HM Revenue
& Customs

Personal Pension and Pensions Relief Statistics: Background and Methodology

Contents

1 About these statistics

This publication contains information on personal pensions based on data that pension schemes are required to report to HM Revenue and Customs. It is divided into four sections:

1. Personal Pensions Contributions by Source (Table 1)
2. Number contributing and average contributions to Personal Pensions (Table 2)
3. Cost of tax relief of registered pension schemes (Table 6)
4. Excess Charges (Table 7 and Table 8)

2 Recent Changes

Discontinuation of PEN3, PEN4 and PEN5

PEN3- Estimated number of individuals making or receiving contributions and average contribution by status, PEN4– Estimated number of individuals making or receiving contributions by gender and age and PEN5- Estimate number of individuals making or receiving contributions by country and region are not being updated from September 2019 onwards. These tables were last updated for tax year 2016-17 in September 2018. We are no longer able to produce these table for 2017-18 onwards due to changes in the data available to HMRC.

Retitled Tables

From September 2019 the following tables have been renamed:

Table 1; Personal pensions contributions by type of contribution (formerly table PEN1)

Table 2; Contributions to stakeholder and non-stakeholder personal pensions (an amalgamation of former tables PEN2, PEN2.1 and PEN2.2)

Annexed Table 3; Number of individuals contributing to personal pensions and average contribution by status (formerly table PEN3)

Annexed Table 4; Number of individuals contributing to personal pensions by age and gender (formerly table PEN4)

Annexed Table 5; Number of individuals contributing to personal pensions by country and region (formerly table PEN5)

Table 6; Cost of tax relief for registered personal pensions (formerly table PEN6)

Table 7; Pensions Annual Allowance Statistics (formerly table PEN7)

Table 8; Pensions Lifetime Allowance Statistics (formerly table PEN8)

Changes to Table 6 (formerly PEN6) - Cost of Pension Tax Relief

The table showing Cost of tax relief for registered personal pensions (Table 6), was redesigned using a new methodology for the April 2019 release of this publication onwards. The main changes include:

- more accurate effective tax rates for pension tax relief calculated using individual tax rate relief calculations from pension data in the Annual Survey of Hours and Earnings
- updated ONS data sources on investment income of pension funds
- using HMRC's Real Time Information (RTI) Pay as you Earn (PAYE) administrative data on pension payments and tax paid on pension payments, replacing a methodology which was based on survey sources
- Table 6 also now includes a breakdown of the cost of NICs relief on employer contributions by class 1 primary (employee) NICs and class 1 secondary (employer) NICs.

Publication Schedule

From September 2019 all tables will be released on annual basis to bring the publication and methodology under a single statistics release. The publication will therefore be published annual in September each year, starting in September 2019.

3 Background on Pension Policy and their tax treatment

Pensions overview

In general, a pension is an arrangement to provide an individual with a regular income when they retire. There are three main types of pension;

- State Pensions;
- Occupational Pensions; and
- Personal Pensions.

Occupational Pensions and Personal Pensions are both private pensions.

State Pensions

The State Pension is a regular payment paid by the state that people can receive when they reach State Pension age.

Occupational pensions

Occupational pension schemes are arrangements established by employers to provide pensions to their employees. In the public sector, occupational pensions are those which are provided by the employer (central or local government). In the private sector, occupational pensions are employer-sponsored schemes with scheme trustees that are set up under trust law by one or more employers for the benefit of their employees. Occupational pensions can either be defined contribution (DC, where either the employee, employer or both contribute, and then use the accumulated funds to provide an income at retirement – these can also be administered under master trust arrangements), or defined benefit (DB, where an employer agrees to pay the individual a certain pension income at retirement, usually based on the number of years they have worked for the employer and their average or final income during their period of employment).

