
RAILPEN

UNIPER GROUP OF THE ESPS

Annual Allowance Webinar - ESPS

RAILPEN

1 AND 3 NOVEMBER 2022

INTRODUCTION - YOUR RAILPEN TEAM



Joanne Parker
Client Relationship Manager



Jason Dennis
Senior Pensions Administrator

Your Uniper Pensions Team



Adrian Furnell

Pensions Scheme Secretary

adrian.furnell@uniper.energy



Ruth Blackburn

UK Pensions Manager

ruth.blackburn@uniper.energy

07929 722503

IMPORTANT

- **PLEASE NOTE:** This presentation applies to Powergen, Eastern (ex TXU) and Midlands ESPS category members of the Uniper Group of the ESPS.
- If you are a different category member of the ESPS or a Uniper Retirement Balance Plan member then different benefits will apply.
- These presentation slides are based on the current rules, scheme factors and pensions legislation as at November 2022. These are always subject to change.
- Railpen, Uniper and the Trustees are not authorised to provide financial advice.
- In the event of any inconsistencies between these presentation slides and the rules of the Uniper Group of the ESPS, the rules of the Uniper Group of the ESPS prevail.

AGENDA

- How much can you save into your pension
- What is the Pension Input Amount (PIA) ?
- How do you calculate your PIA?
- What happens if my PIA exceeds the Annual Allowance?
- Scheme Pays
- Can I work out what my PIA will be next year?
- Is there anything I can do to reduce my PIA next year?
- Useful links for further information
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HOW MUCH CAN I SAVE IN TO MY PENSION?

- The amount you save into your pension is known as the Pension Input Amount (PIA)
- There's technically no limit to how much you can save BUT there is a limit on the amount that can be saved with tax relief 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).
- Your Annual Allowance may also be reduced if you are subject to a tapered Annual Allowance.
- Tapered Annual Allowance currently applies to those with total taxable income from all sources above £200,000 a year.

HOW IS THE PIA 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.
- You also need to add any savings you make to any other registered pension arrangement (including any bonus waiver contributions to the Uniper Pension Plan).
- It is not the amount you and the Company contributed to the ESPS.
- Your PIA for your ESPS benefits can be found on your Annual Benefit Statement and your Pension Saving Statement.

ESPS - HOW DO YOU CALCULATE THE PIA?

- 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 valued by multiplying the accrued pension by 16.
 - As the ESPS provides a retirement 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). For the 2021/22 tax year this was 0.5%.
- **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 the separate retirement lump sum.
- $PIA = \text{Closing Value} - \text{Opening Value}$ (if a positive value)
- Any AVC contributions made in the tax year are then added to the main scheme input amount to give a total PIA. The PIA value on your annual statement will include any AVCs contributions you make to the Uniper Group's AVC provider.

ESPS - HOW DO YOU CALCULATE THE PIA?

An example of this calculation is shown below:

Pension at 6th April 2021	£31,500 pa
Lump Sum at 6th April 2021	£94,500

Pension at 5th April 2022	£36,129 pa
Lump Sum at 5th April 2022	£108,387

Value of Benefits at 6th April 2021
 $(16 \times £31,500) + £94,500 = £598,500$
increased by CPI as at Sept 2020 (0.5%) = £601,492

Value of Benefits at 5th April 2022
 $(16 \times £36,129) + £108,389 = £686,451$

PIA $£686,451 - £601,492 = \underline{\underline{£84,959}}$

This member's PIA is in excess of the Annual Allowance of £40,000.

ESPS SECTION - WHY IS MY PIA SO MUCH BIGGER THIS YEAR?

- The reason for the increase in PIA 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 0.5% (the figure for the year to September 2020).
- The Closing Value reflects the value of your pension if you left the scheme from that date i.e. 5th April 2022. Therefore, the calculation must use the Scheme's full definition pensionable salary which looks at previous salaries and adjusts them by RPI which was much higher in April 2022.

ESPS - HOW IS RPI APPLIED?

