

Annual Allowance

Pension guide – Information for members

This pension guide explains what the Annual Allowance is, when this may affect you, and what to consider if it does affect you.

The BAE Systems pension schemes can provide information about your pension savings, but tax is your individual responsibility, and neither the Company nor any of the scheme administrators can complete or assist you with any tax liability calculations. This guide is to help inform you of the actions that you should be taking to help you assess whether a tax charge is payable.

We recommend that you seek independent financial advice if you are concerned about how tax may affect your pension benefits. You can visit moneyhelper.org.uk or unbiased.co.uk to find out how to contact an independent financial adviser near you.

If you have any queries about a tax charge, please contact HMRC.

1. What is the Annual Allowance?

Your Annual Allowance (**AA**) is the limit on the amount of pension savings, known as the Pension Input Amount (**PIA**), that can be made to all your pension schemes in a tax year, before you have to pay tax on them. It applies to your pension savings across all UK registered pension schemes that you or your employer contribute to, including Additional Voluntary Contributions (**AVCs**) and any payments made to other personal pension arrangements. For most members the AA is £60,000.

How these inputs are calculated differs for defined benefit (**DB**) and defined contribution (**DC**) benefits. Further details of the actual calculations are provided in the [Appendix](#)

Please note that the different BAE Systems pension schemes do **not** share information so you will need to add together any input amounts yourself to calculate the total input amount for each tax year, in particular if you are a member of one of the DB schemes and are also paying AVCs (or you are a Level 100+ member) into the separate Mercer Master Trust (**MMT**) arrangement.

The following schemes currently have actively contributing members.

Scheme	Notes
DB schemes	
<ul style="list-style-type: none">• BAE Systems Pension Scheme (Level 125-200, Level 100+, 2000 Plan*, Alvis, SIPS, Aircrew, Passport)• Royal Ordnance Pension Scheme (Crown Service, 1984)	DB schemes for employees who joined before April 2012

*This includes AVCs paid to the Selected Benefits Scheme (**SBS**), which are DC benefits under AA rules

DC schemes	
<ul style="list-style-type: none"> • BAE Systems Retirement Savings Plan • MBDA Retirement Savings Plan • RBSL Retirement Savings Plan 	DC schemes for employees who joined since April 2012. Part of the Mercer Master Trust (MMT)
DC arrangements for DB members (including employer DC contributions for Level 100+)	
<ul style="list-style-type: none"> • BAE Systems Additional Retirement Savings Plan • BAE Systems Additional Retirement Savings Plan for Airbus 	Arrangements for AVCs for DB members and Level 100+ employer contributions. Part of the Mercer Master Trust (MMT)

There are also some legacy DC schemes, including AVC arrangements with Standard Life, Prudential and Clerical Medical.

2. How do I know what my Annual Allowance is?

For most members it is £60,000. For all tax years from 2014/15 to 2022/23 it was £40,000, from the 2023/24 tax year onwards it is £60,000.

There are however a couple of ways that your Annual Allowance may be less than the standard AA, these are explained below.

You are a high earner

If your 'threshold income' (which includes all sources of income, such as employment earnings, investment income and income from a buy-to-let property, but excludes your pension savings) is more than **£200,000** and your 'adjusted income' (which also includes the value of your pension savings) is more than **£260,000** then you will be subject to the Tapered Annual Allowance (**TAA**).

If you are above both of these limits then the standard Annual Allowance is reduced by £1 for every £2 of adjusted income between £260,000 and £360,000. If your adjusted income is over £360,000 you will have a fully TAA of £10,000.

It is important to note that the Scheme will only send you a PSS if your pension savings exceed the standard Annual Allowance of £60,000. **If you are subject to the TAA it is your responsibility to request a PSS from Aptia.**

These limits were different in previous years. Further information on the TAA can be found at [GOV.UK](https://www.gov.uk)

You have flexibly accessed benefits from a DC scheme

If you have flexibly accessed your benefits from a DC (also known as Money Purchase) pension arrangement, the amount that can be paid into a DC arrangement and still get tax relief reduces. This reduced amount is known as the Money Purchase Annual Allowance (**MPAA**) and it is currently £10,000 (prior to 6 April 2023 it was £4,000).

