2022/2023 - ESPS

ESPS members - Annual Allowance - Frequently Asked Questions

All contributing members of the ESPS will receive a Pension Savings Statement covering a members pension savings for 2019/20 to 2022/23 in late September/early October 2023. In that statement are details of the amount saved into the Uniper Group of the ESPS over the previous tax year (6th April to 5th April). This is known as the Pension Input Amount (PIA).

It is not possible to provide these statements any earlier due to the provision of data and the calculations required to produce these statements.

How much can I save into my pension?

While there's no limit on the amount that can be saved into your pensions each tax year, there is a limit on the total amount that can be saved each tax year with tax relief applying and before a tax charge might apply. This limit, known as the Annual Allowance, is currently £40,000 (or 100% of your earnings if this is less than £40,000) for 2021/2022 rising to £60,000 for 2023/2023.

Your Annual Allowance may also be reduced if you are subject to a tapered Annual Allowance. Tapered Annual Allowance applies to those with taxable earnings above a certain level. Work out your reduced (tapered) annual allowance - GOV.UK (www.gov.uk).

How is the Pension Input Amount calculated?

For defined benefit pensions (such as the Uniper Group of the ESPS), your PIA is based on the capital value of the increase in your pension benefits over the tax year plus any savings you make to any other registered pension arrangement (including any bonus waiver contributions to the Uniper Pension Plan).

Your PIA for your ESPS benefits can be found on your Pension Saving Statement.

PIA calculation in more detail

The ESPS PIA is calculated by subtracting the opening value of your benefits from the closing value.

Opening value - The pension benefits at the start of the tax year are capitalised by multiplying the accrued pension by 16. As the ESPS provides a separate lump sum in addition to the pension, the accrued lump sum is added to this value.

This total value is then allowed to be increased by CPI (for the year to September of the previous tax year).

Closing value - This is the value of the pension benefits at the end of the input period (tax year) multiplied by 16. Add in the amount of any separate lump sum.

Subtract the opening value from the closing value and any positive result is the PIA for the tax year.

See the appendix on page 5 for an example calculation.

Why is my PIA so much bigger this year than in previous years?

The reason for the increase to the level of the PIA for the 2022/23 period was largely a combination of (1) the low increase to the Opening Value; and (2) the rate of this year's RPI which is used in the Closing Value calculations.

The Opening Value was increased by CPI and the rate used was 3.1% (the figure for the year to September 2021). The method of increasing the Opening Value is prescribed and details are set out in the HMRC tax manual [PTM053301 - Annual allowance: pension input amounts: defined benefits arrangements: general - HMRC internal manual - GOV.UK (www.gov.uk)]

The Closing Value is the value of your benefits at the end of the input period. The method of this calculation is prescribed (see the HMRC tax manual) and reflects the value of your pension if you had retired on 5 April (having already reached normal pension age). Therefore, the calculation must use the Scheme's full definition pensionable salary. The full definition of pensionable salary for many members takes into account the uplift in RPI.

Where can I find the definition of Pensionable Salary for my section?

A summary of the definition of Pensionable Salary can be found in your scheme booklet for your section which is available on the Uniper Pensions website. https://ukpensions.uniper.energy/

How is RPI calculated?

Railpen use the last day of the previous month to determine the rate of RPI. Therefore, calculations as at 5 April 2023 are based on RPI increases to March 2023. For most members this will mean that the salary used in the calculation of benefits for the PIA will have increased by around 9%.

Why is the Closing Value different to the value of my benefits on my annual benefit statement?

The Closing Value for your PIA may be different to the value of your benefits which is set out in your annual benefit statement. The reason for this is that the full definition of pensionable salary is not used in annual benefit statements because the future rates of RPI are not known.

Therefore, the annual benefit statements do not take the RPI uplift into account. The pensionable salary used for the calculations in the annual benefit statements is usually the salary paid over the previous year to 31 March.

Does my high PIA have anything to do with the level of contributions the Company makes to the ESPS?

As outlined above, your PIA is based on the increase in the value of your pension benefits over the year. The calculation has nothing to do with the level of contributions the Company makes to the ESPS.

How do I find out the value of my pension savings in other pension arrangements?

You will need to contact the administrators of the other arrangement(s) and ask for a Pension Savings Statement covering your pension savings for 2019/20 to 2022/23, although if your PIA with any arrangement exceeded the AA in any year, you should receive a statement automatically.

What about my deferred pension(s) or any pension(s) I am already receiving?

You should check with the respective scheme administrators, but a PIA is unlikely to arise in respect of a deferred pension or a pension in payment.

What happens if I have exceeded the Annual Allowance for this year?

If you exceed the Annual Allowance you can carry forward and use any unused allowances from the three previous tax years.

Will you do the carry forward calculation for me?

Railpen will send you a Pensions Saving Statement (at the end of September / beginning of October) to help you to work out whether you have sufficient unused Annual Allowance from the previous three years to carry forward or not and whether you will have something to declare to HMRC through self-assessment. This includes the value of your Uniper Group benefits and any contributions to a Uniper Group AVC. However, Railpen is not aware of any contributions you may have made to any other pension arrangement(s) including contributions to the Uniper Pension Plan under the Bonus Waiver scheme.

