheme administrator has paid an amount of the member's annual allowance charge for any tax year
If there have been any minimum payments because the arrangement is contracted out of the State Second Pension

How to find the opening value

This is a 2 step process.

Step 1

Find the amount of the promised pension fund that the **member** had immediately before the start of the pension input period (i.e. the amount of the promised fund at the end of the immediately preceding pension input period).

(This is the amount of built up promised pension fund that would be available to the member if the member retired at that time having already reached normal pension age and without any extra benefits for ill health. So, if the member took the benefits at that time, what would the member get without any adjustment for early payment? RPSM06107060 has more details on this aspect.)

Note, if it is the first pension input amount for the arrangement (i.e. the member's benefits have started to build up for the first time under the arrangement) the opening value of the member's promised fund is nil. Typically this will be the case where the first pension input amount is for a new arrangement.

If it is the first pension input amount for the arrangement because the member's benefits have started to build up again under the arrangement, the opening value of the member's pension is the amount of pension that had built up immediately before the beginning of the pension input period. Typically this will be the case for an arrangement where the member became a **deferred member** (as defined for the purpose of the tax rules) under that arrangement prior to 6 April 2006 and has remained so from then on until a point on or after that date when benefits start to build up again under that arrangement.

RPSM06107210 has more information about pre-6 April 2006 deferred members including details on where a member may have ceased to accrue retirement benefits but nevertheless does not count as being a deferred member for the purpose of the tax rules since before 6 April 2006.

Step 2

Increase this amount by the 12 month increase in the **CPI** to the September before the start of the tax year for which the calculation is being done.

How to find the closing value

The closing value is the amount of the member's promised pension fund at the end of the pension input period.

Adjustments to the closing value

Certain events can cause the closing value of the member's benefits to be bigger or smaller than they would otherwise be. These events include where a transfer payment has been made or received by the pension scheme in relation to the member or, following a pension share (on divorce there is a pension debit or credit attached to the member's benefits), or a **benefit crystallisation event** has occurred. In these circumstances an adjustment must be made to the amount of the closing value in the pension input period in which the event occurred, as shown below. (The most likely **BCE** is where the member starts to take some or all of their benefits from the arrangement.)

If there has been a transfer into the arrangement in the pension input period

Deduct the amount of the increase in rights available to provide benefits relating to the transfer from the closing value.

There must be a direct link between the amount of the transfer payment and the amount of the increase in rights available to provide benefits ('amount of increased rights') relating to the transfer. The deduction from the pension input amount is the amount of increased rights that is funded by the transferred amount.

If the amount of increased rights relating to the transfer in is more than the amount of increased rights that could have been funded by the transfer payment, the 'excess' amount of increased rights is included in the pension input amount calculation.

An exception to these conditions is where

- rights are transferred from one registered pension scheme to another as part of a 'block transfer', and
- the value of the rights given up in the transferring scheme is equal (or virtually equal) to the value of the rights granted in the receiving scheme in connection with the block transfer, but,
- due to underfunding in the transferring scheme, the sums and assets transferred does not support the value of the rights being transferred.

RPSM06107090 has more details about the adjustments made to the closing value in relation to a transfer in.

RPSM06107095 has more details about 'block transfers'.

If there has been a transfer out of the arrangement in the pension input period

If the transfer is to another **registered pension scheme** or an overseas scheme that is a **qualifying recognised overseas pension scheme** add the amount of the reduction in rights available to provide benefits relating to the transfer to the closing value.

Normally the decrease in the rights available to provide benefits will be fully reflected in the amount of the transfer payment, so the full amount of the decrease is added back to the closing value.

Draft amendments to the Registered Pension Schemes Manual (RPSM) for the draft Finance Act 2004 (Registered Pension Schemes and Annual Allowance Charge) (Amendment) Order

Draft amendments to an existing page of the RPSM are highlighted

Where the decrease in the rights available to provide benefits occurs as part of a block transfer but (due to underfunding in the transferring scheme) the transfer payment does not support the amount of the rights transferred, the full amount of the decrease is usually added back to the closing value.

RPSM06107090 has more details about the adjustments made to the closing value in relation to a transfer out.

RPSM06107095 has more details about 'block transfers'.

If the transfer is not to a registered pension scheme or a qualifying recognised overseas pension scheme there is no need to add back the reduction in rights relating to the transfer to the closing value. The transfer out is an **unauthorised member payment**.

If there has been a pension debit in the pension input period

Add the amount of the reduction in rights available to provide benefits relating to the pension debit to the closing value.

If there has been a pension credit in the pension input period

Deduct the amount of the increase in rights available to provide benefits relating to the pension credit from the closing value. A pension credit for this purpose means only a pension credit from the same or another registered pension scheme.

If there has been a BCE during the pension input period

If BCE 1, BCE 2, BCE 3 or BCE 4 occurs during the pension input period

- Add the amount of the reduction in rights available to provide benefits relating to the BCE to the closing value.

The requirement in relation to a BCE 3 does not apply if

- the BCE 3 occurred only as a result of a provision contained in, or made under, any enactment, and
- that enactment was not comprised in, or in an instrument made under, an Act of the Scottish Parliament.

If BCE 6 occurs add back the amount of the lump sum payment.

Do not do this if the BCE is a BCE 8 (transfer to a qualifying recognised overseas pension scheme) as the closing value should already be adjusted for the transfer out. For a BCE 3 add in the whole amount of the increase in the earlier pension.

If there has been a reduction in the member's benefits rights in the pension input period because the scheme administrator has paid an amount of the member's annual allowance charge for any tax year

Add back the amount of the reduction in rights that relates to the adjustment made as a consequence of paying the amount of tax charge to the closing value.

Note, this add back is not made if the adjustment to the member's rights to take account of an amount of tax paid relates to

- an amount of annual allowance charge that the member has elected to require a pension scheme to pay,
- the annual allowance charge arose before XX [month] [year](date Order comes in force), and
- that amount of charge is for the same tax year in which the member becomes entitled to all benefits under the pension scheme in question (RPSM06107091 has more details).

Example

Mark is a member of a cash balance arrangement. His pension promise is that his pension pot will be increased by 12 per cent of his pay each year with a minimum amount of £10,000.

Mark wants to work out what his pension saving is for the tax year 2011-12. Annual increase in CPI to September 2010 is taken as 3% for the purpose of this example.

At the start of his pension input period, Mark's fund stands at £156,000. This amount is increased by 3 per cent to £160,680. This is Mark's opening value.

Mark's pay for the year was £82,000, 12 per cent of which is £9,840. This is less than the promised minimum increase to his pension pot, so £10,000 was added to Mark's promised funds. This brings Mark's closing value to £166,000.

Mark's pension input is the difference between his opening value (£160,680) and his closing value (£166,000). Mark's pension savings amount is £5,320.

If there have been any minimum payments because the arrangement is contracted out of the State Second Pension

Subtract from what would otherwise be the pension input amount for the pension input period the amount of any minimum payments made during the pension input period in relation to the individual in connection with the arrangement. These are minimum payments made under:

section 8 of the Pension Schemes Act 1993, or

section 4 of the Pension Schemes (Northern Ireland) Act 1993.

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Draft amendments to the Registered Pension Schemes Manual (RPSM) for the draft Finance Act 2004 (Registered Pension Schemes and Annual Allowance Charge) (Amendment) Order

Draft amendments to an existing page of the RPSM are highlighted

RPSM06107090 - Technical pages: annual allowance: from 6 April 2011: pension input amounts: examples of adjustments to the closing value

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Defined benefits and cash balance arrangements: examples of adjustments to closing values

[s232 & 236 FA04] [The Finance Act 2004 (Registered Pension Schemes and Annual Allowance Charge) (Amendment) Order 20XX (20XX/XXXX)]

The guidance on this page does not apply in the case of a ‘block transfer’ from one **registered pension scheme** to another.

See RPSM06107095 for details about ‘block transfers’.

Transfers

If there is a transfer of sums or assets (a ‘transfer payment’) from one registered pension scheme to another involving a **defined benefits arrangement** or **cash balance arrangement**, an adjustment is made to take account of the transfer payment.

In the case of a transfer-out from a defined benefits or cash balance arrangement, there is an adjustment to determine whether there is an increase in pension savings in the transferring arrangement.

In the case of a transfer-in to a defined benefits or cash balance arrangement, there is an adjustment to determine whether there is an increase in pension savings in the receiving arrangement.

Transfer out

The pension savings amount, or **pension input amount**, for the transferring scheme is valued by adding back to the closing value

- in the case of a cash balance arrangement, the amount of the reduction in rights available to provide benefits under the arrangement relating to the transfer payment,
- in the case of a defined benefits arrangement, the amount of pension (and separate lump sum if appropriate) that relates to the transfer payment.

Transfer in

The pension savings amount, or pension input amount, for the receiving scheme is valued by subtracting from the closing value

- in the case of a cash balance arrangement, the amount of the increase in rights available to provide benefits under the arrangement relating to the transfer payment,
- in the case of a defined benefits arrangement, the amount of pension (and separate lump sum if appropriate) that relates to the transfer payment.

General requirements for transfer payments out and in

There must be a direct link between the amount of the transfer payment and the amount added back or subtracted from the closing value for the purpose of the pension input amount calculation. The amount added back or subtracted is so much of the decrease or increase in

- for a defined benefits arrangement, the pension (and, if applicable, separate lump sum),
- for a cash balance arrangement, the rights available to provide benefits

that is attributable to the amount of the sums and assets transferred. This would usually be determined by normal actuarial practice allowing for the specific circumstances.

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If the increase in pension savings in the receiving scheme relating to the transfer payment is augmented so that the increase is over and above the amount of increase that the transfer payment was capable of funding, the 'excess' amount of the increase is included in the pension input amount calculation.

In the case of a transfer out the individual will normally be given a 'cash equivalent transfer value' (CETV) of the benefit rights that had built up by the time of the transfer. Where the individual is given a reduced CETV, such as due to underfunding in the transferring pension scheme, it is likely that a lesser amount will be added back to the closing value compared to the amount that would have been added back had a full CETV been given.

The principles above also apply when there is a transfer between arrangements within the same registered pension scheme.

Pension debits and pension credits

There are similar rules to take account of pension sharing orders on divorce, where the value transferred is referred to as a **pension credit** from the same or another registered pension scheme.

Examples of adjustment of closing value for a transfer
Example of adjustment of closing value for a pension credit
Example of adjustment of closing value for a benefit crystallisation event (BCE)

Examples of adjustment of closing value for a transfer

Example 1

Tundi is a member of a final salary scheme with a **pension input period** that runs from 1 April to 31 March.

His benefits build up at a rate of a pension of 1/80th (and a separate lump sum of 3/80ths) of final pay for each year of scheme membership.

At the start of his pension input period, Tundi has 19 years scheme membership and his 'final pay' is £65,000. For the purpose of this example, the annual increase in **CPI** to the September before the tax year is 3.2 per cent.

During the pension input period in question Tundi changes jobs. He joins his new employer's career average scheme (which is also a defined benefits arrangement). Tundi earns a pension of 2 per cent of his annual pay rate for the year from this scheme. The scheme does not give a separate lump sum. If Tundi wants to take a lump sum when he retires he must give up (commute) pension to get the lump sum.

Tundi gives up his benefits in his old scheme (scheme 1) in exchange for an equivalent transfer value, which is paid into the new scheme (scheme 2). Tundi's pension input period under his new scheme runs from 1 August (the day he joined scheme 2) to 31 December. (The scheme administrator has told Tundi that this pension input period will end on the following 31 December so that all future pension input periods for Tundi's arrangement under scheme 2 will run from 1 January to 31 December.)

Calculating the opening values

Tundi's opening value for scheme 1 (the final salary scheme) is calculated as:

Find amount of annual pension

19/80 x £65,000 = £15,437.50

Multiply annual rate of pension by flat factor of 16

£15,437.50 x 16 = £247,000

Add amount of separate lump sum

£247,000 + (19 x 3/80 x £65,000) = £293,312.50

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Increase by CPI

£293,312.50 x 1.032 = £302,698.50

So the opening value for scheme 1 is £302,698.50.

The opening value for scheme 2 is nil (as Tundi is a new member at the start of the pension input period for the arrangement under scheme 2).

Calculating the closing values

The closing values for both scheme 1 and scheme 2 need to be adjusted because of the transfer value. If this was not done the pension input amounts for both schemes would not be correct. This adjustment is only needed for the pension input period that the transfer takes place.