- Railpen use the last day of the previous month to determine the rate of RPI.
- Therefore, calculations as at 5 April 2022 are based on RPI increases to March 2022.
- For most members this will mean that the salary used in the calculation of benefits as at 5 April 2022 for the purposes of calculating the PIA will have increased by around 9%.

DEFINITION OF PENSIONABLE SALARY (FOR SOME ESPS MEMBERS)

"Pensionable Salary" is the higher of:

1. The pensionable salary for the last 365 days of employment.
2. The best salary (as above) paid in the last 5 years of employment adjusted for inflation (RPI).
3. The highest average of any 3 consecutive years in the last 10 years of employment adjusted for inflation (RPI).

This definition applies to the majority of categories of the Uniper Group of the ESPS but you should check the definition for your category. The definition can be found in your section booklet which can be found on the Group's website at:

<https://ukpensions.uniper.energy/esps>

ESPS EXAMPLE CALCULATION OF PENSIONABLE SALARY

- In this example, in 2002, the member's annual basic salary was £86,500 but under the ESPS Scheme rules the definition of Pensionable Salary means the figure used in the calculations was **£93,238**:

Period	Annual pensionable salary without RPI	<u>RPI</u>	Pensionable Salary including RPI	Best year over the last 5 years	Best consecutive 3 years over the last 10yrs
31/03/2022	86,500	N/A	86,500	86,500	
31/03/2021	84,000	1.0896	91,525	91,525	
31/03/2020	82,000	1.1056	90,659	90,659	
31/03/2019	80,000	1.1347	90,775	90,775	
31/03/2018	79,000	1.1624	91,830	91,830	
31/03/2017	78,000	1.2013	93,698		92,101
31/03/2016	76,000	1.2390	94,163		93,230
31/03/2015	73,000	1.2583	91,853		93,238
31/03/2014	73,000	1.2696	92,682		92,899
31/03/2013	70,000	1.3008	91,053		91,863

ESPS - EXAMPLE CALCULATION

- Under this example at 05/04/2021 this member has 30 years service and a pensionable salary of £84,000 giving an annual pension of £31,500 and a lump sum of £94,500.
- Using the same salary history, at 05/04/2022 the member has 31 years service but a pensionable salary £93,238, giving an annual pension of £36,129 and a lump sum of £108,387.
- The calculations for this are shown in the appendix and the salary information detailed is strictly for illustration purposes only.

ESPS – PIA CLOSING VALUE AND YOUR ANNUAL BENEFIT STATEMENT

- **Why is the closing value different to the value of my pension benefits shown on my annual benefit statement?**
 - The pension benefits used 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 benefit estimates or annual benefit statements because the future rates of RPI are not known.
 - As RPI can go down as well as up, especially on a month to month timescale, this could lead to us over quoting benefits that are due to be paid shortly.
 - Therefore, the annual benefit statements do not take the RPI uplift into account when showing the pension benefits on your annual statement. The figures for your PIA and LTA (lifetime allowance) do include this RPI uplift.
 - This method means that the actual benefits payable should be the same or higher than quoted on your annual benefit statement or retirement illustration.

THE THREE YEAR LOOK BACK AND PENSION SAVINGS STATEMENTS

- If your Pension Input Amount (PIA) is in excess of £40,000, Railpen has a statutory requirement to send you a Pension Savings Statement. Under the Regulation, this must be sent to you by 5th October for the previous tax year.
- Any amount over £40,000 can be offset against any unused allowance from the previous 3 tax years.
- This calculation will be shown on your Pension Savings Statement with a section quoting the amount we believe will be liable to tax.
- This amount may be £0.00, in this case we believe you have enough unused allowance to cover the value in excess of the Annual Allowance.
- However, if you are contributing to any other pension schemes, including the UPP though the bonus waiver scheme or have a total taxable income (from all sources) of over £200,000 you may be liable to a tax charge even if we have calculated this as £0.00 on your Pension Savings Statement.