Therefore, if you have made any contributions to any other pension arrangements in any of the tax years 2019/20 to 2021/22, you must also take those pension savings into account in the calculation. You also need to check whether the Tapered AA should apply and take this into account separately.

What happens if I have exceeded the Annual allowance for this year plus any unused allowances from the three previous tax years?

If you have exceeded the Annual allowance for this year plus any unused allowances from the three previous tax years you will have to pay an additional tax charge.

The tax charge is calculated by adding the amount by which you have exceeded the Annual Allowance (allowing for unused allowances from the three previous years) to your other taxable income - tax will then apply depending on what tax band the excess amount falls into.

You will need to complete your self-assessment tax return to accurately determine whether you are subject to an Annual Allowance tax charge**.**

HMRC's guidance on how to do this can be found at [Pension savings — tax charges (Self Assessment helpsheet HS345) - GOV.UK (www.gov.uk)]

What is Scheme Pays?

In certain circumstances, a pension scheme is obliged to pay the Annual Allowance tax charge on behalf of an individual, this is known as Mandatory Scheme Pays. If an individual does not have a right to Mandatory Scheme Pays, many pension schemes offer what is known as Voluntary Scheme Pays. A pension scheme may set its own criteria for when Voluntary Scheme Pays can be used.

The Uniper Group Trustees have decided that members can opt to use Scheme Pays in respect of any annual allowance tax charges relating to the membership of the ESPS that have been incurred in the tax year 6 April 2022 to 5 April 2023.

If you decide to use Scheme Pays, your benefits in the ESPS will be reduced accordingly to reflect the fact that the Scheme has paid a tax charge on your behalf.

If I opt for Scheme Pays how will my benefits be reduced?

Railpen will be able to provide you with more information about how 'Scheme Pays' works and how it will affect your pension benefits.

Please note that neither the Trustees nor Railpen are authorised to provide you with financial advice.

We recommend that you seek independent financial advice before making any decision regarding Scheme Pays.

Can I see what the pension reduction is for Scheme pays?

Members can obtain details of the amounts recorded against their benefits by contacting Railpen.

How do I request Scheme Pays

If you want to request Scheme Pays you will need to complete a 'Scheme Pays' election form which is available on request from Railpen.

Is there a deadline for making a decision in relation to Scheme Pays?

A formal request for the Scheme to pay the tax on your behalf must be made to Railpen before 31 July 2024 (or by 31 December 2023 if the request is being made under Voluntary Scheme Pays).

We recommend that you advise Railpen as soon as possible to allow time for the calculations to be done and for you to make a final decision.

If you intend to invoke Scheme Pays you also need to indicate this on your Self-Assessment Tax Return for 2022/23.

Next Steps

Railpen will send all members of the Scheme who have breached the annual allowance limit or who earn over £70,000 a Pension Saving Statement at the end of September / beginning of October.

The Pension Saving Statement will contain details of your pension savings in the ESPS and will set out whether Railpen considers you are liable for a tax charge.
Please note that Railpen will not take into account any pension savings in other pension arrangements (including any bonus waiver) and whether you are subject to the tapered annual allowance. If either of these factors apply to you, you will need to do the calculations yourself. You can use the annual allowance calculator on Gov.UK to assist.

Check if you have an annual allowance tax charge on your pension savings - Check if you have an annual allowance tax charge on your pension savings - GOV.UK

The Pension Savings Statement will set out what action you need to take if you are liable for a tax charge.

May 2023

Appendix

<u>Example simplified Annual Allowance calculation</u>

At the start of his pension input period Asif's pay is £63,000 and he has been a member of the scheme for 15 years. At the end of his pension input period Asif's 'final pay' has increased by 5% to £66,150 and he has 16 years scheme membership.

Asif does not have any other pension arrangements.

Asif's total pension input amount is the increase in the value of his pension saving over the year. This is the difference between the opening value and the closing value of his promised benefits.

Working out the opening value

At the start of Asif's pension input period the value of his benefits (the opening value) is calculated as:

- find amount of annual pension 15/80 x £63,000 = £11,812.50
- multiply annual rate of pension by flat factor of 16 £11,812.50 x 16 = £189,000
- add amount of separate lump sum £189,000 + (3 x £11,812.50) = £224,437.50

increase by CPI (for the purpose of this example, 3.1%) £224,437.50 x 1.031 = £231,395.
Asif's opening value is £231,395.

Working out the closing value

At the end of Asif's pension input period the value of his benefits (the closing value) is calculated as:

- find amount of annual pension 16/80 x £66,150 = £13,230
- multiply annual rate of pension by flat factor of 16 £13,320 x 16 = £211,680
- add amount of separate lump sum £211,680 + (3 x £13,230) = £251,380.

Asif's closing value is £251,370.

Working out the pension input amount

The difference between the closing value and the opening value is £19,975 (£251,370 - £231,395). This means Asif's pension input amount is £19,975.

Asif's total pension input amount for the tax year is also £19,975, as he does not have any other arrangements to take into account for the same year.

This example also does not take account of any carry forward amounts that can be used to offset.