Without an adjustment the closing value for scheme 1 would be nil (as all the benefits have been given up in exchange for a transfer out). The amount of Tundi's benefit rights in scheme 1 that he exchanged for the transfer payment is added back to the closing value for scheme 1. At the point Tundi arranged the transfer he had built up a pension of £16,800 and a separate lump sum of £50,400 in scheme 1.

This means that the closing value for scheme 1 is:

Find amount of annual pension

£16,800

Multiply annual rate of pension by flat factor of 16

£16,800 x 16 = £268,800

Add amount of separate lump sum

£268,800 + £50,400 = £319,200

The closing value for scheme 1 is £319,200.

In scheme 2 the transfer payment from scheme 1 was able to fund (or 'purchase') a pension equivalent of £18,300. In the pension input period for scheme 2 Tundi has earned a pension of £800 from his new job. This makes his total annual pension under the scheme £19,100. Without an adjustment to take account of the transfer in, the closing value for scheme 2 would be £305,600 (£19,100 x 16).

To find the closing value for scheme 2 the effect of the transfer is neutralised because the pension equivalent of £18,300 was no more than the amount that the transfer payment was capable of purchasing in scheme 2. The closing value for the pension input period is based only on the rights built up under scheme 2 - that is a pension of £800.

So the closing value for scheme 2 is:

Find amount of annual pension

£800

Multiply annual rate of pension by flat factor of 16

£800 x 16 = £12,800

Add amount of separate lump sum

£12,800 + £0 (there is no separate lump sum) = £12,800

The closing value for scheme 2 is £12,800.

Finding the pension input amounts

Tundi's pension inputs from his **defined benefits arrangements** are:

For scheme 1: closing value (£319,200) - opening value (£302,698.50) = £16,501.50

For scheme 2: closing value (£12,800) - opening value (nil) = £12,800

As Tundi is not a member of any other arrangement his total pension input amount for the tax year is £29,301.50 (£16,501.50 + £12,800).

For future tax years, the pension input amount is calculated as normal, with no adjustment for the transfer.

Example of adjustment of closing value for a pension credit

Angela is a member of a **cash balance arrangement**. Angela gets 15 per cent of her annual pay rate added to her promised pension pot every year. At the start of the pension input period Angela's pension pot has a value of £180,000. For the purpose of this example, the annual increase in CPI to the September before the tax year is 2.5 per cent.

Calculating the opening value

The opening value for the cash balance arrangement is:

£180,000 x 1.025 = £184,500

During her pension input period Angela gets a pension credit from a pension sharing order. This pension credit has a value of £62,500.

Calculating the closing value

At the end of the pension input period the value of Angela's pension pot is £247,750. However this amount includes the pension credit from another registered pension scheme. If no adjustment is made to the closing value Angela's pension input would not reflect the amount she has actually built up over the pension input amount. This adjustment is only needed for the pension input period that Angela gets the pension credit.

The amount of the pension credit is taken off the closing value (so £247,750 - £62,500). This means Angela's closing value is £185,250.

Finding the pension input amounts

Angela's pension input under the cash balance arrangement is:

Closing value (£185,250) - opening value (£184,500) = £750.

For future years, the pension input amount is calculated as normal, with no adjustment for the pension credit.

Example of adjustment of closing value for a benefit crystallisation event (BCE)

Julia belongs to a pension scheme that gives her a pension of 1/60th pensionable pay for each year of scheme membership. The scheme does not give her a separate lump sum. If Julia wants to take a lump sum when she starts to draw benefits she will have to give up (commute) part of her pension.

Julia's pension input period runs from 1 June to 31 May. At the start of the pension input period beginning 1 June 2011 Julia has built up an annual pension of £26,500.

During the year Julia reaches the scheme's pension age and decides to start taking some of her benefits. She also wants to keep working and keep building up benefits. Julia's pension scheme allows her to do this. Julia takes a pension of £12,000 and a lump sum of £80,000. To get her lump sum Julia had to give up £6,000 pension. So if Julia had not taken a lump sum she would be getting a pension of £18,000.

At the end of the pension input period on 31 May 2012 Julia has £10,000 pension still to take.

The pension input amount ends in the 2012-13 tax year. Assume that the annual increase in the CPI to September 2011 is 3 per cent.

Calculating the opening value

Julia's opening value for scheme is calculated as:

Find amount of annual pension

£26,500

Multiply annual rate of pension by flat factor of 16

£26,500 x 16 = £424,000

Add amount of separate lump sum

There is no separate lump sum = £424,000

Increase by CPI

£424,000 x 1.03 = £436,720

Julia's opening value is £436,720.

Calculating the closing value

Without any adjustment for the **BCE** Julia's closing value would be £160,000 (£10,000 x 16). This does not reflect the fact that Julia has built up extra pension benefits over the pension input period. An amount equivalent to the BCE needs to be added back into the closing value. The adjustment to the closing value is made at step 1 by adding back the amount of pension taken. This is the gross amount of pension; the amount that would have been paid to Julia if she had not taken a lump sum. This is £18,000.

Find amount of annual pension

Remaining pension + Pension taken

£10,000 + £18,000 = £28,000

Multiply annual rate of pension by flat factor of 16

£28,000 x 16 = £448,000

Add amount of separate lump sum

There is no separate lump sum = £448,000

Julia's closing value is £448,000.

Finding the pension input amount

Julia's pension input amount is the difference between her closing value and her opening value. This is:

£448,000 - £436,720 = £11,280

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Draft amendments to the Registered Pension Schemes Manual (RPSM) for the draft Finance Act 2004 (Registered Pension Schemes and Annual Allowance Charge) (Amendment) Order

Draft amendments to an existing page of the RPSM are highlighted

RPSM06107091 - Technical pages: annual allowance: from 6 April 2011: pension input amounts: examples of adjustments to the closing value: scheme administrator has paid an amount of the member's annual allowance charge for any tax year: defined benefits and cash balance arrangements: scheme pays for tax year in which member becomes entitled to all benefits under the scheme or BCE 5, 5A or 5B occurs

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[s232(8C) & (8D), s236(8C) & (8D) & s237B FA04] [The Finance Act 2004 (Registered Pension Schemes and Annual Allowance Charge) (Amendment) Order 20XX (20XX/XXXX)]

Certain events can cause the closing value of the member's benefits in a pension input period to be bigger or smaller than they would otherwise be. In these circumstances an adjustment must be made to the amount of the closing value in the pension input period in which the event occurred.

RPSM06107030 (for **defined benefits arrangements**) and RPSM06107040 (for **cash balance arrangements**) have more details about the adjustments that must be made to the closing value of a member's benefits.

One of the events that could cause the value of the member's rights to be smaller than they would otherwise be is where a member's benefit rights under a defined benefits arrangement or **cash balance arrangement** have been reduced because the **scheme administrator** has paid an amount of the member's **annual allowance charge** for a tax year.

RPSM06109000 onwards has more details about when a pension scheme pays an amount of a member's annual allowance charge.

Where the member's benefits (pension and, if applicable, separate lump sum) have been reduced during a pension input period as a result of the scheme paying an amount of the member's annual allowance charge, that reduction is added back to the member's benefit rights at the end of the pension input period before working out the closing value.

However, such an 'add-back' is not made in the following circumstances.

The circumstances are where

- the reduction to the member's entitlement to benefits under an arrangement in a pension scheme is in respect of a liability to the annual allowance charge that arose before XX [month] [year](date Order comes in force)
- the member's benefit rights are reduced in a pension input period, and
- the reduction relates to an amount of annual allowance charge that the scheme administrator has been required to pay for a particular tax year – 'tax year 1', and
- in tax year 1
    - the member became entitled to all benefits under the pension scheme in question, or
    - a **BCE** 5, 5A or 5B occurred for the member under the pension scheme, and
- the member's notice requiring the scheme administrator to pay the amount of annual allowance charge for tax year 1 was given to the scheme administrator before the member became entitled to all benefits under the pension scheme (or before the BCE 5, 5A or 5B occurred).

Normally a notice electing to require a scheme administrator to pay an amount of annual allowance charge for a tax year cannot be given to the scheme administrator before the end of that tax year. An exception to this rule is where the member is going to become entitled to all benefits under the scheme, or a BCE 5, 5A or 5B occurred for the member, in the tax year for which the notice is to be given. Then the notice must be given before the member becomes entitled to all the benefits (or before the BCE 5, 5A or 5B occurs). (This paragraph explains the

position as it stood before XX [month] [year](after 6 month period beginning with date Order comes into force).)

RPSM06109060 has more details about when members must give their notice to a scheme administrator if they decide to elect to require their scheme to pay all, or part, of their annual allowance charge for a tax year.

Note that if, in the same pension input period, a reduction is made for an amount of annual allowance charge relating to a tax year before tax year 1, only the reduction relating to the charge for tax year 1 is not added back. The reduction relating to the charge for the earlier tax year (or tax years) must be added back to the member's benefit rights at the end of the pension input period before working out the closing value. Note a reduction in the same pension input period for an amount of annual allowance charge relating to a tax year after tax year 1 would not be possible. This is because a notice can only be given before the end of a tax year if it is for a charge in the tax year that the member takes all their benefits under the pension scheme (or BCE 5, 5A or 5B occurs). Otherwise the member must wait until after the end of the tax year in question to give a notice for the following tax year, irrespective of whether the notice is given on the 'mandatory' or voluntary basis.

The following examples show how different annual allowance charge liabilities can occur for the tax year in which all benefits are taken under the pension scheme (or BCE 5, 5A or 5B occurs) depending on whether the member has elected to require the pension scheme to pay or the scheme pays on a voluntary basis.

The data used for the examples is

George is a member of a defined benefits pension scheme. This is George's only pension saving

Annual allowance charge liability is for the tax year 2012-13

The annual allowance for 2012-13 is £50,000

For the purpose of these examples the annual allowance charge will apply at a rate of 40% on the pension savings George has in excess of the annual allowance

The pension input period runs from 1 November 2011 to 31 October 2012

The member becomes entitled to all benefits under the scheme on 30 April 2012

CPI increase for the 12 months to September 2011 is 5.2%

George's benefit rights under the pension scheme arrangement immediately before 1 November 2011 is a pension entitlement of £20,000 per annum and at the time of becoming entitled to all his benefits under the scheme George has a pension entitlement of £25,500 per annum

George has available unused annual allowance to carry forward from the previous three tax years of £2,000.

Example 1 – member elects to require the scheme to pay the annual allowance charge and the trustees choose to put the reduction through before the member's entitlement to pension is finalised instead of after finalising the entitlement

Note – this example has application only in respect of an annual allowance charge liability that arose before XX [month] [year](date Order comes in force). For an annual allowance charge liability occurring on or after XX [month] [year](date Order comes in force) Example 2 below would apply equally for a case where the member has elected to require the scheme to pay the amount of annual allowance charge.

George plans to retire on 30 April 2012 (which is before the end of the pension input period), and would become entitled to all benefits under the pension scheme which would be a pension of £25,500 per annum (he does not plan to commute any of this for a lump sum).

George decides that he will elect to require his pension scheme to pay his annual allowance charge liability for 2012-13. Based on his anticipated pension of £25,500 George estimates that his annual allowance charge for 2012/13 would be £7,744.

Opening value is

[£20,000 x 16 = £320,000] x 1.052 = £336,640

Anticipated closing value is

£25,500 x 16 = £408,000

Anticipated pension input amount is £71,360 (£408,000 - £336,640)

George's anticipated pension input amount is more than £50,000.

After taking into account the annual allowance for 2012-13 and carrying forward his available unused annual allowance George anticipates that he has to pay an annual allowance charge on £19,360 (£71,360 – [£50,000 + £2,000]).

Based on his expected income for the tax year George's reasonable estimation of the amount of annual allowance charge that he will have to pay is £7,744 (£19,360 x 40%).

Because George will become entitled to all of his benefits under the scheme on 30 April 2012 his notice must be received by the scheme administrator before that date.

Before sending his notice, George discusses with the scheme administrator the implications of electing to require the scheme to pay. The scheme administrator tells George his benefits would be reduced to take account of the estimated amount of annual allowance charge that George will put in his notice. Also the administrator tells George that if he gives the scheme notice to pay his annual allowance charge before he takes his benefits, scheme policy is that his pension benefits would be reduced to take account of the amount of annual allowance charge that the scheme administrator would be required to pay before he actually became entitled to all of his benefits on 30 April 2012.