Personal pensions

Personal pensions are defined contribution arrangements between an individual and a pension provider, usually a financial organisation such as building society, bank, or insurance company into which an employer might also contribute. The term personal pension is used to refer to arrangements established since the rules were liberalised in the 1980s, and can be subdivided into two main types. Personal pensions can either be arranged directly between the individual and provider, or in many cases established by an employer as a way of providing all of its employees access to a pension plan run by a pension provider. These are often referred to as Group personal pensions (GPP) or employer sponsored pensions, but may not be arrangements exclusive to that employer, and might be available for sale to the general public. Although they are sometimes referred to as company pensions, they are not run by employers and should not be confused with occupational pensions which are. The employer will also normally contribute to the GPP.

Stakeholder pensions are personal pension schemes set up on terms which meet standards set by the government. For example, there are restrictions on the charges the provider may make.

The majority of the statistical information contained in this note and published by HMRC relates to personal pensions (the exception being the information contained in PEN6, and new tables PEN7 and PEN8). This is by virtue of HMRC's involvement in the administration of basic rate tax relief that personal pension providers are able to claim on contributions received from individuals. Occupational pension contributions on the other hand receive all their relief at source using the Net Pay mechanism.

The tax relief received by providers of personal pensions is treated in these statistics as representing contributions by individuals and their contributions have been adjusted to reflect this.

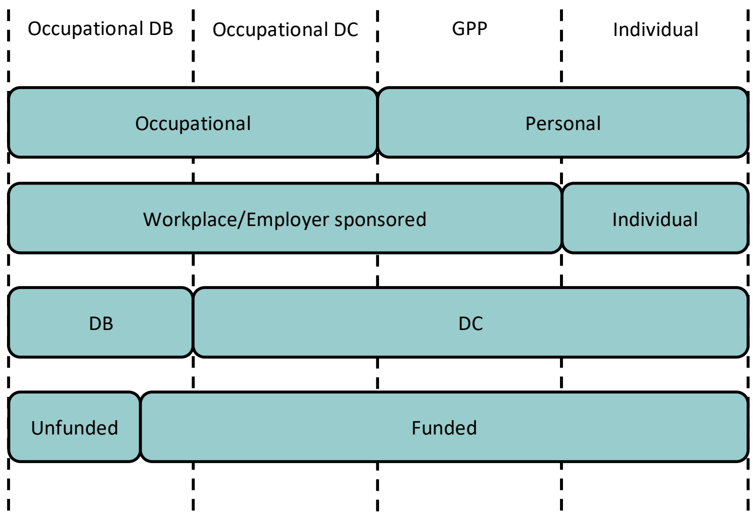
The statistics published here on contributions to personal pensions make a distinction between employer and non-employer sponsored schemes. In practice employers can contribute to either type of scheme and in completing the statistical returns pension providers report schemes as follows:-

Table 1 - Employer and Non-Employer Sponsored Personal Pension Schemes

	Non-Stakeholder contracts	Stakeholder Pension contracts
Employer sponsored:	• all Group Personal Pensions • all contracts within a scheme set up by an employer.	• contracts for members of SHP schemes nominated by employers or set up by an employer.
Non-employer sponsored:	• contracts under a scheme set up by a financial institution and offered for general sale to the public.	• all SHP schemes arranged via Trade Unions or other bodies • contracts under a stakeholder scheme set up by a financial institution which are offered for general sale to the public.

Figure 1 below summarises the different types of non-state pension.

Figure 1 - Types of private pension provision



Source: Adapted from 'Pensions: Challenges and Choices, the First Report of the Pensions Commission', Pensions Commission, October 2004. Not to scale – figure does not represent the number of memberships of these various types of private pensions.

The taxation of pensions

The tax treatment of pensions can be described in relation to the way in which:

(i) the contributions are taxed;
(ii) the investment returns are taxed; and
(iii) the pension benefits are taxed.

A regime described as exempt, exempt, taxed (EET) would mean that the income from which the contributions are paid is exempt from tax; as are the investment gains; but that the withdrawals are taxed. Alternatively, TTE would mean that the income from which the contributions are paid is taxed; as are the investment returns; but that the withdrawals are exempt from taxation. The tax treatment depends on whether the pension scheme is registered with HMRC or not.