CARRY FORWARD – EXAMPLE CALCULATION

Uniper Group of the ESPS				
Mr J Smith				
The table below outlines the calculation of your pension savings in accordance with HMRC guidance				
Tax year ending	2018/2019	2019/2020	2020/2021	2021/2022
PIA for tax year	£22,000	£26,000	£25,000	£41,600
Standard AA	£40,000.00	£40,000.00	£40,000.00	£40,000.00
Excess over the standard AA				£1,600 (A)
Unused AA (*)	£18,000	£14,000	£15,000	
Total unused	£18,000	£32,000	£47,000 (B)	
		(A) – (B)	Total amount liable for a tax charge (**)	£ 0.00

YOU NEED TO TAKE INTO ACCOUNT OTHER PENSION ARRANGEMENTS

- The annual allowance is a limit on contributions to all pensions schemes
- You will need to contact the administrators of the other arrangement(s) and ask for a Pension Savings Statement covering your pension savings for 2018/19 to 2021/22.
- For those that have contributed to the Bonus Waiver you need to contact Fidelity **Pensions.service@fil.com to obtain a Pensions Savings Statement**

WHAT TO DO IF YOU OWE A 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.
- If you are liable for a tax charge there are two way this can be dealt with:
 - **1** The tax can be paid directly to HMRC via a self assessment tax return. If you choose to do this you do not need to notify us and there will be no change to your pension benefits
 - **2** You can request the scheme to pay the tax charge on your behalf, this is called '**Scheme Pays**' and your Group benefits will be reduced by a corresponding amount.
- **In both cases the charge needs to be declared on a self assessment tax return.**

SCHEME PAYS

- Scheme Pays means that the pension scheme pays the tax charge but your pension benefits in the ESPS are reduced accordingly at retirement to reflect the fact a tax charge has been paid on your behalf.
- The Uniper Group Trustees (in respect of the tax year 2021/2022) have decided that members can opt to use Scheme Pays in respect of any Annual Allowance tax charges that have been incurred in the tax year 6 April 2021 to 5 April 2022.
- If you have a tax charge because you have contributed to other pension arrangements (such as the bonus waiver) then you can use Scheme Pays in the ESPS for the whole tax charge.
- You cannot use Scheme Pays for any historic tax charges. i.e. you can only use Scheme Pays for tax charges in the current tax year (6 April 2021 to 5 April 2022).

HOW SCHEME PAYS WORKS

- Any tax amount you elect to be paid under scheme pays will be held on your record as a negative DC credit and will attract interest annually until the point you decide to take your benefits.
- The interest rate is determined annually by the Scheme Actuary.
- For example: In 2016 Annual Allowance tax charge of £3,000 incurred and a negative credit was created
 - 2016 £3,000
 - 2017 £3,069
 - 2018 £3,133.45
 - 2019 £3,218.05
 - 2020 £3,285.63
 - 2021 £3,374.34

At retirement this negative credit will be deducted from the following (in the order shown):

- (1) your Additional Voluntary Contribution account;
- (2) your annual pension using the Group's standard commutation factors at retirement.

Please note: the Trustee determines the methodology for Scheme Pays and it could change at any time. The slides set out the current methodology.

EXAMPLE CALCULATIONS OF SCHEME PAYS - ESPS

Calculation if a reduction in pension is required.

- For example, a member takes their pension at age 60 with a Scheme Pays negative DC credit of £5,000 (and has no AVCs).
- At the date they take their pension the negative DC account would be converted using the standard scheme commutation factors.
- If, for example, the standard commutation factor was a factor of 27.00*
- This means that the £5,000 of tax paid (including interest) would be converted to a reduction of £185.19 gross pension per year.

- $£5,000 / 27 = £185.19$ per year

* commutation factors are age dependant and are always subject to change.

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.
- We recommend that you contact Railpen as soon as possible to allow time for Railpen to send you the appropriate form and once you return the form, action and send a confirmation letter.
- The turnaround time for Railpen is around 10 working days from each piece of correspondence received.
- If you intend to invoke Scheme Pays you need a reference number from Railpen (stated on the confirmation letter) and you need to indicate this on your Self Assessment Tax Return for 2021/22 (which needs to be submitted before 31 January 2023).
- The Trustees, the Company and Railpen are NOT authorised to provide you with any financial advice
- We recommend that you seek independent financial advice before making any decision regarding Scheme Pays.