The notice George gives to the scheme administrator is for an estimated amount of £7,744 and the resulting pension reduction before George becomes entitled to all of his benefits under the pension scheme is £7,744/19 = £407 per annum. (The scheme administrator values George's pension at £19 per £1 per annum so £407 = £7,744/19.)

Before the end of the pension input period George retires and becomes entitled to all benefits under the pension scheme. George is granted a pension of £25,093 per annum (£25,500 less £407). (George does not commute any of his pension for a lump sum.)

Without a closing value adjustment the value of George's benefit rights at the end of the pension input period would be nil (no uncrystallised benefit at the end of the pension input period). But because there has been a BCE 2 there is a closing adjustment that takes the BCE 2 into account. However, there is no further adjustment to include the reduction to George's pension as a result of the scheme administrator paying George's estimated annual allowance charge for 2012-13.

At the end of the pension input period the closing value is

[£25,500 - £407] x 16 = £401,488

George's pension input amount is £64,848 (£401,488 - £336,640).

After taking into account the annual allowance for 2012/13 and carrying forward his available unused annual allowance George has to pay an annual allowance charge on £12,848 (£64,848 – [£50,000 + £2,000]).

At the close of 2012/13 George is able to establish that his actual annual allowance charge for 2012/13 is £5,139 (£12,848 x 40%).

George gives an amended notice to the scheme administrator for the actual amount of annual allowance charge for 2012-13 of £5,139. The rate of George's ongoing pension is increased to reflect the amount of annual allowance charge in the amended notice.

Note that the calculations in this example apply when, and to the extent that, a reduction is made by the scheme administrator before the date of the individual becoming entitled to all benefits under the pension scheme during the pension input period. If an upward adjustment is made to the pension after the end of the pension input period (in this example the pension input period does not end until 31 October 2012), for example because of more information emerging about the annual allowance charge, this does not change the annual allowance charge because the adjustment occurs after the last pension input period for the individual under the arrangement is closed. (An upward adjustment might arise because the annual allowance charge paid by the scheme administrator turns out to be above the individual's actual charge for the tax year. This might happen because of new, or corrected, data emerging, so that the adjusted pension put in

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place was too low resulting in the scheme administrator claiming a refund and making the consequential upward adjustment.)

(Correspondingly if a downward adjustment is made to the pension following the initial reduction, after the end of the pension input period, for example because the individual finds that the annual allowance charge was higher and gives an amended notice for an additional amount of annual allowance charge, this does not change the annual allowance charge for the tax year because the adjustment occurs after the last pension input period for the individual under the arrangement is closed. However, note that reducing the pension after it has come into payment may result in an unauthorised payment where the reduction occurs before 6 April 2013. From 6 April 2013 the specific circumstances in which a scheme pension in payment can be reduced have been extended to include a reduction as a consequence of the scheme administrator paying an amount of the member's annual allowance charge (see RPSM06109080).)

The scheme administrator might not apply a reduction for the charge before the benefit rights become crystallised as pension. It might be that the unreduced pension is put into payment as an entitlement and the reduction for the annual allowance charge for the tax year is put through later (because of scheme processes or policy). In such circumstances the annual allowance charge would then reflect the amount based on the unreduced pension (in this example the charge would be based on the unreduced pension of £25,500 per annum that would result in a charge of £7,744). Note - reducing a **scheme pension** after it has come into payment (or indeed after it has become an entitlement) may result in an unauthorised payment (see RPSM06109080) and if so, also has potential implications for the any **pension commencement lump sum** that might be drawn.

Example 2 – scheme pays the annual allowance charge on a voluntary basis

Instead of being under one pension scheme, George's pension savings are split equally between two pension schemes – 'Scheme 1' and 'Scheme 2'.

The pension input period runs from 1 November 2011 to 31 October 2012 in both schemes and George becomes entitled to all benefits under both schemes on 30 April 2012.

Though George estimates that his annual allowance charge for 2012-13 will be £7,744 based on his total pension input amount across both schemes he cannot elect to require either of his pension schemes to pay an amount of his liability.

However, Scheme 2 voluntarily agrees to pay all of George's annual allowance liability. As George will be asking the scheme to pay an amount of annual allowance for a tax year in which he will become entitled to all benefits under the scheme, Scheme 2 follows the same basis for 'mandatory' scheme pays and requires George to give his notice for voluntary scheme pays before he becomes entitled to all of his benefits under the scheme.

Scheme 1

The opening value for Scheme 1 is

[£10,000 x 16 = £160,000] x 1.052 = £168,320

Before the end of the pension input period for Scheme 1 George retires and becomes entitled to all benefits under the pension scheme. George is granted a pension of £12,750 per annum (he does not commute any of this for a lump sum).

Without the closing value adjustment George's closing value under Scheme 1 would be nil (no uncrystallised benefit). But because there has been a BCE 2 there is a closing adjustment. The closing value is therefore calculated as:

Closing value is

£12,750 x 16 = £204,000

Pension input amount for Scheme 1 is £35,680 (£204,000 - £168,320)

Scheme 2

The opening value for Scheme 2 is

[£10,000 x 16 = £160,000] x 1.052 = £168,320

Before the end of the pension input period for Scheme 2 George plans to retire, and would become entitled to all benefits under the pension scheme which would be a pension of £12,750 per annum (he does not plan to commute any of this for a lump sum).

George discusses with the scheme administrator the implications of Scheme 2 voluntarily paying all of his estimated annual allowance charge liability of £7,744. The administrator tells George that his pension would be reduced to take account of the estimated amount of annual allowance charge that George asked the scheme to pay and that the adjustment would be made before he became entitled to his anticipated pension of £12,750.

George asks the scheme administrator to pay an amount of £7,744 and the resulting pension reduction before George becomes entitled to all of his benefits under the pension scheme is £7,744/19 = £407 per annum. (The scheme administrator values George's pension at £19 per £1 per annum so £407 = £7,744/19.).

Before the end of the pension input period for Scheme 2 George retires and becomes entitled to all benefits under the pension scheme. George is granted a pension of £12,343 per annum (£12,750 less £407). (George does not commute any of his pension for a lump sum.)

Without a closing value adjustment the value of George's benefit rights at the end of the pension input period would be nil (no uncrystallised benefit at the end of the pension input period). But because there has been a BCE 2 there is a closing adjustment that takes the BCE 2 into account.

However, a further adjustment applies here (that is not triggered under Example 1). There is also a closing value adjustment for the amount of pension that George gave up as a result of Scheme 2 paying his annual allowance charge on a voluntary basis (because this counts as a 'surrender, allocation or similar action' option available to the member under provisions in George's pension arrangement (as opposed to available because of a statutory requirement) to reduce the annual rate of pension that George would otherwise have been entitled to under that arrangement).

The circumstances in which Scheme 2 has paid George's annual allowance charge are similar to those in Example 1 because Scheme 2 has paid an amount of George's annual allowance charge liability for the tax year in which George became entitled to all benefits under Scheme 2 and George asked the scheme to pay before he became entitled to his benefits. However, the requirement in Example 1 that the reduction in George's benefits to take account of the annual allowance charge is not added back to the closing value of his benefits at the end of the pension input period does not apply for voluntary scheme payments.

The closing value is therefore calculated as:

Closing value is

[£12,343 (BCE 2 amount) + £407 (scheme pays adjustment)] x 16 = £204,000

Pension input amount for Scheme 2 is £35,680 (£204,000 - £168,320)

George's total pension input amount is £71,360 (£35,680 + £35,680)

George's total pension input amount is more than £50,000

After taking into account the annual allowance for 2012-13 and carrying forward his available unused annual allowance George has to pay an annual allowance charge on £19,360 (£71,360 – [£50,000 + £2,000]).

George's annual allowance charge is £7,744 (£19,360 x 40%), which Scheme 2 has paid on a voluntary basis.

Example 3 – as Example 1 or Example 2 except that the member decides to commute some pension for a lump sum

In the above examples George decided not to commute any pension for a lump sum even though this was an option under the scheme rules. Had George drawn a pension commencement lump sum, this would have made no difference to the amount of annual allowance charge due. When benefits are drawn the commutation for the lump sum is 'unwound' (RPSM06107200 has more details).

Example 4 – as Example 1 or Example 2 except that the member becomes entitled to all benefits in 2011/12 but during the pension input period ending in 2012/13

The pension input period in Example 1 began in 1 November 2011 and ended on 31 October 2012 - i.e. the pension input period ended in the tax year 2012-13. As such, the annual allowance charge for 2012/13 relating to that pension input period cannot be known for certain until 5 April 2013. Because George is drawing all of his benefits in this same tax year (i.e. on 30 April 2012) he must give his notice electing the scheme to pay his annual allowance charge for tax year 2012-13 before he becomes entitled to all his benefits. This means that George can give only a reasonable estimate of the annual allowance charge that will be due for 2012-13, as identified in Example 1.

However, if George drew all benefits on 31 March 2012 (so during the 2011-12 tax year albeit in a pension input period that will end in 2012-13) the requirement in Example 1 that the reduction in the member's benefits to take account of the annual allowance charge is not added back to the closing value of the benefit rights at the end of the pension input period would apply only in relation to an annual allowance charge relating to the pension input period ending in that same tax year, that is, the pension input period ending 31 October 2011. Any annual allowance charge for accrual of benefits for the period 1 November 2011 to 31 March 2012 would have to follow the 'normal' scheme pays rules.

In these circumstances, any reduction for an annual allowance charge that is attributable to the period 1 November 2011 to 31 March 2012 could not be made until 6 April 2013, by which time the pension would have been in payment for over a year. As noted in Example 1 above, if the reduction in a scheme pension in payment occurred before 6 April 2013 it would have resulted in unauthorised payment charges unless the circumstances set out in the tax legislation at that time, which did not then include a reduction to meet an annual allowance charge, applied. From 6 April 2013 the specific circumstances in which a scheme pension in payment can be reduced have been extended to include a reduction as a consequence of the scheme administrator paying an amount of the member's annual allowance charge. (RPSM09101510 has more details about the circumstances in which a scheme pension may be reduced or stopped.)

It would not be possible to make a reduction to the starting pension in relation to the charge arising for the period 1 November 2011 to 31 March 2012 under the voluntary scheme pays approach. Except where notices are for a tax year in which all benefits are taken under the pension scheme (or BCE 5, 5A or 5B occurs), a notice for a particular tax year cannot be given until the end of that tax year whether on a 'mandatory' or voluntary basis. (This paragraph explains the position as it stood before XX [month] [year](after 6 month period beginning with date Order comes into force).)

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Draft amendments to the Registered Pension Schemes Manual (RPSM) for the draft Finance Act 2004 (Registered Pension Schemes and Annual Allowance Charge) (Amendment) Order

Draft amendments to an existing page of the RPSM are highlighted

PROPOSED NEW PAGE

RPSM06107095 - Technical Pages: Annual allowance: From 6 April 2011: Pension input amounts: Examples of adjustments to the closing value: Block transfers

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Defined benefits and cash balance arrangements: examples of adjustments to closing values – block transfers

[s232(6A)-(6D) & 236(5A)-(5D) FA04] [The Finance Act 2004 (Registered Pension Schemes and Annual Allowance Charge) (Amendment) Order 20XX (20XX/XXXX)]

The guidance in this page covers 'block transfers' only.

General background

RPSM06107090 has details about the usual way for calculating the adjustment to the **pension input amount** for a **defined benefits arrangement** or **cash balance arrangement** to take account of the transfer of sums or assets ('transfer payment') into, or out of, the arrangement during a **pension input period**.

In particular RPSM06107090 explains that an increase in benefits under the **arrangement** in relation to a transfer payment in is not included as part of the pension input amount provided there is a direct link between that increase in benefits and the amount of the transfer payment (i.e. the amount of sums or assets transferred has funded that increase in benefits). Otherwise part of the increase in benefits relating to the transfer in that has not been funded by the transfer payment in would be included in the pension input amount.

Transfers that take place within a block transfer

The requirement in RPSM06107090 for the adjustment to the pension input amount relating to a transfer to be directly linked to the amount of the transfer payment does not apply in the following circumstances.