The taxation of registered pension schemes

Tax on contributions

Income tax relief is available on individual and employer contributions to registered pension schemes up to an annual allowance (see below). Furthermore, employer contributions are not subject to either employer or employee NICs. Relief is available on individual contributions worth up to 100 per cent of individuals' earned income or £3,600, whichever is greater.

Contributions in excess of the annual allowance (AA)

As individuals get upfront relief on all their pension contributions, they are subject to tax charge on any pension savings in excess of an annual allowance plus any unused allowance from the previous three years. The annual allowance for the present tax year (2017-18) is £40,000 for individuals with gross incomes under £150,000, tapered to £10,000 for individuals with gross incomes of over £210,000i. More information on the Annual Allowance and Lifetime Allowance since April 2006 can be found at the end of this section.

Contracting out

The Government ended contracting out of the additional State Pension on a defined contribution basis from 6 April 2012. Contracting out for defined benefit schemes was abolished from April 2016.

Contracting out referred to leaving the additional State Pension. This option was available to employees with annual earnings above a certain amount, and with a private pension. The self-employed were not eligible for the State Second Pension so could not contract out.

For individuals in an employer's occupational pension scheme, contracting out meant both the individual and their employer paid a lower, reduced rate National Insurance contributions.

Individuals that contracted out and had a stakeholder pension or a personal pension continued to pay the full rate of National Insurance. However HMRC would pay National Insurance rebates (sometimes known as the minimum contribution) directly to the private pension scheme. Individuals could also join a stakeholder pension scheme or a personal pension scheme without contracting out of the additional State Pension.

Tax on investment returns
All investment returns in registered pension schemes are exempt from taxation.

Tax on withdrawals

The way in which the withdrawals of pension savings in registered schemes are taxed depends on an individual's circumstances. In particular, the size of their pension fund. In general:

- **Individuals with total pension savings of less than £30,000** are allowed to withdraw the entire amount out as a lump sum. If the right to the pension has not yet arisen (i.e. the pension is not in payment or hasn't been voluntarily deferred by the pensioner), the first 25 per cent of these amounts are tax free. All other payments are taxed as pension income at the individual's marginal rate and free from NICS. These are known as the trivial commutation rules.

- **Individuals with funds above £30,000 but below the Lifetime Allowance (LTA, £1.055 million in 2019-20)** can also withdraw tax-free up to 25 per cent of their pension savings after the age of 55.

- Individuals with pension funds that include one or more funds in occupational scheme of value less than £10,000 are allowed to take the entire amounts in these schemes out as a lump sum no matter how large their total pension savings. In addition, funds of £10,000 or less held in personal pension arrangements can be paid out as lump sum payment to individuals aged 55 or over, as an authorised payment, provided certain conditions are met. An individual may only have three such lump sum payments in their lifetime. Lump sum payments made under these rules are taxed as if they were subject to the trivial commutation rules – see above.

- **Individuals with funds above the LTA** are subject to different tax rates, depending on how the funds are withdrawn: Any funds above the LTA that are taken out as a lump sum are taxed at 55 per cent; and any funds that are used to provide a pension are taxed at 25 per cent (the pension income is then taxed at the individual's marginal tax rate).

Freedom and choice in pensions

- Since April 2015, individuals aged 55 and over can access their defined contribution pension savings as they wish, subject to their marginal rate of income tax. Further details on this can be found in "Freedom and choice in pensions: government response to the consultation", available here: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/332714/pensions_response_online.pdf
- HMRC publishes statistics on the number and value of flexible payments made from pensions since April 2015. These can be found here: https://www.gov.uk/government/statistics/flexible-payments-from-pensions

Annual allowance and Lifetime Allowance

The table below sets out recent annual allowance and lifetime allowances.

