Annual allowance issues: managing multiple pension input periods

The amount you can save in your pension each year before incurring a tax charge is reducing, so more scheme members will become caught by this limit. Keeping track of the value of your pension savings can be difficult as people frequently have benefits in more than one scheme.

We look at the details around the annual allowance – and the need to track pension input amounts (PIAs) and pension input periods (PIPs) – in our briefing note The annual allowance: enough to give trustees the PIP?

This case study looks at how one employer managed PIPs within multiple pension arrangements.

The PIP problem

In November 2013, this employer introduced a new group personal pension (GPP) as its auto-enrolment scheme. As existing pension members joined the new GPP, they stopped making contributions to the defined contribution (DC) section of their trust-based scheme. However, many also had an entitlement in the defined benefit (DB) section that continued to increase in line with salary each year.

To check the level of savings against the annual allowance in a given tax year, you add up all pension inputs amounts for pension input periods ending in the same tax year. For this employer:

- the PIP for the trust-based scheme ends on 30 June
- the PIP for the new GPP ends on 5 April

This isn't only complex for employees to understand. It also means that, if they take no action for the 2013/14 tax year, their contributions to the GPP from 1 November 2013 to 5 April 2014 will be added to their PIAs for the DB and DC trust-based scheme for the year ending 30 June 2013. This increases the likelihood that they will breach the annual allowance in the 2013/14 tax year.

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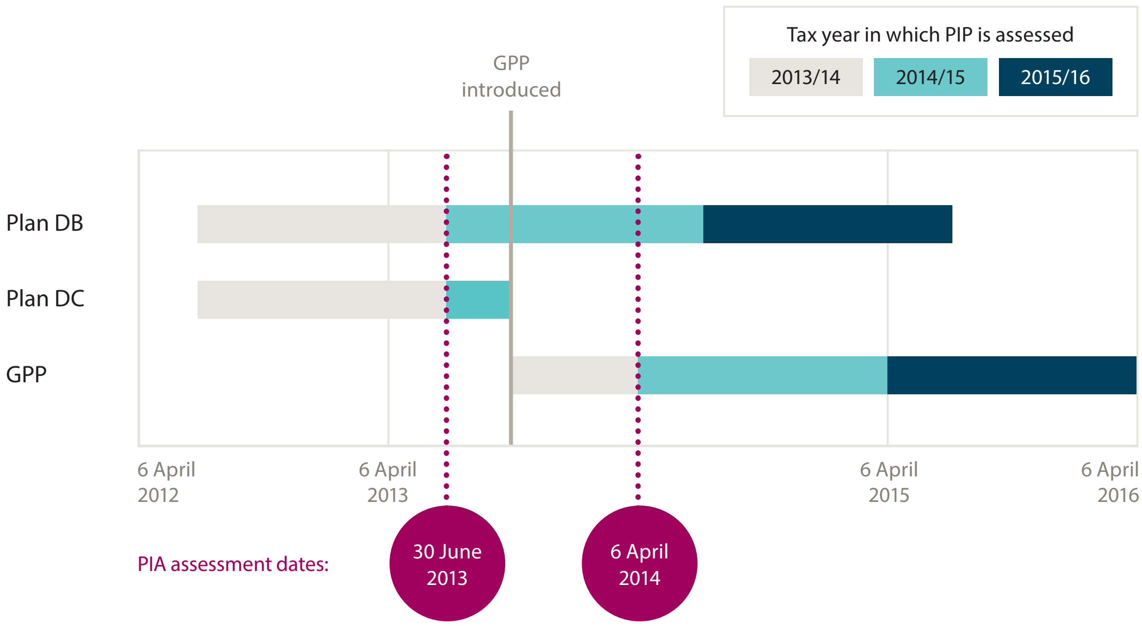
This is illustrated in the diagram below:



As you can tell from the diagram, the next tax year is also affected. In 2014/15, members would need to assess their position by adding together:

- a full year's contributions to the GPP
- a full year's increase in the DB scheme (net of CPI)
- contributions made to the old DC section of the scheme between 1 July 2013 and 31 October 2013

Again, this could significantly increase the number of members liable to the annual allowance charge.