The circumstances are where a

- transfer payment (a transfer of sums assets) is made from an arrangement under one registered pension scheme ('transferring arrangement') to an arrangement under another registered pension scheme ('receiving arrangement')
- the transfer payment is within a block transfer
- the value of the benefits payable to, or in respect of, the individual under the transferring arrangement is reduced in connection with the transfer payment
- the value of the benefits payable to, or in respect of, the individual under the receiving arrangement is increased in connection with the transfer payment
- the reduction in the transferring arrangement is equal (or virtually equal) to the increase in the receiving arrangement, and
- the transfer payment is not part of an arrangement the main purpose (or one of the main purposes) of which is the avoidance of tax.

Where block transfer occurs it is not always possible to readily attribute an amount of the transfer payment to each transferring member. The above approach means that, in practice, such an attribution is not essential.

Where the conditions above are met, it will be sufficient to make the adjustment to the closing value for a defined benefits arrangement by reference to the reduction to the pension (and, if

applicable, the amount of separate lump sum) under the transferring arrangement, and the increase to the pension (and, if applicable, separate lump sum) in the receiving arrangement, in connection with the block transfer.

In the case of a cash balance arrangement the adjustment would be by reference to the reduction or increase to the rights available to provide benefits under the transferring and receiving arrangements respectively.

Meaning of block transfer

A 'block transfer' means a transfer involving a group of **members** (i.e. at least two members) from one registered pension schemes to another, such as due to an employer rearranging its pension schemes or as part of a business transaction.

The transfer must be in a single transaction and represent of all the sums and assets held for the purposes of (or representing accrued rights under) the **arrangements** under the **pension scheme** from which the transfer is made, which relate to the group of members in question of that pension scheme.

To be a single transaction

- all of the sums and assets must be transferred from the transferring scheme to only one receiving scheme. Two or more partial transfers to two or more different schemes cannot be a transfer in a single transaction; and
- the transaction must be made under a single agreement for a single transfer between the two schemes.

It is not necessary that all of the sums and assets are all physically passed from the transferring scheme to the receiving scheme on the same day - there may be legal or administration reasons why this is not possible. However they should all be transferred in relation to the agreement to transfer and within a reasonable timescale.

Meaning of value of benefits being equal or virtually equal

There must be a comparison between the value of the benefits (i.e. the 'capital' value) in the transferring arrangement and the value of the benefits in the receiving arrangement.

The valuation is by reference to the bundle of rights relating to the member, being benefits to be paid to the member and any benefits to be paid on the member's death, such as dependants' pensions and lump sum death benefits.

The valuation must be by reference to the bundle of rights as they stood at the time of transfer, by comparing the value of the bundle of rights in the transferring and receiving arrangements immediately before and immediately after the transfer.

In effect the reduction in value in the transferring arrangement must be the same, or not materially different to, the increase in value in the receiving arrangement.

Normal actuarial practice, allowing for the specific circumstances, must be used when establishing and comparing the value of benefits in relation to the transferring and receiving arrangements with consistent assumptions being used in respect of both arrangements.

In practice this means actuaries using a set of appropriate assumptions (for example future longevity, future inflation, investment returns and discount rates) that are within a reasonable range to determine the value of the bundle of rights in both the transferring and receiving arrangement.

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Draft amendments to an existing page of the RPSM are highlighted.

Examples of where the value of the benefits is equal or virtually equal

An example of where a reduction in the value of the bundle of rights in the transferring arrangement would be equal to the increase in value in the receiving arrangement is where the benefits granted in the receiving arrangement are a 'mirror image' of the benefits given up in the transferring arrangement i.e. the scheme member has identical rights before and after the transfer.

Another example is where the benefits granted in the receiving scheme are not a mirror image of the benefits given up but only because of a difference in accrual rate between the arrangements (such as the transferring arrangement having an accrual rate of '80ths' and the receiving arrangement '60ths') and/or a different normal pension age (such as age 60 in one and age 65 in the other).

In such cases, the amount of a member's pension granted in to receiving arrangement might be greater than the amount of pension given up in the transferring scheme but only because the normal pension age has changed from age 60 to age 65 and the increased amount of pension is merely a reflection of the later age from which it is due to be paid. So the 'capital' value of the benefits before and after the transfer may be the same even if the benefits to be paid under transferring and receiving arrangements may be different.

An example of where a reduction in the value of the bundle of rights in the transferring arrangement would be virtually equal to the increase in value in the receiving arrangement is where the values of the bundle of rights immediately before and after the transfer are not materially different. Such cases may arise where there is a minimum amount of rounding up for reasons of simplicity or where the actuary must confirm, by reference to independently pre-determined parameters, that the benefits being granted under receiving arrangement are comparable with the benefit being given up under the transferring arrangement (i.e. the value of the benefits granted is not significantly less or more than the value of the benefits given up).

Why have the block transfer provision?

The block transfer provisions are aimed primarily at cases where

- an employer is restructuring its pension schemes
- the restructuring involves accrued defined benefit rights being transferred from one pension scheme (the 'transferring scheme') to another (the 'receiving scheme'),
- there is a transfer of sums and assets from the transferring scheme to the receiving in connection with the transfer of the accrued defined benefit rights (the 'transfer payment'), but
- the transferring scheme is underfunded at the time of restructuring of the pension schemes, which means
- the amount of the transfer payment made in connection with the transfer of the accrued rights from the transferring scheme would not fully fund the grant of those accrued rights in the receiving scheme, and
- the nature of the block transfer makes it difficult to readily attribute an amount of the transfer payment to each transferring member.

What are the adjustments to the closing value calculation?

For a defined benefits arrangement

- in the case of the transferring arrangement
    - add back to the closing value the amount of pension (and separate lump sum if appropriate) in respect of the scheme member that was included in the decrease to the value of the bundle of rights See RPSM06107096.

- in case of the receiving arrangement
  - deduct from the closing value the increase to the amount of pension (and separate lump sum if appropriate) in respect of the scheme member, that was included in the increase to the value of the bundle of rights. See RPSM06107096.

For a cash balance arrangement

- in the case of the transferring arrangement
  - add back to the closing value the amount of the decrease in rights available to provide benefits
- in case of the receiving arrangement
  - deduct from the closing value the amount of increase in rights available to provide benefits.

Application of the block transfer provisions

The block transfer provisions described on this page were introduced XX [month] [year](date Order comes in force) with retrospective effect so that they apply for pension input periods ending in the tax year 2011-12 and subsequent tax years.

In some unusual cases, the net effect of the block transfer adjustments for transferring and receiving arrangements may increase a scheme members' liability to tax compared to the calculation for transfers that are not block transfers (see RPSM06107090).

This may arise, for example, in some cases where an **annual allowance charge** arises for the year of transfer and the rate of pension payable under the receiving arrangement is lower than that in the transferring arrangement.

In such cases, the block transfer adjustment for the transferring arrangement only has effect for transfers arising on or after XX [month] [year](date Order comes in force).

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Draft amendments to the Registered Pension Schemes Manual (RPSM) for the draft Finance Act 2004 (Registered Pension Schemes and Annual Allowance Charge) (Amendment) Order

Draft amendments to an existing page of the RPSM are highlighted

PROPOSED NEW PAGE

RPSM06107096 - Technical Pages: Annual allowance: From 6 April 2011: Pension input amounts: Examples of adjustments to the closing value: Block transfers: Examples

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Block transfer examples

[s232(6A)-(6D) & 236(5A)-(5D) FA04] [The Finance Act 2004 (Registered Pension Schemes and Annual Allowance Charge) (Amendment) Order 20XX (20XX/XXXX)]

Example – 'mirror image' benefits

Alec is a member of a final salary pension scheme ('scheme 1').

His pension benefit builds up at a rate of 1/60th of final pay for each year of scheme membership and he has an option to commute some of his pension for a lump sum.

At the start of his **pension input period**, Alec has 15 years scheme membership and his 'final pay' is £65,000.

The pension forms part of a bundle of benefit rights in scheme 1 which are payable to or in respect of Alec.

The other benefit rights are that Alec's pension will increase at a set rate when in payment, the amount of payable pension is enhanced if Alec retires early on ill-health grounds, a defined lump sum payable on Alec's death in service and dependants' pensions up to certain limits payable in the event of Alec's death before or after drawing his benefits.

During the pension input period in question Alec's employer reorganises its pension schemes by transferring all of the sums and assets held by scheme 1 together with all the liabilities of scheme 1 to another final salary pension scheme ('scheme 2').

This results in all of the bundle of rights relating to Alec in scheme 1 being transferred to scheme 2 as part of a block transfer (Alec's accrued benefits are transferred along with all the accrued benefits of all of the other members of scheme 1).

Alec's pension benefit in scheme 2 also builds up at a rate of a pension of 1/60th of final pay for each year of scheme membership together with an option to commute some of his pension for a lump sum.

The pension forms part of a bundle of benefit rights in scheme 2 which are payable to or in respect of Alec. The other benefit rights are the same as those for scheme 1.

It is established by way of normal actuarial practice that the value of the bundle of rights relating to Alec in scheme 1 immediately before the block transfer is the same as the value of the bundle of rights which are granted in scheme 2 in relation to Alec immediately after the block transfer.

For the purpose of this example, the annual increase in **CPI** to the September before the tax year is 3.2 per cent.

Also the pension input periods for both scheme 1 and scheme 2 end in the same tax year.

Calculating the opening values

Alec's opening value for scheme 1 is calculated as:

Find amount of annual pension

15/60 x £65,000 = £16,250

Multiply annual rate of pension by flat factor of 16

£16,250 x 16 = £260,000

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Add amount of separate lump sum

£260,000 + £0 (there is no separate lump sum) = £260,000

Increase by CPI

£260,000 x 1.032 = £268,320

The opening value for scheme 1 is £268,320

The opening value for scheme 2 is nil (Alec is a new member at the start of the pension input period for the arrangement under scheme 2).

Calculating the closing values

The closing values for both scheme 1 and scheme 2 need to be adjusted because of the block transfer. If this was not done the pension input amounts for both schemes would not be correct. This adjustment is only needed for the pension input period that the transfer takes place.

Without an adjustment the closing value for scheme 1 would be nil (as all the benefits rights relating to Alec have been transferred to scheme 2).

The amount of Alec's pension that formed part of the bundle of benefit rights immediately before the block transfer out is added back to the closing value for scheme 1. At the point the bundle of benefit rights relating to Alec were transferred he had built up a pension of £16,800 in scheme 1.

This means that the closing value for scheme 1 is:

Find amount of annual pension

£16,800

Multiply annual rate of pension by flat factor of 16

£16,800 x 16 = £268,800

Add amount of separate lump sum

£268,800 + £0 (there is no separate lump sum) = £268,800

The closing value for scheme 1 is £268,800.

At the point of the block transfer into scheme 2 Alec is granted a pension of £16,800 as part of the bundle of rights that formed the block transfer-in.

In the pension input period for scheme 2 Alec builds up a further amount of pension of £800. This makes his total annual pension under scheme 2 at the end of the pension input period £17,600.

Without an adjustment to take account of the block transfer, the closing value for scheme 2 would be £281,600 (£17,600 x 16).

To find the closing value for scheme 2 the effect of the block transfer is taken into account by deducting from the amount of pension built up at the end of the pension input period (£17,600) the amount of the amount of the pension that was granted in scheme 2 immediately after the block transfer-in of the bundle of rights (£16,800).

The closing value for the pension input period is based only on the benefit rights built up under scheme 2 further to the pension granted in scheme 2 as part of the block transfer-in - that is a further amount of pension of £800.

The closing value for scheme 2 is:

Find amount of annual pension

£800

Multiply annual rate of pension by flat factor of 16

£800 x 16 = £12,800

Add amount of separate lump sum

£12,800 + £0 (there is no separate lump sum) = £12,800

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The closing value for scheme 2 is £12,800.

Finding the pension input amounts

Alec's pension input amounts are:

For scheme 1: closing value (£268,800) - opening value (£268,320) = £480

For scheme 2: closing value (£12,800) - opening value (nil) = £12,800

As Alec is not a member of any other arrangement his **total pension input amount** for the tax year is £13,280 (£480 + £12,800).

For future tax years, the pension input amount is calculated as normal, with no adjustment for the block transfer.

Example – not 'mirror image' but benefits of equal value

Alec is a member of a defined benefits pension scheme ('scheme 1').

His pension benefit builds up at a set rate and he has an option to commute some of his pension for a lump sum.

