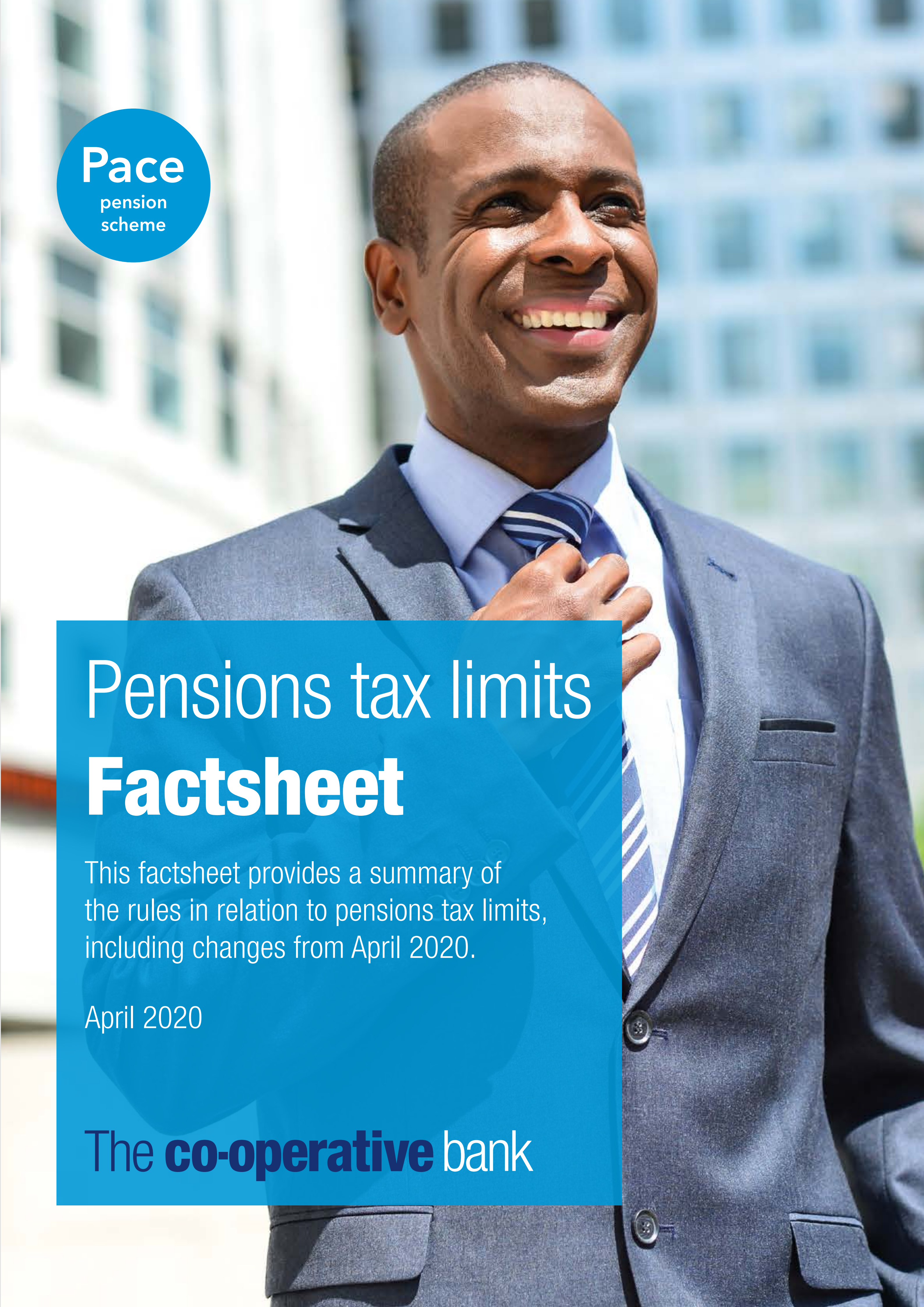


Pace
pension
scheme

Pensions tax limits
Factsheet

This factsheet provides a summary of the rules in relation to pensions tax limits, including changes from April 2020.