Lifetime and annual pension contribution allowances eligible for tax relief 2006-07 to 2019-20:

Tax Year	Annual Allowance	Tapered Annual Allowance Minimum[1]	Lifetime Allowance
2006-07	£215,000	-	£1.50 million
2007-08	£225,000	-	£1.60 million
2008-09	£235,000	-	£1.65 million
2009-10	£245,000	-	£1.75 million
2010-11	£255,000	-	£1.80 million
2011-12	£50,000	-	£1.80 million
2012-13	£50,000	-	£1.50 million
2013-14	£50,000	-	£1.50 million
2014-15	£40,000	-	£1.25 million
2015-16	£40,000	-	£1.25 million
2016-17	£40,000	£10,000	£1.00 million
2017-18	£40,000	£10,000	£1.00 million
2018-19	£40,000	£10,000	£1.03 million
2019-20	£40,000	£10,000	£1.055 million

[1] For individuals with total incomes over £150,000

Since April 2016 there has been a taper to the Annual Allowance for those with adjusted annual incomes, including their own and employer's pension contributions, over £150,000. For every £2 of adjusted income over £150,000, an individual's Annual Allowance is reduced by £1, down to a minimum of £10,000.

As part of the September 2018 release we introduced two new tables, Table7 and Table8, providing information on data HMRC holds for individuals exceeding their Annual Allowance and Lifetime Allowance and tax charges paid on the excess. Where an individual has exceeded either their Annual Allowance or the Lifetime Allowance, they must report this by filling a self-assessment tax return – form SA101.

Pension providers will normally deduct any Lifetime Allowance tax charge from an individual's pension benefits where there is a benefit crystallisation event (BCE) leading to an entitlement to benefits. Since 2011-12, where an individual's annual allowance charge exceeds £2,000, they may ask their pension provider to pay this on their behalf and reduce their pension benefits by a corresponding amount. Prior to this, all annual allowance charges had to be paid via Self-Assessment. HMRC does not hold details of those individuals who are subject to the Annual Allowance taper or Money Purchase Annual Allowance, or the tax charge arising to these individuals, separately from the overall totals.

Where a pension provider pays an Annual Allowance tax charge on an individual's behalf, or deducts the amount of a lifetime allowance charge from the individual's benefits, this is reported to HMRC via the Accounting for Tax Return. Any Annual Allowance charge payments reported will likely relate to contributions exceeding the Annual Allowance two tax years prior. The charge would first need to be reported via Self-Assessment the January following from the tax year end, and the scheme then has to file the Accounting for Tax Return and pay the charge by the following February.

4 Data and Methodology

Data sources

The published Pension tables draw on information from the following returns that pension providers are required to make:

- APSS107 Registered Pension Schemes Annual statistical return, this paper claim form provides numbers of members and total contributions by employer and non-employer sponsored schemes for each registered pension provider.
- RPSCOM100(Z) This provides HMRC with details of approximately 15 million personal pension accounts in electronic format providing details on individual and employer contributions made in the tax year. Personal details of each account holder are also provided covering around 6 million individuals.
- SA101 This form is a supplementary page to the main SA100 Self-Assessment Tax return. This provides HMRC with details of individuals exceeding their Annual Allowance.
- Accounting for Tax Return This form is used by scheme administrators of registered pension schemes to report and pay tax charges relating to the Annual Allowance and Lifetime Allowance.

Method of preparing tables

Table 1 (Formerly PEN1)

Figures for this table use the information produced in Table 2 (see below). The RACs (Retirement Annuity Contracts) figures are derived from HMRC's Survey of Personal Incomes. Figures for the latest year are projections.

Table 2 (Formerly PEN2.1 & PEN2.2)

Figures for table 2 are simple totals from the relevant forms (APSS107 or RPSCOM100(Z)). One reason for moving the publication schedule of these tables from bi-annual to annual is to allow additional time for all forms to be returned for both data sources, allowing for cross referencing returns from both sources to ensure completeness of data.

Master trust schemes which use the relief at source method, along with any other occupational pension schemes which use the relief at source method, are removed from the administrative returns for statistical purposes – as these statistics cover personal pensions only.

Individuals can hold and contribute to more than one personal pension account with more than one provider and the information in Table 2 relates to the numbers of members and not the numbers of individuals who are active members, which will be lower.