At the start of his pension input period, Alec has an accrued pension of £14,000pa.

The pension forms part of a bundle of benefit rights in scheme 1 which are payable to or in respect of Alec.

The other benefit rights are that Alec's pension will increase at a set rate when in payment, the amount of payable pension is enhanced if Alec retires early on ill-health grounds, a defined lump sum payable on Alec's death in service and dependants' pensions up to certain limits payable in the event of Alec's death before or after drawing his benefits.

During the pension input period in question Alec's employer reorganises its pension schemes by transferring all of the sums and assets held by scheme 1 for a category of members (which includes Alec) together with all the liabilities of scheme 1 relating to that category of membership to another defined benefits pension scheme ('scheme 2').

This results in all of the bundle of rights relating to Alec in scheme 1 being transferred to scheme 2 as part of a block transfer (Alec's accrued benefits are transferred along with all the accrued benefits of all of the other members of the membership category concerned).

At the time of the block transfer Alec had an accrued pension of £15,000pa in scheme 1.

Alec's pension benefit in scheme 2 also builds up at a set rate with an option to commute some of his pension for a lump sum. However, the amount of pension that Alec is granted in scheme 2 as part of the block transfer is increased to £18,000pa. This is to reflect a later normal pension age in scheme 2 compared to scheme 1.

The pension forms part of a bundle of benefit rights in scheme 2 which are payable to or in respect of Alec. The other benefit rights are the same as those for scheme 1.

It is established by way of normal actuarial practice that the value of the bundle of rights relating to Alec in scheme 1 immediately before the block transfer is the same as the value of the bundle of rights which are granted in scheme 2 in relation to Alec immediately after the block transfer.

By the end of the pension input period for scheme 2 Alec had an accrued pension of £19,000pa.

The pension input period for scheme 1 ends in tax year 2012-13 and the annual increase in **CPI** to the September before the tax year is 5.2 per cent. The pension input period for scheme 2 also ends in tax year 2012-13

Calculating the pension input amounts

Finding opening values

Alec's opening value for scheme 1 is calculated as:

Find amount of annual pension = £14,000

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Multiply annual rate of pension by flat factor of 16

£14,000 x 16 = £224,000

Add amount of separate lump sum

£224,000 + £0 (there is no separate lump sum) = £224,000

Increase by CPI

£224,000 x 1.052 = £235,648

The opening value for scheme 1 is £235,648

The opening value for scheme 2 is nil (Alec is a new member at the start of the pension input period for the arrangement under scheme 2).

Calculating the closing values

The closing values for both scheme 1 and scheme 2 need to be adjusted because of the block transfer. If this was not done the pension input amounts for both schemes would not be correct. This adjustment is only needed for the pension input period in which the transfer takes place.

Without an adjustment the closing value for scheme 1 would be nil (as all the benefits rights relating to Alec have been transferred to scheme 2).

The amount of Alec's pension that formed part of the bundle of benefit rights immediately before the block transfer out is added back to the closing value for scheme 1. At the point the bundle of benefit rights relating to Alec were transferred he had built up a pension of £15,000 in scheme 1.

This means that the closing value for scheme 1 is:

Find amount of annual pension = £15,000

Multiply annual rate of pension by flat factor of 16

£15,000 x 16 = £240,000

Add amount of separate lump sum

£240,000 + £0 (there is no separate lump sum) = £240,000

The closing value for scheme 1 is £240,000.

At the point of the block transfer into scheme 2 Alec is granted a pension of £18,000 as part of the bundle of rights that formed the block transfer-in.

In the pension input period for scheme 2 Alec builds up a further amount of pension of £1,000. This makes his total annual pension under scheme 2 at the end of the pension input period £19,000pa.

Without an adjustment to take account of the block transfer, the closing value for scheme 2 would be £304,000 (£19,000 x 16).

To find the closing value for scheme 2 the effect of the block transfer is taken into account by deducting from the amount of pension built up at the end of the pension input period (£19,000) the amount of the amount of the pension that was granted in scheme 2 immediately after the block transfer-in of the bundle of rights (£18,000).

The closing value for the pension input period is based only on the benefit rights built up under scheme 2 further to the pension granted in scheme 2 as part of the block transfer-in - that is a further amount of pension of £1,000.

The closing value for scheme 2 is:

Find amount of annual pension = £1,000

Multiply annual rate of pension by flat factor of 16

£1,000 x 16 = £16,000

Add amount of separate lump sum

£16,000 + £0 (there is no separate lump sum) = £16,000

The closing value for scheme 2 is £16,000.

The pension input amounts

Alec's pension input amounts are:

For scheme 1: closing value (£240,000) - opening value (£235,648) = £4,352

For scheme 2: closing value (£16,000) - opening value (nil) = £16,000

As Alec is not a member of any other arrangement his total pension input amount for the tax year is £20,352 (£4,352 + £16,000).

For future tax years, the pension input amount is calculated as normal, with no adjustment for the block transfer.

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Draft amendments to the Registered Pension Schemes Manual (RPSM) for the draft Finance Act 2004 (Registered Pension Schemes and Annual Allowance Charge) (Amendment) Order

Draft amendments to an existing page of the RPSM are highlighted

RPSM06107210 - Technical Pages: Annual allowance: From 6 April 2011: Pension input amounts: Deferred member 'carve-out'

Deferred member 'carve-out'

[s230(5B, 5BA 5BB, 5BC, 5BD & 5C) & 234(5B, 5BA, 5BB, 5BC, 5BD, 5BE & 5C) FA04] [The Finance Act 2004 (Registered Pension Schemes and Annual Allowance Charge) (Amendment) Order 20XX (20XX/XXXX)]

An individual who under either a **defined benefits** or **cash balance arrangement** is

- a **deferred member** for the whole of the **pension input period**,
- only a deferred member and then a **pensioner member** for the pension input period, or
- a deferred member from the beginning of the pension input period until
  - there is a **recognised transfer** from the pension scheme of all the sums or assets held for the purposes of, or representing accrued rights under, the arrangement in connection with the individual, and
  - after the transfer, no rights accrue under the arrangement (from which rights have been transferred) to (or in respect of) the individual during any remaining part of the pension input period

is treated as having no **pension input amount** (pensions saving) for that **arrangement** if the following conditions are met.

For the arrangement to be treated as having no pension input amount any increase in the member's benefits under the arrangement cannot be more than the sum of

- the 'relevant percentage', and
- the 'relevant statutory increase percentage'.

The meaning of 'relevant percentage' and 'relevant statutory increase percentage' is explained in RPSM06107215.

Note - for this purpose rights to a **GMP** do not have to be taken into account when considering the increase in the member's benefits under the arrangement. Effectively, if either of the above conditions are met the rate of increase that must be given to the GMP can be ignored.

This is a two part test: is the member a deferred member (in the tax definition sense)? Is the increase more than is permitted under the legislation? Failing either limb of the test means the 'nil' pension input amount treatment does not apply, and changes over the pension input period in the members entitlement may use up annual allowance.

This is referred to in this guidance as the 'deferred member carve-out' or 'carve-out'.

Note certain deferred pensioners might count as having a nil pension input amount in an arrangement for a reason that is separate from the 'deferred member carve-out'. The reason is explained below: in summary, it is because they became a deferred member (as defined for the purposes of tax rules) under the arrangement before 6 April 2006 and have remained a deferred member for tax rule purposes since then.

There is a further circumstance when a defined benefits arrangement which is under a deferred annuity contract might have a nil pension input (see RPSM06107255).

Meaning of deferred member
Pre-6 April 2006 deferred members
Members with deferred benefits and continued employment link
Members joining a scheme on or after 14 October 2010 and then leaving
Cumulative increases
Partial crystallisation of deferred benefits
Revaluation rate for deferred members linked to continuing service

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Members with continuing life cover
Members with continuing ill-health cover

Transferring in deferred benefits

Meaning of deferred member

A deferred member is defined by elimination. Such an individual must not be an **active member** or a pensioner member. In particular, an individual is an active member of a **registered pension scheme** if there are currently arrangements made under the pension scheme for the accrual of benefits to or in respect of the person. This definition needs to be read in the context of a per-arrangement rather than per-scheme test for the annual allowance deferred member carve-out. The concept of 'benefit accrual' is therefore very important in this context.

Note that the definition of deferred member is a definition under the tax rules. Even if the rules of a pension scheme refer to an individual as a deferred member or deferred pensioner this does not necessarily make them one for the purpose of the tax rules.

Pre-6 April 2006 deferred members

In order for the annual allowance provisions to apply to an arrangement of an individual, there must be a pension input period for that arrangement.

A pension input period in relation to an arrangement begins only if there is a 'relevant commencement date'. For a defined benefits or cash balance arrangement, the relevant commencement date is the date on which benefits under the arrangement begin to accrue to, or in respect of, the individual. RPSM06100060 onwards has details about when the first pension input period for an arrangement started before 6 April 2011 and RPSM06106010 has details about when the first pension input period for an arrangement starts on or after 6 April 2011.

The annual allowance provisions do not apply to an arrangement where the member became a deferred member (as defined for the purpose of the tax rules) under that arrangement prior to 6th April 2006, and has remained so from then on.

There would not be a pension input amount to take into account for that arrangement. This is because a pension input period would not have started for that arrangement for as long as benefits do not accrue to, or in respect of, the member under that arrangement on or after that date.

Where a member became a deferred member (as defined for the purposes of the tax rules) before 6th April 2006, the following actions do not constitute benefits beginning to accrue within a defined benefits or cash balance arrangement (and so do not cause loss of deferred member status)

- Where there is a change to the rate at which benefits are revalued in the deferred period, for example moving to a rate that includes as part of its mechanism an index based on RPI from an index based on CPI (so long as, where relevant, the change is not linked to continuing employment)
- The member exercising on or after 6th April 2006 a retirement option granted (by letter or in the scheme rules) before 6 April 2006.

By contrast, where a member of a defined benefits or cash balance arrangement has had accrual under that arrangement after 5th April 2006 (so has a pension input period for the arrangement) and then become a deferred member and so has qualified for the deferred member carve-out, the actions outlined at bullet point 1 or 2 above could cause the deferred member carve-out to be lost. This is because the consequential increases to benefit calculations may exceed the increases permitted under the deferred member carve-out.

Note that it is important to identify that a 'pre-6 April 2006 deferred member' is indeed a deferred member of the arrangement for the purposes of the tax rules. See below for a range of situations where a member may have ceased to accrue retirement benefits but nevertheless not count as being a deferred member for the purpose of the tax rules since before 6 April 2006.

Where this happens, such that there is 'accrual' on or after 6 April 2006 in the arrangement, a pension input period will have started for the arrangement when that post-5 April 2006 accrual started, and the annual allowance provisions will apply.

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Draft amendments to the Registered Pension Schemes Manual (RPSM) for the draft Finance Act 2004 (Registered Pension Schemes and Annual Allowance Charge) (Amendment) Order

Draft amendments to an existing page of the RPSM are highlighted

Members with deferred benefits and continued employment link

For a **defined benefits arrangement** an individual might have 'deferred benefits' to the effect that the amount of their pensionable service is no longer increasing. This might happen when an employer has given defined benefits for a period of time but has changed its pension provision for subsequent service to money purchase. If the individual's pension rights are still based on their current salary and so they increase if they receive a pay rise (even though the length of service is not increasing for the purpose of the defined benefit) the individual is not a deferred member and so the deferred member carve-out does not apply.

Members joining a scheme on or after 14 October 2010 and then leaving

The deferred member carve-out covers an individual joining a **registered pension scheme** after 14 October 2010 and then leaving. This is provided that the revaluation rate applying was in accordance with the rules for members at 14 October 2010 or the increase is no more than the allowable **CPI** increase.

Cumulative increases

In many registered pension schemes, revaluation under the scheme rules is applied cumulatively only when the deferred member reaches the scheme's 'normal pension age', or 'GMP age'.

The deferred member carve-out can apply to such a cumulative increase. This is provided that the revaluation rate applying is in accordance with the rules that were in place on 14 October 2010.

Note – the revaluation of a **GMP** does not have to be taken into account and so automatically forms part of the carve-out.

Partial crystallisation of deferred benefits

Where the carve-out applies in respect of deferred benefits under an **arrangement** that carve-out can continue to apply if there is a partial crystallisation of the deferred benefits during a **pension input period**. This is provided that the conditions for the carve-out continue to be met in relation to the remaining deferred benefits.