April 2020

The co-operative bank

This factsheet is for members of The Co-operative Bank Section of Pace. If you're a member of The Co-op Section, you should visit the Co-op's pensions website at **coop.co.uk/pensions** for pension information that's relevant to you.

Pensions tax limits: an overview

The **Annual Allowance** is the maximum tax-free pension savings you can make each year. There have been a number of changes to the Annual Allowance over recent years.

From 6 April 2014, the Annual Allowance reduced from £50,000 to £40,000.

From 6 April 2015, the Annual Allowance was reduced to £10,000 (known as the Money Purchase Annual Allowance) for people who draw their pension benefits under the new flexible retirement rules. This reduced to £4,000 from 6 April 2017. You will be advised by your pension provider if such a restriction applies to you.

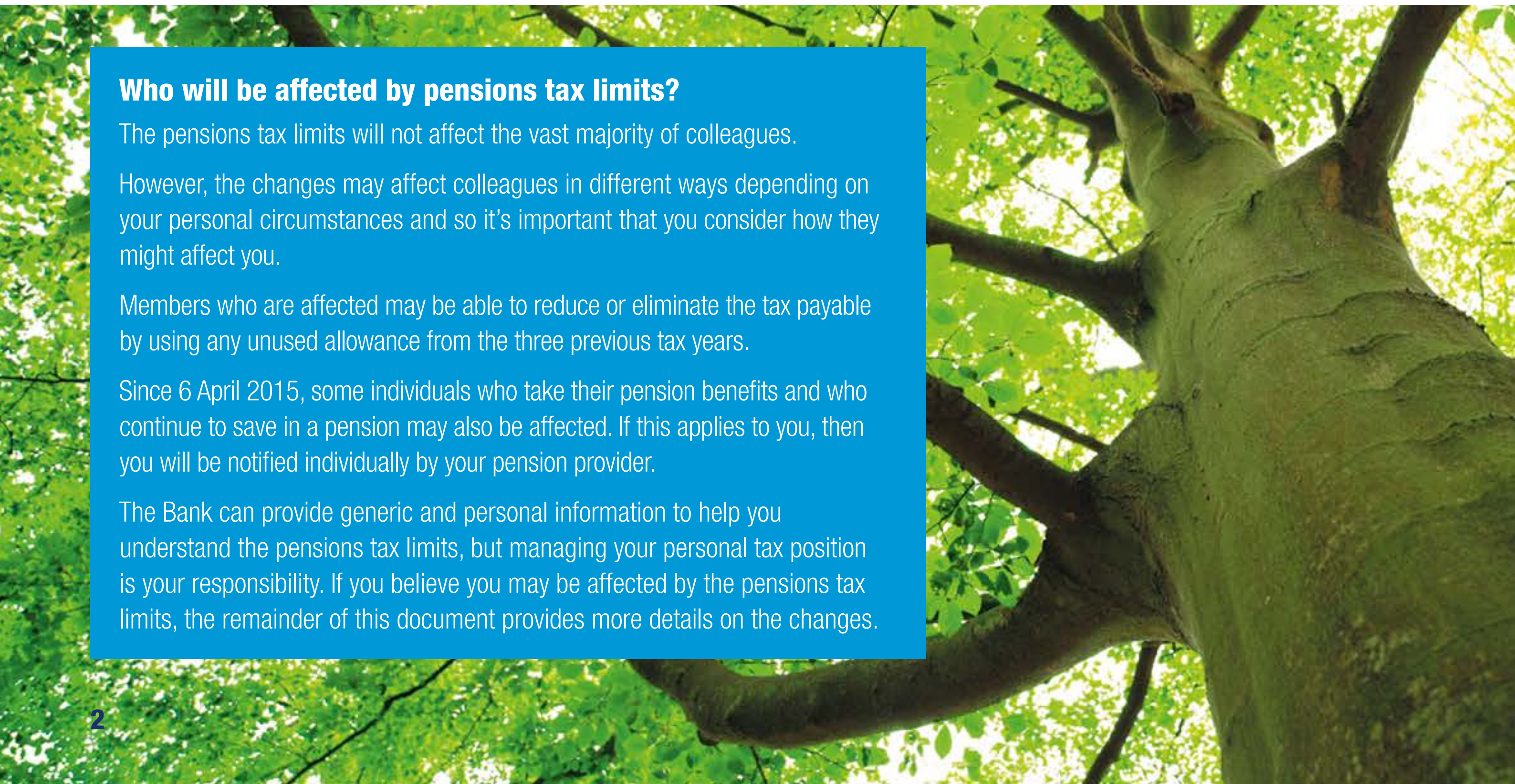
From **6 April 2020**, the Annual Allowance has been further reduced on a sliding scale for people with annual earnings of more than £240,000.