Flexibly accessing DC benefits includes drawing down on a DC pot, or taking some or all of a DC pot as a cash sum, known as an Uncrystallised Funds Pension Lump Sum (or UFPLS).

This allowance covers both your own contributions and any other contributions paid into your DC pension pot on your behalf. If you pay into a DC arrangement and are subject to the MPAA, then you can build up DB benefits without paying tax on those savings up to the standard AA less the MPAA limit.

The scheme which has paid you these sort of benefits will tell you (within 31 days) if the MPAA now applies and will tell you what you need to do. Your actions will include telling any other schemes that have DC amounts being paid to them that the MPAA now applies.

3. When might this affect me?

You have built up benefits or paid in contributions that exceed your Annual Allowance

When your pension scheme administrator is aware that you have exceeded the standard AA (£60,000) within that scheme, it must provide you with a Pension Savings Statement (**PSS**) confirming this. Please note that a PSS will only be issued to you once you have exceeded the standard AA. They are also available on request.

A PSS will also be issued automatically if the scheme thinks the MPAA applies to you and the input amount paid into the DC arrangement was more than the MPAA (£10,000).

Your PSS will help you decide if you have a pension tax charge to pay. Your scheme administrator will issue statements by 6 October following the end of the tax year. If you believe you should be getting a PSS and if you still have not received one by this date, please contact your scheme administrator.

If you think the TAA applies to you, or you think you might be over the AA by being in more than one scheme, you should request a PSS from all schemes you or your employer are paying in to as you will need this information for your self-assessment tax return.

You want to pay more into the scheme, but don't want to exceed your Annual Allowance

If you plan to make significant contributions you should check your past input amounts and consider using 'carry forward' if available. Carry forward is explained later in this guide, but is a way of rolling forward any unused allowances from the previous three tax years to effectively increase your AA for one year.

You will need to add together the estimated Pension Input Amounts for any pension scheme you and/or your employer are paying in to. Your inputs for the current tax year can be estimated as follows.

Scheme	How to find your estimated pension savings
DB pension scheme	Estimates will be available on your OneView account in early December each year on the 'Annual Allowance' tab (which assumes your salary remains unchanged, and that you will still be in the scheme at the end of the tax year).
DC pension scheme	Details of the contributions paid to the Mercer Master Trust can be found via your Mercer Money account. Once signed in go to the 'Pension' tab then 'View plan' and then 'Transactions' to see the contributions made. You will need to add up the contributions made since the start of the tax year (i.e. April to date), and then you will need to make an assumption on the contributions you expect to be paid for the rest of the tax year (i.e. up to and including March).
Any other pension scheme	You will need to take into account any contributions you are paying to any other pension schemes. You will need to contact that scheme directly for more information.

You choose the Stepped pension option at retirement (including if you are retiring as a deferred member)

If you are a member of the BAE Systems Pension Scheme with Level 125-200 or 2000 Plan benefits, you may have the option to take a Stepped pension if you retire more than six months before your State Pension age. The Stepped pension option will increase your pension at the point of retirement, thereby increasing your AA usage. It will be important that you consider this prior to choosing this option if you believe you could be affected.

Please note this also applies if you are a deferred member, as even though you are not otherwise contributing to the scheme, the increase in your pension by taking the Stepped pension option is tested against your AA when you retire.

Aptia can provide a quotation of the estimated Pension Input Amount that would arise from selecting this option. More information about the Stepped pension option can be found in the separate [Stepped pension](#) guide.

4. What happens if I am affected?

The tax calculation is your individual responsibility. You may have other pension schemes that you are saving into which the schemes' administrators will not know about (for example, if you are paying AVCs to the MMT and also have DB pension benefits in the BAE Systems Pension Scheme). Also, if you are subject to a TAA, the administrators will not know all of your taxable earnings and they may not know if you have flexibly accessed a pension elsewhere.