Revaluation rate for deferred members linked to continuing service

In relation to an arrangement, a member might, for example, cease accrual of benefit by reference to pensionable salary on 'Date 1' and revaluation then applies at rates specified in the scheme rules as at 14 October 2010 but with one rate applying specifically while the individual remains in service with the current employer, and then once the individual leaves service (at 'Date 2') reverts to the revaluation that applies for other exits.

Where an employed member's accrued pension rights increase at a rate that is higher than would have been the case had the member left the employer's service, then that higher prospective entitlement arises solely in connection with employment and is considered an accrual. As such, the individual is not considered to be a deferred member and the deferred member carve out would not apply to the arrangement(s) in question. Specifically, in the example above, the individual would not be able to rely on the deferred member carve-out before Date 2.

Members with continuing life cover

An employee continuing in service of an employer might cease pensionable service and have revaluation as for leavers from employment generally but continue to have life cover under the scheme while an employee.

In these circumstances the employee could be an active member of an arrangement solely because the arrangement provides life cover. In most cases continuing life cover, itself, would not be a pension input amount. Nevertheless, the continuing life cover could constitute an 'accrual' of benefit and so make the member an active member for the purpose of the tax rules. This might happen, for example, where the continuing life cover is a defined benefit which is based on the employee's salary at the time of death.

However, if the life cover is held within a separate arrangement to that within which the deferred pension is held, the existence of that life cover would not, in itself, prejudice the deferred member

status in the other arrangement. Whether arrangements are separate will depend on the facts, based on the scheme construction.

Members with continuing ill-health cover

An employee might cease accrual of pensionable service (but not actual service) in relation to an arrangement and have revaluation as for leavers from employment generally but continue to have ill-health cover.

For example, no further benefits might accrue in the normal course of events, in the sense that no further benefits build up by reference to further service and salary in relation to the amount of pension that had built up by the time the employee ceased accrual of pensionable service. However, if the member starts to suffer from a long term illness the scheme might grant an enhanced pension of either (a) the accrued pension paid immediately without reduction or (b) as (a) but uplifted to reflect prospective service.

An employee who has ceased accrual of pensionable service could still be an active member in relation to an arrangement solely because of the continuing ill-health cover. As in the life cover case described above, this could constitute an 'accrual' of benefit, depending on its nature. For example the level of ill-health cover could increase by reference to continuing service or salary. However, the continuing life cover might not create an actual pension input amount unless and until such time that the contingent event that triggers an actual benefit entitlement takes place.

If the ill-health cover provided for within an arrangement does not increase by more than revaluation linked to CPI (or the rate set out in the scheme rules on 14 October 2010) the deferred member 'carve-out' could still apply within that same arrangement.

In the event of the contingency that triggers an actual entitlement to the ill-health pension, the deferred member carve-out would not be prejudiced simply by the unreduced payment of the accrued deferred pensioner rights (even if those benefits would not have been paid unreduced had the member left employment).

If at the trigger event an actual entitlement arises under the ill-health cover and there is potentially a pension input amount at that time because the deferred member carve-out falls away there might still not be a pension input amount in relation to the triggering event. This might be the case if that event satisfies the severe ill-health conditions (see RPSM06105030).

As with ongoing life cover, if the ill-health cover does constitute accrual, but it is provided under a separate arrangement to that in which the deferred pension is held, the existence of the ill-health cover would not, in itself, prejudice the deferred pensioner status in the other arrangement. Whether arrangements are separate will depend on the facts, based on the scheme construction.

Transferring in deferred benefits

An individual might qualify as a deferred member in relation to benefit rights held under an arrangement and in turn, if all of the other necessary requirements are met, qualify for the deferred member carve-out.

Those benefit rights might be transferred, by way of a **recognised transfer**, so that the same benefit rights are held under a different pension scheme in replacement of the benefit rights that had been held under the transferring pension scheme.

The grant of the replacement benefit rights under an arrangement under the receiving pension scheme as a result of the transfer would be an accrual of benefits to or in respect of the individual, even though there is no increase in benefit rights between those given up in the transferring scheme and those granted in the receiving scheme.

This means the individual would be an active member in relation to the grant of the replacement benefit rights. This would prevent the individual potentially qualifying for the deferred member carve-out for, at least, the pension input period for the receiving scheme arrangement in which the grant of the benefit rights occurs as a result of the transfer. However such an individual can remain a deferred member in relation to the receiving scheme arrangement provided that

- but for the grant of the replacement benefit rights as a result of the transfer, the individual would otherwise qualify as deferred member in relation to the benefits rights under the receiving scheme arrangement.

Draft amendments to the Registered Pension Schemes Manual (RPSM) for the draft Finance Act 2004 (Registered Pension Schemes and Annual Allowance Charge) (Amendment) Order

Draft amendments to an existing page of the RPSM are highlighted

PROPOSED NEW PAGE

RPSM06107215 - Technical Pages: Annual allowance: From 6 April 2011: Pension input amounts: Deferred member 'carve-out': Meaning of 'relevant percentage' and 'relevant statutory percentage'

'Relevant percentage' and 'relevant statutory percentage'

[s230(5AA, 5B, 5BA & 5C) & 234(5AA, 5B, 5BA, 5BB, 5BC & 5C) FA04] [The Annual Allowance Charge (Amendment) Order 20XX (20XX/XXXX)]

The 'relevant percentage'

The relevant percentage is

- an annual amount of increase required by the pension scheme rules relating to the arrangement, provided the rules were in force on a certain date, and

otherwise

- the increase in the **CPI** over the twelve month period ending with a month that falls within the pension input period (the month having been chosen by the scheme administrator).

Note – for any tax year it is not the greater of the amount required by the pension scheme rules or the CPI measure.

An amount of increase required by the pension scheme rules will be a relevant percentage where the rules setting out the required amount were in force on

- for 'RPI based' increases only, 6 April 2012, or
- for any other case, 14 October 2010.

An 'RPI based' increase means

- an increase produced solely by the movement in the **RPI**, or
- an increase which is the lower of
  - an increase produced solely by the movement in the **RPI**, and
  - a specified percentage figure.

An example of the second limb of an 'RPI based' increase is where the rules require an RPI increase subject to a cap of 3%. If the RPI increase is less than 3% the RPI increase will be given. If the RPI increase is greater than 3%, the increase is 3%.

The 'relevant statutory increase percentage'

This is all, or that part of, the percentage increase in a member's rights under an arrangement which occurs during the **pension input period** which is attributable solely to certain statutory provisions.

Note – a percentage increase given in respect of one, or more, of the certain statutory provisions will count towards the relevant statutory percentage even if the scheme rules do not have an express mention of the certain statutory provision.

Note – if one or more of the certain statutory provisions have been incorporated into the scheme rules an increase in accordance with the scheme rule is recognised once only, as a relevant statutory percentage increase only.

Note – an increase can be regarded as being within the relevant statutory percentage if, for reasons of pension scheme administration, the amount of increase required by the statutory provision is rounded up to the nearest £10.

The statutory provisions concerned are

1. Section 15 of the Pension Schemes Act 1993 or section 11 of the Pension Schemes (Northern Ireland) Act 1993 - providing for increases to a guaranteed minimum pension because its commencement has been postponed
2. Section 16 of the Pension Schemes Act 1993 or section 12 of the Pension Schemes (Northern Ireland) Act 1993 - providing for the revaluation of earnings factors for early leavers
3. Chapter 2 of Part 4 of the Pension Schemes Act 1993 or the Pension Schemes (Northern Ireland) Act 1993 -providing for the revaluation of accrued benefits for early leavers
4. Chapter 3 of Part 4 of the Pension Schemes Act 1993 or the Pension Schemes (Northern Ireland) Act 1993 -providing for the revaluation of guaranteed minimum pension for early leavers
5. Section 67 of the Equality Act 2010 - this provision replaces the previous equal treatment provisions in section 62 of the Pensions Act 1965 and reads into scheme rules a sex equality rule. One effect of the sex equality rule is that it requires men and women to be treated equally in respect of their benefit entitlement for pensionable service from 17 May 1990 onwards.

Note - late retirement increases under Chapter 1 of Part 4 of the Pension Schemes Act 1993 or the Pension Schemes (Northern Ireland) Act 1993 are not relevant statutory increases. This is because schemes must first provide for late retirement uplifts before the legislation can apply, so the increases do not occur solely as a result of the statutory provisions.

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Draft amendments to the Registered Pension Schemes Manual (RPSM) for the draft Finance Act 2004 (Registered Pension Schemes and Annual Allowance Charge) (Amendment) Order

Draft amendments to an existing page of the RPSM are highlighted

RPSM06107230 - Technical Pages: Annual allowance: From 6 April 2011: Pension input amounts: Deferred member - What is meant by rules in force on the Relevant Date

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What is meant by rules in force on the Relevant Date

[s230(5C) & s234(5C) FA04] [The Finance Act 2004 (Registered Pension Schemes and Annual Allowance Charge) (Amendment) Order 20XX (20XX/XXXX)]

One of the conditions for the **deferred member** carve-out in relation to an **arrangement** is that the member's rights do not increase by more than the sum of the 'relevant percentage' and the 'relevant statutory increase percentage'.

RPSM06107210 has more details about the deferred member carve-out.

For this purpose, the 'relevant percentage' means

- an annual percentage rate in force in the scheme rules on the 'relevant date' by which deferred benefits under the arrangement will be increased, and

otherwise

- a CPI increase (see RPSM06107215).

The 'relevant date' means

- for 'RPI based' increases only, 6 April 2012, or
- for any other case, 14 October 2010 (see RPSM06107215).

For the annual rate of increase in respect of an arrangement to be in accordance with a rule that was in force in the scheme rules on the 'relevant date' it might be the case that the arrangement was also in existence under the scheme on that date but it can also include a new arrangement set up under that scheme (or another scheme) after that date.

A new arrangement can include circumstances where

- the new arrangement is created due to
    - a new member starting pensionable service,
    - the pensionable service ceases at a future date without immediate payment of benefits, and
    - the annual percentage rate by which the deferred benefits under the arrangement are increased is determined by a scheme rule that was in force on the 'relevant date', or
- some or all of the sums or assets held for the purposes of the new arrangement derive from an existing arrangement under the same **registered pension scheme** (the 'predecessor arrangement'), and
    - the annual percentage rate by which the deferred benefits under the new arrangement are increased is determined by a scheme rule that had applied to the predecessor arrangement and that scheme rule was in force on the 'relevant date', or
- some or all of the sums or assets held for the purposes of the new arrangement derive from an existing arrangement (the 'predecessor arrangement') under a different registered pension scheme (the 'predecessor scheme'), and
    - the annual percentage rate by which the deferred benefits under the new arrangement are increased is determined by a scheme rule which is the same as a

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scheme rule under the predecessor scheme which had applied to the predecessor arrangement and the predecessor scheme rule was in force on the 'relevant date'.

The circumstances described in the second and third bullet points above allow for an individual to change pension schemes (or change arrangements within the same scheme) either individually or, for example, on a scheme merger, company reorganisation or a business or company sale, and for the uprating terms for deferred members that were included in the transferring scheme on the 'relevant date' to be 'grandfathered' within the receiving scheme (or the same scheme if the transferring arrangements are within the scheme). This is to ensure that the individual is in no worse position on being transferred to the receiving scheme, or new arrangement in the same scheme.

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Draft amendments to the Registered Pension Schemes Manual (RPSM) for the draft Finance Act 2004 (Registered Pension Schemes and Annual Allowance Charge) (Amendment) Order

Draft amendments to an existing page of the RPSM are highlighted

RPSM06107240 - Technical Pages: Annual allowance: From 6 April 2011: Pension input amounts: Deferred member - Discretionary increases

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Discretionary increases

[s230(5C) & s234(5C) FA04] [The Finance Act 2004 (Registered Pension Schemes and Annual Allowance Charge) (Amendment) Order 20XX (20XX/XXXX)]

One of the conditions for the **deferred member** 'carve-out' in relation to an **arrangement** is that the member's rights do not increase by more than the sum of the 'relevant percentage' and the 'relevant statutory increase percentage'.

RPSM06107210 has more details about the deferred member carve-out.

For this purpose, the 'relevant percentage' means

- an annual percentage rate in force in the scheme rules on the 'relevant date' by which deferred benefits under the arrangement will be increased (see RPSM06107230), and

otherwise

- a CPI increase (see RPSM06107215).