Pension savings are also limited by the **Lifetime Allowance**. This is the total value of pension savings you can build up over your entire working lifetime before a tax penalty applies. The value of your pension savings are only measured for Lifetime Allowance purposes when your savings are brought into payment.

From 6 April 2014, the Lifetime Allowance reduced from £1.5 million to £1.25 million.

From 6 April 2016, the Lifetime Allowance was further reduced to £1 million. Since 6 April 2018, the Lifetime Allowance has been linked to the rise in the Consumer Price Index (CPI), which measures inflation.

From **6 April 2020**, the Lifetime Allowance was increased to £1,073,100, in line with the annual increase in the Consumer Price Index (CPI).



Who will be affected by pensions tax limits?

The pensions tax limits will not affect the vast majority of colleagues.

However, the changes may affect colleagues in different ways depending on your personal circumstances and so it's important that you consider how they might affect you.

Members who are affected may be able to reduce or eliminate the tax payable by using any unused allowance from the three previous tax years.

Since 6 April 2015, some individuals who take their pension benefits and who continue to save in a pension may also be affected. If this applies to you, then you will be notified individually by your pension provider.

The Bank can provide generic and personal information to help you understand the pensions tax limits, but managing your personal tax position is your responsibility. If you believe you may be affected by the pensions tax limits, the remainder of this document provides more details on the changes.

The Annual Allowance

What is the Annual Allowance?

This is the maximum tax-free pension savings you can make each year.

Since 6 April 2014, the Annual Allowance for pension savings has been £40,000.

Until 5 April 2020, the Annual Allowance reduced on a sliding scale for people with 'Adjusted Income' over £150,000. This reduced Annual Allowance is known as the tapered Annual Allowance.

From 6 April 2020, there have been some changes to the tapered Annual Allowance limits. The 'Adjusted Income' limit has increased from £150,000 to £240,000. If your income is more than £240,000, your Annual Allowance will reduce on a sliding scale by £1 for every £2 of income over £240,000. This reduces the Annual Allowance to £4,000 for anyone earning £312,000 or more.

However, if your 'Threshold Income' is below £200,000 there will be no reduction to your Annual Allowance. Until 6 April 2020, Threshold Income was £110,000. (See the jargon buster panel for the definition of 'Adjusted Income' and 'Threshold Income'.)

Adjusted Income	Annual Allowance
Up to £240,000	£40,000
£250,000	£35,000
£260,000	£30,000
£270,000	£25,000
£280,000	£20,000
£290,000	£15,000
£300,000	£10,000
£310,000	£5,000
£312,000 or higher	£4,000

The reduction in Annual Allowance is not based on bands – so, if your Adjusted Income was £255,000, your Annual Allowance would be £37,500.

How do I calculate my pension savings for measuring against the Annual Allowance?

Pension savings will differ depending on the type of benefits.

For members of Pace DC, and for any Additional Voluntary Contributions paid, or in respect of contributions made to personal pensions, it is simply the total contributions made over the pension input period.

If you are an active member of more than one scheme or arrangement, then you have to account for all your pension savings in each scheme or arrangement. An example pension savings calculation can be found on page 4.

What is my 'pension input period'?

This is a period set for the purpose of measuring your pension savings against the Annual Allowance test. The Government said that from April 2016, all pension input periods must be in line with the tax year (i.e. they must run from 6 April to 5 April). This does not affect The Bank's pension arrangements, as our pension input period was already aligned to the tax year.

What is carry forward and how can it be used?