ESPS - CAN I WORK OUT WHAT MY PIA WILL BE NEXT YEAR?

- We are unable to predict future RPI.
- However, the rate of RPI is currently over 12%. If this rate remains the same for the remainder of the tax year we would expect PIA's to generally be similar to those of the 21/22 tax year. This will mean more members could be liable for a tax charge next year when taking account of the three year lookback.
- However Railpen, Uniper and the Trustees are not authorised to provide financial advice and the above statement may not apply to all members as your pension benefits are individual.

ESPS - IS THERE ANYTHING I CAN DO TO REDUCE MY PIA NEXT YEAR?

- For those individuals that are making Additional Voluntary Contributions (AVCs), you will have the ability to change the amount of AVCs made to the AVC provider.
- To do so, you need to write or email Railpen to request that your AVCs are stopped or reduced.
- Our email address is enquiries@railpen.com

USEFUL LINKS FOR FURTHER INFORMATION

[PTM053301 - Annual allowance: pension input amounts: defined benefits arrangements: general - HMRC internal manual - GOV.UK \(www.gov.uk\)](#)

[Pension savings — tax charges \(Self Assessment helpsheet HS345\) - GOV.UK \(www.gov.uk\)](#)

[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](#)

<https://ukpensions.uniper.energy>

ANY QUESTIONS?

ESPS EXAMPLE CALCULATION

			RPI	Revalued				
	APS	ADM	(assumed increase at DoL)	APS	ADM	workings		
05/04/2022	86,500.00	0.00	323.5	86,500.00	0.00	86,500.00		
05/04/2021	84,000.00	0.00	296.9	91,525.77	0.00	91,525.77		
05/04/2020	82,000.00	0.00	292.6	90,659.60	0.00	90,659.60		
05/04/2019	80,000.00	0.00	285.1	90,775.17	0.00	90,775.17		
05/04/2018	79,000.00	0.00	278.3	91,830.76	0.00	91,830.76		
05/04/2017	78,000.00	0.00	269.3	93,698.48	0.00	93,698.48	92,101.47	
05/04/2016	76,000.00	0.00	261.1	94,163.16	0.00	94,163.16	93,230.80	
05/04/2015	73,000.00	0.00	257.1	91,853.36	0.00	91,853.36	93,238.33	
05/04/2014	73,000.00	0.00	254.8	92,682.50	0.00	92,682.50	92,899.67	
05/04/2013	70,000.00	0.00	248.7	91,053.48	0.00	91,053.48	91,863.11	
						Uncapped (pre13) salary	£ 93,238.33	
						Service	MP	LS
						31	£ 36,129.85	£ 108,389.56

ESPS EXAMPLE CALCULATION

	APS	ADM	(assumed	APS	ADM	workings				
									£ 598,500.00	
05/04/2021	84,000.00	0.00	296.9	84,000.00	0.00	84,000.00			£ 601,492.50	£ 686,467.22
05/04/2020	82,000.00	0.00	292.6	83,205.06	0.00	83,205.06				
05/04/2019	80,000.00	0.00	285.1	82,104.52	0.00	82,104.52				
05/04/2018	79,000.00	0.00	278.3	80,930.29	0.00	80,930.29				
05/04/2017	78,000.00	0.00	269.3	80,606.76	0.00	80,606.76				
05/04/2016	76,000.00	0.00	261.1	78,386.82	0.00	78,386.82	79,974.62			
05/04/2015	73,000.00	0.00	257.1	74,135.74	0.00	74,135.74	77,709.78			
05/04/2014	73,000.00	0.00	254.8	73,658.95	0.00	73,658.95	75,393.84			
05/04/2013	70,000.00	0.00	248.7	71,716.93	0.00	71,716.93	73,170.54			
05/04/2012	67,000.00	0.00	240.8	69,198.09	0.00	69,198.09	71,524.66			
						Uncapped (pre13) salary	£ 84,000.00			
						Service	MP	LS		
						30	£ 31,500.00	£ 94,500.00		