However, the annual percentage rate in force in the scheme rules on the 'relevant date' must apply under the scheme provisions automatically. A percentage increase chosen under a discretionary power is not a 'relevant percentage' for the purpose of the deferred member carve-out.

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Draft amendments to an existing page of the RPSM are highlighted

RPSM06107250 - Technical Pages: Annual allowance: From 6 April 2011: Pension input amounts: Deferred member - Late retirement increases by actuarial uplift factors

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Late retirement increases by actuarial uplift factors

[s230(5B & 5C) & 234(5B & 5C) FA04] [The Finance Act 2004 (Registered Pension Schemes and Annual Allowance Charge) (Amendment) Order 20XX (20XX/XXXX)]

Deferred pensions are due to be paid from a 'normal pension age'. There may be provision under the rules of a **registered pension scheme** which allows individuals to defer that benefit until a later date. If so, the deferred pension must, in accordance with preservation requirements, be increased at least actuarially to reflect its late start date and likely shorter pay period.

Typically, scheme rules might express the uplift as that set by the trustees, for example, 'after obtaining the Actuary's advice, is reasonable having regard to the period of postponement; but being reasonably satisfied that the value of the pension payable to the member is at least equal to the value required by the Preservation Requirements'. In general this would not be exercised with an intention to 'add' value.

A typical calculation might be:

- pension due if retiring at age 65 - £50,000 per annum
- pension due if delaying drawing 1 year to age 66 - 10% actuarial uplift so £55,000 per annum
- actual increase in pension - £5,000
- but there is no 'added value' to the pension of £50,000 per annum that was payable at age 65.

The carve-out for **deferred members** can be read to encompass the late retirement actuarial enhancements described above, provided that the scheme rules on late retirement uplift have not changed so as to provide a greater uplift since 14 October 2010 and that the enhancement factor applied can be expressed as a percentage.

A review of the actuarial factors since 14 October 2010 that leads to a higher factor, but which is allowed for within a rule that was in force on 14 October 2010 would not disapply the carve-out provision.

Note – one of the features of the deferred member carve-out is that an increase might be in accordance with a scheme rule that was in force on the 'relevant date'.

The 'relevant date' can be either 14 October 2010 or 6 April 2012. Only the 14 October 2010 date can apply for the purpose of the late retirement actuarial enhancements as the 6 April 2012 date applies only if the increase is '**RPI** based' (RPSM06107215 has more details).

RPSM06107210 has more details about the deferred member carve-out generally.

Draft amendments to the Registered Pension Schemes Manual (RPSM) for the draft Finance Act 2004 (Registered Pension Schemes and Annual Allowance Charge) (Amendment) Order

Draft amendments to an existing page of the RPSM are highlighted

PROPOSED NEW PAGE

RPSM06107255 - Technical Pages: Annual allowance: From 6 April 2011: Pension input amounts: Deferred member 'carve-out': Defined benefits arrangement under a deferred annuity contract

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Defined benefits arrangement under a deferred annuity contract

[s153(8) & s234(5AA, 5BB, 5BC & 5C) FA04] [The Finance Act 2004 (Registered Pension Schemes and Annual Allowance Charge) (Amendment) Order 20XX (20XX/XXXX)]

An individual who has a **defined benefits arrangement** under a deferred annuity contract (the 'annuity contract'), where the annuity contract is

- treated by the tax rules as a registered pension scheme because on or after 6 April 2006 funds have been transferred to the annuity contract to secure benefits payable at a future date and those funds have come from a registered pension scheme (see RPSM02104000 for more detail)

is treated as having no **pension input amount** for that **arrangement** under the annuity contract if the following conditions are met.

For the arrangement to be treated as having no pension input amount the annual increase in the member's benefits under the arrangement cannot be more than the greater of

- the 'annuity rate', and
- the 'relevant statutory increase percentage' (see RPSM06107215).

Note - for this purpose rights to a **GMP** do not have to be taken into account when considering the increase in the member's benefits under the arrangement. Effectively, if either of the above conditions are met the rate of increase that must be given to the GMP can be ignored.

The 'annuity rate' means

- an annual rate of increase specified in the rules of the annuity contract (or a 'predecessor registered pension scheme') on 14 October 2010, or

otherwise

- the greater of
  - the '**CPI** percentage', or
  - the '**RPI** percentage'.

Note the annuity rate is not the greater of the rate specified in the rules on 14 October 2010 and the CPI or RPI percentage.

The 'CPI percentage' means

- the increase in the CPI over the twelve month period ending with a month that falls within the pension input period (the month having been chosen by the **scheme administrator**).

The 'RPI percentage' means

- the increase in the RPI over the twelve month period ending with a month that falls within the pension input period (the month having been chosen by the scheme administrator).

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Draft amendments to the Registered Pension Schemes Manual (RPSM) for the draft Finance Act 2004 (Registered Pension Schemes and Annual Allowance Charge) (Amendment) Order

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A 'predecessor registered pension scheme' means another registered pension scheme from which some or all of the sums or assets held for the purpose of the defined benefits arrangement under the annuity contract derive.

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Draft amendments to the Registered Pension Schemes Manual (RPSM) for the draft Finance Act 2004 (Registered Pension Schemes and Annual Allowance Charge) (Amendment) Order

Draft amendments to an existing page of the RPSM are highlighted

RPSM06107450 - Technical pages: annual allowance: from 6 April 2011: pension input amounts: calculating pension input amounts for carrying forward unused annual allowance from 2008-09, 2009-10, 2010-11

[Section228A Finance Act 2004 & Paragraph 30 Schedule 17 Finance Act 2011] [The Finance Act 2004 (Registered Pension Schemes and Annual Allowance Charge) (Amendment) Order 20XX (20XX/XXXX)]

From the tax year 2011-12 onwards it is possible to carry forward to a current tax year any available unused **annual allowance** from the preceding three tax years.

RPSM06108010 onwards has more details about carrying forward unused annual allowance.

In the case of tax years 2011-12, 2012-13 and 2013-14 respectively one or more of the preceding three tax years will include 2008-09, 2009-10 and 2010-11.

There are transitional rules for working out how much unused annual allowance can be carried forward from the tax years 2008-09, 2009-10 and 2010-11.

For the purpose of the carry forward rules

- the annual allowance for each of the tax years 2008-09, 2009-10 and 2010-11 is deemed to be £50,000 (the actual annual allowance for each of these tax years was greater than £50,000 - see RPSM06100030),
- the method of calculating how much of the deemed annual allowance of £50,000 has been used up for each of the tax years 2008-09, 2009-10 and 2010-11 by reference to the **total pension input amounts** for those tax years is based on the current methods of valuing **pension input amounts** generally, and
- in the case of certain **defined benefits** and **cash balance arrangements** that existed before the start of the first pension input period for the arrangement there are deemed pension input periods before the start of the first pension input period.

RPSM06107010 onwards has more details about the current method for valuing pension input amounts.

More details about the deemed pension input amount are given further down this page of the guidance.

Main application of current method for valuing pension input amounts

For a **defined benefits arrangement** the factor of 16 (rather than the pre 6 April 2011 factor of 10) is used to work out the pension input amount and the opening value is uprated by **CPI**.

The opening value for a **cash balance arrangement** is also uprated by CPI.

The CPI figures to use are

September 2007 (use for 2008-09)	1.8%
September 2008 (use for 2009-10)	5.2%
September 2009 (use for 2010-11)	1.1%
September 2010 (use for 2011-12)	3.1%

In the examples given elsewhere in this guidance 3% may have been used for illustrative purposes only to show how the opening value is uprated in accordance with CPI.

Example

Gordon has an **other money purchase arrangement** and a **defined benefits arrangement**. In 2011-12 Gordon has a total pension input amount of £110,000. In the previous three tax years Gordon had the following inputs

2010-11 - £33,000

2009-10 - £30,000

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2008-09 - £26,000

These are his pension inputs calculated using the pre 2011 methods of valuing pension saving (that is using a factor of 10).

But when calculated using the new methods of valuing pension inputs (that is using a factor of 16 and uprating the opening value by CPI), Gordon's pension inputs are actually £37,000, £33,000 and £29,000.

So using an annual allowance of £50,000 for each of those three years, Gordon has £51,000 unused annual allowance that he can carry forward to 2011-12.

Unused annual allowance to carry forward

2010-11	= £13,000
2009-10	= £17,000
2008-09	= £21,000
	£51,000

This gives him a total available annual allowance for 2011-12 of £101,000. This does not cover all of Gordon's pension saving so there is an **annual allowance charge** due.

Gordon will have to pay the annual allowance charge on the £9,000 pension saving over his available annual allowance.

Deemed pension input period for certain defined benefits and cash balance arrangements

In the case of certain defined benefits arrangements and cash balance arrangements (see RPSM06106010) where the first pension input period ends in any of the tax years 2011-12, 2012-13 and 2013-14, pension input periods are deemed to arise for the three 12 month periods before the first pension input period. These deemed pension input periods are used to determine how much unused annual allowance can be carried forward to the tax years 2011-12, 2012-13 and 2013-14.

Unused allowances from the deemed pension input periods are calculated applying the changes introduced by Schedule 17 Finance Act 2011 but before the effect of The Finance Act 2004 (Registered Pension Schemes and Annual Allowance Charge) (Amendment) Order 20XX (20XX/XXXX)] (other than deeming the pension input periods to arise).

Draft amendments to the Registered Pension Schemes Manual (RPSM) for the draft Finance Act 2004 (Registered Pension Schemes and Annual Allowance Charge) (Amendment) Order

Draft amendments to an existing page of the RPSM are highlighted

RPSM06108020 - Technical pages: annual allowance: from 6 April 2011: calculating the tax charge: calculating the amount of unused annual allowance to carry forward

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[Section 228A & 228B Finance Act 2004] [The Finance Act 2004 (Registered Pension Schemes and Annual Allowance Charge) (Amendment) Order 20XX (20XX/XXXX)]

Unused **annual allowance** can be carried forward automatically and does not need to be notified by the individual to HMRC or the scheme administrator. An individual does not need to show this on their tax return if their unused annual allowance means that an annual allowance tax charge is not due for a particular tax year.

To see if an individual has an **annual allowance charge** they need to take the following steps:

Work out the **total pension input amount** for the tax year.

The individual will need to add together the **pension input amounts** for all **arrangements** that they have under **registered pension schemes**, and relevant overseas schemes (see RPSM06105020 – 'Who do the annual allowance rules apply to?').

The calculation of the pension input amount will vary depending upon the type of arrangement. The following show how this is calculated in

- **cash balance arrangements** (RPSM06107040)
- **other money purchase arrangements** (RPSM06107020)
- **defined benefits arrangements** (RPSM06107030)
- **hybrid arrangements** (RPSM06107050)

If a member's pension input amount in a single scheme is more than the annual allowance for the tax year, the **scheme administrator** should automatically tell the member the total value of their pension input amount for all arrangements under that scheme over the **pension input period** ending in the tax year. A member can also ask their pension scheme to provide that information. RPSM06107500 explains the scheme administrator's responsibility to provide a member with information about their pension input amount.

Is the total pension input amount more than the annual allowance?

If the answer is no, then the individual will not have to pay the annual allowance charge and there is no need to carry out any more steps.

If the answer is yes, then go to the next step.

Total pension input amount for the tax year is more than the annual allowance

Work out how much the **total pension input amount** was for each of the last three tax years.

If one or more of these tax years is before 2011-12 then the post 6 April 2011 rules should be used to work out the pension input amount for these years. There is more information about valuing pre 6 April 2011 pension inputs at RPSM06108030.

A member can ask their **scheme administrator** to tell them the amount of their pension input amounts under that scheme for the last three tax years.

In certain circumstances the total pension input amount must include a deemed pension input amount. See the guidance further down this page under the heading 'Deemed pension input amount for certain defined benefits and cash balance arrangements'. (The scheme administrator is not obliged to give details about any deemed pension input amount.)

Work out how much unused annual allowance there is for these three years.

There will be unused annual allowance in relation to one or more of the last three tax years for potential carry forward to the current tax year if the total pension input amount (including, when applicable, any deemed pension input amount) for the tax year concerned is less than the annual allowance for that same tax year; the unused amount being the difference between the total

pension input amount and the annual allowance. If any part of the unused annual allowance from one of more of the last three tax years has already been used relation to any of the other tax years in the same three year period only the remaining balance (if any) can be carried forward to the current year.