If your pension savings exceed the Annual Allowance, you are able to reduce the tax payable by 'carrying forward' any unused allowance from the previous three tax years.

Since 2016/17, if your Annual Allowance has reduced, then the carry forward available to you will be based on your reduced Annual Allowance amount. For example, if you pay £5,000 worth of pension contributions when a £35,000 Annual Allowance applies to you, then you will have £30,000 of unused Annual Allowance to carry forward into the next tax year.

What is the 'Money Purchase Annual Allowance', (MPAA)?

If you draw some of your pension savings under the new flexible retirement rules and you have continued to make pension savings, you will be affected by the MPAA. This will mean that your Annual Allowance will be reduced to £4,000. You will be advised by your pension provider if this applies to you.

Jargon buster

Threshold Income: Threshold Income is effectively your taxable income, so it includes salary (after any pension contributions paid by you), bonus, car allowance, P11D benefits, bank interest, dividend payments, rental income and any other taxable income.

Adjusted Income: Adjusted Income is very similar to Threshold Income, but it also includes the value of any employer pension contributions and the value of the increase in any final salary linked benefits. This is reduced by any tax-relievable items such as charity giving. Because your Adjusted Income depends on the total level of income and pension savings during the year, you might only know your Adjusted Income towards the end of the tax year.

How does the Annual Allowance affect me?

If the increase in value of your pension savings exceeds the Annual Allowance during a pension input period, then you may have to pay a tax charge on the amount of your pension savings which are in excess of the Annual Allowance limit.

The tax rate applied to this excess amount will be the same as your highest marginal rate of income tax.

You may be able to elect to have this tax charge paid out of your pension benefits rather than paid out of your income. However, if you exceed the Annual Allowance in any one year, you may be able to offset the potential tax payable by carrying forward any unused allowances from the previous three tax years.

Will I exceed the Annual Allowance?

This will depend on a number of factors specific to your circumstances, such as how much you earn, the rate at which you contribute to Pace each year and whether you make extra pension savings.

Because the Annual Allowance test is applied to all pension savings, any additional pension savings you make outside The Bank's pension arrangements will also count towards the test.

What are my options if it looks like I might exceed the Annual Allowance?

If you are affected by the changes to the Annual Allowance from 6 April 2020, you will have the following options:

- You can remain in Pace DC and continue at the current contribution level, recognising that if you do exceed your Annual Allowance you may be subject to a tax charge on your excess pension savings in any tax year.
- You can remain in Pace DC but reduce the level of your contributions (i.e. switch to a lower contribution tier) to mitigate the risk of exceeding the Annual Allowance. A pension cash allowance would then become payable to you, equivalent to the difference between 10% of your salary and The Bank's new lower contribution rate.
- You can opt out of Pace DC, in which case a pension cash allowance would not normally be payable.

Example

1) Pete has Threshold Income of £195,000. Because his Threshold Income is less than £200,000 his Annual Allowance remains at £40,000.
2) Ian has Adjusted Income of £250,000. His Annual Allowance is reduced by (£250,000 - £240,000) / 2 = £5,000. Thus his Annual Allowance will be £40,000 - £5,000 = £35,000.
3) Jean has Adjusted Income of £325,000. Because her Adjusted Income is more than £312,000 her Annual Allowance will be £4,000.

For further information, you can read HMRC guidance at:
www.gov.uk/tax-on-your-private-pension

The Lifetime Allowance

The Lifetime Allowance was introduced as part of new pension legislation that took effect from 6 April 2006.

The Lifetime Allowance is the overall value of pension benefits you can build up over your entire working lifetime without further tax penalties applying.

The Lifetime Allowance was reduced from £1.8 million to £1.5 million with effect from 6 April 2012. It then reduced to £1.25 million with effect from 6 April 2014 and it has reduced again to £1 million from 6 April 2016.

The government has started to increase the Lifetime Allowance by inflation each year from April 2018, and the Lifetime Allowance is currently £1,073,100.

How are pension benefits valued for Lifetime Allowance purposes?

Unlike the Annual Allowance test that is applied annually, the Lifetime Allowance test only applies when pension benefits are brought into payment, for example, on retirement or death.