Generic information to explain the AA and tax position is made available to help you understand what you need to do should you exceed the AA. Reference material is included in your annual benefit statement, within your Scheme Booklet and on the information regarding paying AVCs.

5. How do I go about calculating whether I have a tax charge?

If you think you have exceeded the AA for the last tax year, you will need to calculate whether or not you have an AA tax charge to pay. To do this you will need to request a PSS from all pension schemes that you paid into or built up benefits within for the most recent tax year.

The schemes will be able to provide this after 5 October each year and if you do need to pay tax you will have to declare this to HMRC by the following 31 January.

You will need to work out what your personal AA amount is (see earlier in the guide), add together all Pension Input Amounts, and then assess if you have enough carry forward to cover the amount by which you have exceeded your AA.

Your Pension Input Amount

This is the value of the growth of your pension benefits in the relevant Pension Input Period (PIP) which is the same as the tax year, 6 April to 5 April. Your PSS shows your Pension Input Amount for the current year and previous three years. If your total Pension Input Amount is more than the standard AA, you can 'carry forward' any unused AA from the last three years. This means that you may not have to pay a tax charge if you breach the AA in the current PIP.

How these inputs are calculated differs for DB and DC benefits. Further details are provided in the [Appendix](#)

Carry forward

Unused AA from the previous three Pension Input Periods can be used to offset against a tax charge, if your pension savings exceed your AA. This is called 'carry forward'. Previous Pension Input Amounts are shown on your PSS to help you identify if this is possible.

You must also take into account any other pension savings from building up benefits in or contributing to any other HMRC registered pension schemes.

An example of how carry forward may work for someone who has exceeded their AA for the first time is shown below.

Tax year	Annual Allowance	Pension Input Amount	Unused Annual Allowance
2024/25	£60,000	£90,000	£0
2023/24	£60,000	£40,000	£20,000
2022/23	£40,000	£30,000	£10,000
2021/22	£40,000	£20,000	£20,000

In this case, the total available AA for 2024/25 would be the individual's AA of £60,000 for the tax year in question, plus the sum of the previous three tax years' unused allowance: £60,000 + £20,000 + £10,000 + £20,000 = £110,000.

If your unused 'carry forward' allowance is more than the amount by which you have exceeded the AA in the current tax year, then you will not be liable for a tax charge and you will not be required to report anything to HMRC.

This is the case in the above example, the unused carry forward allowance was £50,000 (£20,000 + £10,000 + £20,000) which is more than the amount by which they exceeded the AA in the 2024/25 tax year of £30,000 (£90,000 – £60,000).

You or your tax adviser may find this HMRC website page helpful at [gov.uk](https://www.gov.uk)

The tax charge

Any tax charge due is payable at your highest rate of income tax for that tax year.

The tax charge must be declared via a self-assessment tax return (you should answer "Yes" to "Did you make contributions to a pension?" and "Do you have any tax on pension savings above the Annual Allowance to pay?"). More information about how to calculate, declare and pay a tax charge can be found at [gov.uk](https://www.gov.uk)

6. How do I pay the tax charge if there is one?

You may have two options of how to pay the AA tax charge. You can pay it direct to HMRC by completing a self-assessment tax return no later than 31 January of the following year.

Alternatively, the PSS will let you know if you can ask the scheme to pay the charge on your behalf in exchange for a reduction in your benefits. There are a set of criteria which need to be met, so this option may not be available to everyone. This is known as 'Scheme Pays' and for further information on this option you should contact your scheme administrator.

7. How does Scheme Pays work?

Scheme Pays allows members to ask their pension scheme to pay the charge on their behalf. The Scheme arranges to pay the tax to HMRC and will reduce your future pension entitlement to cover the cost of this.