Add any available remaining unused annual allowance to the annual allowance for the current year. This is the available annual allowance.

If one of the previous three years has an input amount of more than the annual allowance for that tax year then that excess may have used up any amount of unused annual allowance from the preceding year(s) first and, if so, this will reduce the amount of unused annual allowance to be carried forward to the current year. (See RPSM06108010 for more details about how unused annual allowance from more of the previous three tax years may have been used up when the annual allowance was also exceeded within the same three-year period. But see RPSM06108030 which gives details of when this general principle does not apply in relation to tax years before 2011-12.)

Deemed pension input amount for certain defined benefits and cash balance arrangements

There is a deemed pension input amount in the case of certain defined benefits arrangements and cash balance arrangements or hybrid arrangements where the only benefits that may be provided under the arrangement are defined benefit or cash balance benefits.

The deemed pension input amount must be included as part of the total pension input amount for one or more of the relevant last three tax years when determining how much unused annual allowance can be carried forward to any of the tax years 2011-12, 2012-13 and 2013-14.

The deemed pension input amount applies only for the purpose of establishing how much unused annual allowance might be available to carry forward. The deemed pension input amount does not form part of an individual's actual total pension input amount that is tested against the annual allowance for a particular tax year.

The certain defined benefits and cash balance arrangements in question are those where

- there was a certain period of time during which the arrangement was in existence, but
- during that period of time, the annual allowance provisions did not apply to the arrangement
- the annual allowance provisions then started to apply to the arrangement as a result of the first pension input period for the arrangement ending in the tax year 2011-12, 2012-13 or 2013-14, and
- in any one or more of the 3 consecutive periods of 12 months immediately before the commencement date of that first pension input period the arrangement was in existence at any time.

If the arrangement was in existence during any of those 12 month periods (the arrangement is likely to have been in existence at some time during, at least, the 12 month period ending immediately before the commencement date of the first pension input period), the 12 month period in question

- is a deemed pension input period,
- the pension input period is for the tax year in which the 12 month period in question ended, and
- a deemed pension input amount is calculated for that deemed pension input period.

The pension input amounts are calculated applying the changes introduced by Schedule 17 Finance Act 2011 but before the effect of The Finance Act 2004 (Registered Pension Schemes and Annual Allowance Charge) (Amendment) Order 20XX (20XX/XXXX)] (other than deeming the pension input periods to arise).

This provision is aimed at the first pension input period for the following arrangements in particular

- benefits to or in respect of the individual start to accrue again under an existing arrangement where the last such accrual had ceased before 6 April 2006 (more information see RPSM06106010), or
- benefits to or in respect of the individual have continued to accrue since before 6 April 2011 under an existing arrangement, or start to accrue again on or after 6 April 2011 under an existing arrangement, where the individual has enhanced protection (see RPSM06106010).

Is the available annual allowance more than the total pension input amount for the relevant tax year?

If the answer is yes then there will be no annual allowance charge. Although there is no need to contact HMRC to make a claim or election for this carry forward, the member will need to keep a record in case their pension input amount exceeds the annual allowance in a subsequent year.

If the answer is no then the annual allowance charge is due on the amount of the pension input amount that is more than the available annual allowance.

Where the member has an annual allowance charge, they will need to include this on their Self Assessment tax return.

If their pension input amount in one pension scheme is more than the annual allowance, e.g. £50,000 for 2011-12, and the amount of the annual allowance charge is more than £2,000 then the member can ask their scheme to pay the annual allowance charge for them. If they do this then their amount of pension benefits that they receive will be reduced to reflect the amount the pension scheme has paid on their behalf. This is known as “Scheme Pays”

For more information about ‘Scheme Pays’, see RPSM06109020.

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Draft amendments to the Registered Pension Schemes Manual (RPSM) for the draft Finance Act 2004 (Registered Pension Schemes and Annual Allowance Charge) (Amendment) Order

Draft amendments to an existing page of the RPSM are highlighted

RPSM06109080 - Technical pages: annual allowance: April 2011: paying the tax charge: scheme pays a member's annual allowance charge - paying the annual allowance charge when the member is due to become entitled to all benefits under the scheme or when a BCE 5, 5A or 5B is due to occur for member under the scheme

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[s237B(6) FA04] [The Finance Act 2004 (Registered Pension Schemes and Annual Allowance Charge) (Amendment) Order 20XX (20XX/XXXX)]

There are deadlines for a **member** to give a notice requiring a **scheme administrator** to pay an amount of the member's **annual allowance charge** for a particular tax year.

Normally the deadline is 31 July in the year following the year in which the tax year concerned ended. For example a notice for the tax year 2014-15 must be given by 31 July 2016. (RPSM06109060 has more details about the deadlines.)

However, the deadline is brought forward when the member is due to become entitled to all benefits under the **pension scheme** or when a **BCE** 5, 5A or 5B is due to occur for member under the scheme. The timing of the notification in these circumstances and the tax years to which it applies to is explained further down this page.

Bringing forward the deadline will forewarn the pension scheme that the member may, for example, take their benefits from the scheme before the scheme may have paid the tax that the member has asked it to pay.

This will allow the pension scheme to consider whether the reduction to the member's benefits to take account of the tax to be paid can be made before the member becomes entitled to their benefits so that no reduction would need to be made once the member's benefits have come into payment.

Timing of notification – position before XXXX [end of 6 month beginning with date of Order]

If a member is planning to take all of their benefits under a pension scheme in a particular tax year and they also want their scheme to pay an annual allowance charge for the same tax year in which they are taking their benefits then they will need to give the scheme notice of this before they become entitled to their benefits.

Similarly, if a BCE 5, BCE 5A or BCE 5B will occur in relation to a member in a particular tax year and the member wants the scheme to pay an annual allowance charge for that same tax year, the member will need to give notice of this before the BCE occurs. (RPSM11102020 has more details about BCE 5, 5A and 5B.)

The member's notification must include a statement to explain that before the end of the tax year, they intend to take all of their benefits from the pension scheme, or that a BCE 5, 5A or 5B will occur, and they must give the date when they expect to take their benefits, or when the BCE will occur.

Timing of notification – position from XXXX [after end of 6 month that began with date of Order]

If a member is planning to take all benefits under a pension scheme in a particular tax year and the member also wants a scheme to pay an annual allowance charge for

- the same tax year in which they are taking their benefits, and/or
- another tax year

the member will need to give the scheme a notice for the tax year (or tax years) concerned before becoming entitled to all the benefits.

Draft amendments to the Registered Pension Schemes Manual (RPSM) for the draft Finance Act 2004 (Registered Pension Schemes and Annual Allowance Charge) (Amendment) Order

Draft amendments to an existing page of the RPSM are highlighted

Similarly, if a BCE 5, BCE 5A or BCE 5B will occur in relation to a member in a particular tax year and the member wants the scheme to pay an annual allowance charge for that same tax year and/or another tax year, the member will need to give a notice for the tax year(s) concerned before the BCE occurs. (RPSM11102020 has more details about BCE 5, 5A and 5B.)

Where the notice is for the same tax year in which the member will be become entitled to all benefits under the scheme, or that a BCE 5, 5A or 5B will occur, the member's notification must include a statement to explain that before the end of the tax year, they intend to take all of their benefits from the pension scheme, or that a BCE 5, 5A or 5B will occur, and they must give the date when they expect to take their benefits, or when the BCE will occur.

Making an adjustment to the member's benefits

Even though the member is taking their benefits in the same year that the scheme will become liable for the annual allowance charge, the scheme is still required to make an adjustment to the member's benefits to reflect the tax paid.

Defined benefits arrangements - position before 6 April 2013

If the scheme did not make the adjustment before the member's scheme pension was put into payment then the reduction of a pension already in payment otherwise than in exempted circumstances that applied at that time could have resulted in the future pension payments being **unauthorised member payments**.

Defined benefits arrangements - position from 6 April 2013

From 6 April 2013 the specific circumstances in which a scheme pension in payment can be reduced have been extended to a reduction as a consequence of the scheme administrator paying an amount of the member's annual allowance charge. (See RPSM09101580 for further information.)

Money purchase arrangements

Giving the notice before the member becomes entitled to their benefits enables the pension scheme to consider when the adjustment will be made, particularly if the member's benefit options include a lifetime annuity or short-term annuity. The positions above for defined benefits arrangements will apply if the member's benefit options include a scheme pension.

Pension input amount calculation

Where a member has asked the scheme administrator to pay their annual allowance charge in the year that they are taking all of their benefits from the scheme and the scheme administrator will do this (either because they have become jointly and severally liable to the charge with the member or because they have agreed to pay the charge on a voluntary basis) then when they are calculating the members final pension input amount they will not need to make an adjustment to the closing value where the adjustment is made before XX [month] [year]. See RPSM06107040.

Draft amendments to the Registered Pension Schemes Manual (RPSM) for the draft Finance Act 2004 (Registered Pension Schemes and Annual Allowance Charge) (Amendment) Order

Draft amendments to an existing page of the RPSM are highlighted

RPSM06109090 - Technical pages: annual allowance: April 2011: paying the tax charge: scheme pays a member's annual allowance charge: when the scheme administrator does not have to pay the member's annual allowance liability administrator does not have to pay the member's annual allowance liability

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The **scheme administrator** will have to pay the member's **annual allowance** liability provided

- the member's total **annual allowance charge** liability for the tax year exceeds £2,000,
- the amount of all their **pension input amounts** in that scheme alone was more than the annual allowance for the year (for example, £50,000 for 2012-13 or £40,000 for 2014-15), and
- the member has given a notice to the scheme administrator requiring the scheme to pay the liability and this notice has been received by the scheme on time.

A scheme administrator can refuse to pay a member's annual allowance charge even though they meet the conditions to be able to require the scheme to pay as set out below.

A scheme administrator can refuse to pay in the following circumstances.

- The **pension scheme** is being assessed by the Pension Protection Fund at the time the member requires it to pay.
- The member has already required the scheme administrator to pay but before the tax is paid to HMRC the scheme starts to get assessed by Pension Protection Fund.
- The pension scheme would be unable to make an adjustment to the member's benefits in the scheme to take account of the tax paid because the benefits they would otherwise have needed to adjust to take account of the tax paid include 'contracted-out' rights (**GMP**s and/or protected rights) that are subject to section 159 of the Pension Schemes Act 1993 or section 155 of the Pension Schemes (Northern Ireland) Act 1993.

Discharge of the scheme administrator's liability

In specific circumstances the scheme administrator may also apply to HMRC for a discharge of their liability to pay the member's annual allowance charge. The grounds for doing this are

- that to do so would substantially harm the interests of the members of the scheme, or
- it would not otherwise be reasonable for the scheme to pay the member's charge (for example, where the value of the member's benefits in the scheme have fallen and there are insufficient funds in the scheme to pay the amount of tax the member has asked the scheme to pay)

HMRC will notify the scheme administrator of their decision and whether the scheme will be discharged of their liability for the annual allowance charge. Where the scheme administrator is discharged of their liability then the member will become solely liable to the annual allowance charge.

Where there has been a transfer of all the sums and assets held under the scheme before the notice is given to the scheme administrator.

Transfers after [date Order comes into force + 1 day]

Where a member

- meets the requirements that would mean that they could notify their pension scheme ('pension scheme 1') that they require them to pay their annual allowance charge, but
- before they give that notice all the benefit rights for the member are transferred to another pension scheme ('pension scheme 2'),

the member can no longer require pension scheme 1 to pay the annual allowance charge.

Instead the member can require pension scheme 2 to pay the annual allowance charge.

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Draft amendments to the Registered Pension Schemes Manual (RPSM) for the draft Finance Act 2004 (Registered Pension Schemes and Annual Allowance Charge) (Amendment) Order

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The member's notice to pension scheme 2 must be given on time – i.e. the same deadline that would have applied for pension scheme 1 had the transfer not occurred.

Transfers before [date Order comes into force + 1 day]

The position for transfers that took place before XX XX XXXX was more restricted.

The same conditions described immediately above applied but with the additional requirement that all of the benefit rights for the member in pension scheme 1 had to transfer to pension scheme 2 with all of the benefits rights of all of the other members of pension scheme 1 (for example, following an employer re-organising its pension schemes).

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