However, similar to the Annual Allowance, the value placed on pension benefits under the Lifetime Allowance will differ depending on the type of pension scheme you belong to:

- For members of Pace DC, it is simply your total fund value accumulated at the time you decide to draw your pension benefits.
- If you have previously been a member of a defined benefit scheme (e.g. 'Final Salary' or 'Career Average'), it means the actual retirement pension that you will receive, multiplied by a factor of 20, plus the amount of your tax-free cash lump sum.
- For any Additional Voluntary Contributions paid, or in respect of contributions made to personal pensions or other defined contribution schemes, it is simply the total fund value accumulated at the time you decide to draw your pension benefits.
- If you are a member of more than one scheme, then the Lifetime Allowance test applies to the value of all your pension benefits from all schemes, when these are brought into payment.

What happens if I exceed the Lifetime Allowance?

If the total value of all of your pension benefits exceeds the Lifetime Allowance when you start to take your benefits, a Lifetime Allowance Tax Charge will be payable.

If your benefits over the Lifetime Allowance are taken as income, the Lifetime Allowance Tax Charge will be 25% of the excess income (and the remaining income will be further subject to Income Tax).

If you take your benefits over the Lifetime Allowance as cash then you will be subject to a 55% Lifetime Allowance Tax Charge on the excess over the Lifetime Allowance.

Can I protect the value of my pension benefits if they are already higher than £1 million?

If the value of your total pension benefits was already more than £1 million at 6 April 2016, the government has introduced a form of protection which may protect you from a Lifetime Allowance Tax Charge. This is called Individual Protection (2016) and is similar to earlier protections offered when the Lifetime Allowance was previously reduced.

Individual Protection (2016) will give you a personalised Lifetime Allowance equal to the value of your total pension benefits at 5 April 2016 (or the Standard Lifetime Allowance if it has risen to more than this by the time you take your benefits).

If you apply for Individual Protection (2016), you may continue to make further pension savings, but any benefits that you have over your Lifetime Allowance when you start to take them will be subject to a Lifetime Allowance Tax Charge.

What happens if the value of my pension benefits is less than £1 million now, but I expect they will be worth more than £1 million by the time I draw them, even if I don't make any further pension savings?

If your total pension benefits were valued at less than £1 million at 5 April 2016, but you expect them to be worth more than £1 million by the time you take your benefits, due to inflation and/or investment returns, even if you make no future pension savings, then you may be able to apply for a form of protection called Fixed Protection (2016). Again, this is similar to protections offered previously.

Fixed Protection (2016) allows you to retain a Lifetime Allowance at the current level of £1.25 million (or the Standard Lifetime Allowance if it has risen to more than this by the time you take your benefits).

However, to apply for Fixed Protection (2016) you must not have made any pension savings since 5 April 2016 and you cannot make any further pension savings in future. If you do, then you would lose Fixed Protection (2016) and your Lifetime Allowance will revert to the Standard Lifetime Allowance (which may be lower).

What happens if the value of my pension benefits is less than £1 million now, but I expect they will be worth more than £1 million by the time I draw them because of continued pension savings I will make?

If you only expect to have pension savings of more than the Lifetime Allowance by continuing to make further pension savings, then the protections available will not help you.

Instead, you may continue to make pension savings and monitor the total value of your pension savings against the Lifetime Allowance. You can then consider opting out of further pension savings at some point in the future.

How do I opt out of future pension savings?

If you wish to opt out of all future pension savings from Pace DC, in order to limit any likely Lifetime Allowance Tax Charge, then you should contact Graeme White, Pensions Manager (see below for contact details).

How can I apply for protection?

You must apply for protection before you take any benefits after 6 April 2016. HMRC has set up an online system that will enable you to apply for protection.

If you have any questions about pensions tax allowances, please contact:

Graeme White - Pensions Manager

Tel: 0161 201 4350

Email: graeme.white@co-operativebank.co.uk

This factsheet should not be treated as an authoritative statement of the law on any particular aspect or in any specific case. It should not be taken as financial advice and action should not be taken as a result of this factsheet alone. Individuals are recommended to seek independent financial advice before making any pension planning decisions.

04/20