The solution

Members have the option to nominate their own PIP. By choosing to align the GPP pension input period with that of the existing trust-based scheme, they remove the additional complexity and minimise the likelihood that they will be caught by the annual allowance and face a tax charge.

To do this, members needed to notify the GPP provider that they wish to use an alternative PIP (for example, an end date of 30 June). However, this cannot be processed retrospectively so they need to act no later than 5 April 2014.

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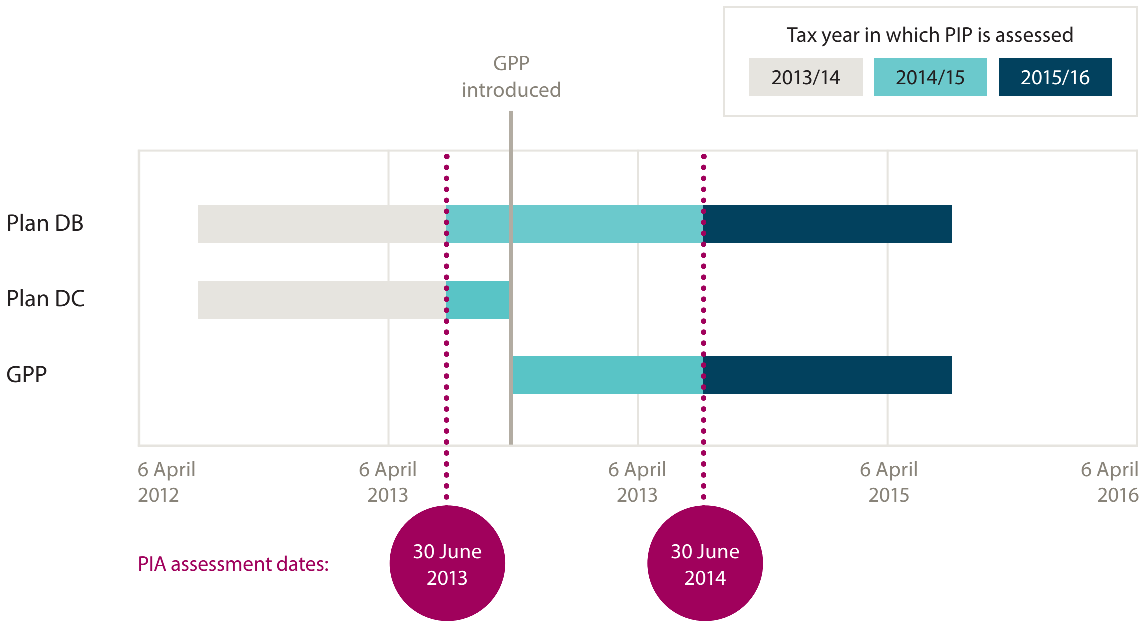
The effect after taking this decision is illustrated below:



Clearly this is not an easy message to convey – and taxation is a personal responsibility – so care was needed when this employer communicated the issue and solution to members.

As a result of the employer flagging this issue, members were able to take informed decisions based on their own particular situation. Whilst some chose to change their PIP, others realised they had not maximised the contributions they could make and instead opted to retain the April PIP for the GPP and pay an additional contribution to top up their pension savings.

Our thoughts

We know this employer is not unique, so it seems highly likely that over the past two years many people have had combined PIAs that have exceeded the annual allowance. We also expect many individuals may have been unaware of this – and of the need to provide details to the taxman.

However, for pension input periods ending in the 2013/14 tax year or later schemes will have to notify HMRC of such cases on the scheme event report. This requirement is in addition to having to issue a pension savings statement to any member who exceeds the annual allowance. This will provide HMRC with a belt and braces approach and they won't need to rely solely on members to complete the pensions information on their self-assessment forms in future.

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