Employer sponsored schemes include contracts for schemes nominated by employers or set up under a trust by an employer. Non-Employer sponsored schemes are contracts set-up by a financial institution and offered for sale to the public, and include schemes arranged via Trade Unions or other bodies.

Tables 3, 4 & 5 (Formerly PEN3, PEN4 and PEN5)

Figures for these tables come from data provided on the paper and electronic forms RPSCOM100(Z) and the overall totals are scaled up to match the figures as published in Table 2. The data is collected primarily for compliance purposes and contains details of contributions made by, or on behalf of, individuals.

As well as containing individual details, such as name and date of birth, the data also contains their National Insurance number and using this it possible to aggregate across those who have arrangements with one or more providers.

Therefore, unlike table 2 which is based on aggregate returns from providers and therefore are at arrangement level, we are able to present these results at an individual level. In addition the providers have to report the employment status of the individual.

These tables relates to the number of individuals who have a recorded contribution in the year - either individual, or employer. Whilst in theory the data should give us details of all individuals, in practice due to incorrect or missing data less than 100 per cent of records are available for analysis. The estimates have therefore been calibrated so that they are in line with totals reported in table 1 and table 2.

Data availability for 2017-18 onwards means we are no longer able to update these tables for 2017-18 onwards.

Table 6 (Formerly PEN6)

The income taxation of pensions saving in UK registered pensions schemes generally follows an exempt, exempt, taxed structure (EET). Tax relief is available on employee and employer contributions to a registered pension scheme (E), and on investment growth within that scheme (E). Pensions in payment are taxed as income (T). In theory, this means that pensions are tax-deferred rather than tax-exempt; and the availability of relief in the accumulation phase ensures that individuals are not taxed twice on the same income.

This publication compares the pension's tax regime for registered pension schemes (generally EET) with the tax regime we have for most other forms of saving (TTE).

The cost of income tax relief on contributions is calculated as:

1. Tax relief on employees' contributions to occupational schemes;
2. Plus tax relief on employers' contributions to occupational schemes;
3. Plus tax relief on individuals contribution to personal pension schemes;
4. Plus tax relief on employers' contributions to personal pension schemes;
5. Plus tax relief on self-employed contribution to personal pension schemes;
6. Plus tax relief on pension funds' investment returns of income;
7. Less tax on pension payments observed through administrative RTI data.

The estimates are mainly based on:

- Estimates of contributions to occupational schemes, from the pensions information in the ONS' Annual Survey of Hours and Earnings;
- Estimates of contributions to personal pensions taken from data provided to HMRC by personal pension providers.
- Estimates of pension scheme's investment income, supplied by the ONS; and
- Administrative data held on RTI payments made by pension schemes to those in receipt of a pension.

Table 7 (Formerly PEN7)

This was a new table introduced in the September 2018 release. It provides details from both the Self-Assessment return, and the Accounting for Tax Return, on individuals exceeding their Annual Allowance and tax charges paid. From the Self-Assessment Return, we provide the number of individuals reporting pension savings in excess of their Annual Allowance, and the total value of this excess saving. From the Accounting for Tax Return, we provide the number of members which had their scheme pay an Annual Allowance tax charge on their behalf, and the total value of these payments. Payments by the scheme will likely relate to excess pension savings reported via Self-Assessment for the tax year two years prior.

Table 8 (Formerly PEN8)

This was a new table introduced in the September 2018 release. It provides details from the Accounting for Tax Return on Lifetime Allowance tax charges paid by the scheme on behalf of each of their members who exceed their Lifetime Allowance. We provide information on the number of members which had their scheme pay a Lifetime Allowance tax charge on their behalf, and the total value of these payments. We also break this down by non-lump sum tax charges and lump sum tax charges, separately, as these are charged at different tax rates.

---

[i] More information on the pension tapered Annual Allowance can be found here: https://www.gov.uk/government/publications/pensions-tapered-annual-allowance/pensions-tapered-annual-allowance