In a DB scheme the tax charge is converted into an annual pension debit. This debit would be calculated using the factors in place at the point of the calculation. The Scheme Pays factors are reviewed periodically, usually after a scheme's triennial (three-yearly) valuation, to ensure that they remain appropriate. This means that they are subject to change without prior notice, and you have no right to factors which may have been quoted previously.

The debit would then increase each year in line with inflation (based on the rise in the Consumer Prices Index (CPI) to a maximum of 2.5% a year) from the effective date of the debit. This is then deducted from your pension when you retire (or on your death or if transferring your pension to another arrangement, if this is sooner). The debit is not taken into account in the tax year in which it's implemented.

Alternatively, you can ask for the tax charge to be deducted from any DC savings you have.

8. What are the timescales for checking my AA and using Scheme Pays?

For DB members, please note the following important dates after the end of each tax year, and the actions you may need to take if you are affected by the AA or TAA.

Before
6 Oct



If you are a **high earner** you should check if you think you are subject to the TAA by reviewing your total UK taxable income for the previous tax year.

After
6 Oct



Check your AA usage by logging onto [OneView](#) and going to the 'Annual Allowance' tab.

If your pension savings in the Scheme exceeded the standard AA you will also find a PSS under 'Personal Information'. This will explain any actions you may need to take.

Remember you will also need to add any contributions you or your employer have paid to the Mercer Master Trust (or any other scheme) during the year.

By
31 Dec



If you have a tax charge to pay and want to use **Scheme Pays** you need to request this before the end of December. Please contact [Aptia](#) before the **end of November** to start this process.

By
31 Jan



If you have a tax charge you need to include this on your **self-assessment tax return**. You will need to include details even if you want to ask the Scheme to pay the tax for you.

For DC members, the timeline and process is very similar. Scottish Widows will send you a PSS by 6 October if your contributions were more than £60,000 in the previous tax year. You can check the contributions paid to the Mercer Master Trust via your Mercer Money account.

Remember, if you have paid into more than one pension scheme during the year, it is your responsibility to collate and combine the information for each scheme.

9. What happens if I can't calculate my exact AA tax charge?

If you don't have the information available to calculate the exact amount of your AA tax charge, you can estimate it. You can then complete a Scheme Pays election using the estimated figures.

Once you know your final AA information you can amend your tax return within 12 months of submitting this. You can then arrange to adjust your Scheme Pays debit, if needed.

Appendix – How are Pension Input Amounts calculated?

DC savings

If you are a member of a DC scheme or pay AVCs as a member of a DB scheme, the calculation is relatively simple. The Pension Input Amount for DC pension savings is the total of your contributions and your employer's contributions paid in during the tax year.

DB savings

For DB savings it is more complicated. The Pension Input Amount for DB pension savings is a little harder to work out and is **not** equal to the contributions that you and your employer have made. It is worked out by determining the **growth** in your DB benefits from year to year, over and above inflation. A value is then placed on this growth using a factor set by HMRC.

Following each tax year, Aptia will calculate the value of your pension savings by undertaking the following steps:

1. They determine the benefits you had built up at the end of the previous tax year and multiply this by the factor set by HMRC (currently 16).
2. The total amount is increased in line with inflation. For example this is 10.1% for the 2023/24 calculation and 6.7% for the 2024/25 calculation. The measure used is the published rise in the Consumer Prices Index (**CPI**) for the year to September in the previous tax year (e.g. when calculating the Pension Input Amount for the 2024/25 tax year, the relevant inflation to use is September 2023). This then gives the value at the start of the tax year.
3. They determine the benefits you had built up at the end of the tax year and multiply this by the same factor as used in Step 1 (currently 16).
4. They deduct the value in Step 2 from the value in Step 3 which gives you your Pension Input Amount. The Pension Input Amount cannot be negative, and therefore if the amount in Step 2 is more than the amount in Step 3 then the Pension Input Amount is simply zero.

If you cease pensionable service during the tax year, the closing amount is your pension at your date of leaving. If you start to receive your pension during the tax year, the closing amount is your retirement pension, based on the following:

Including:

- Any reduction applied for early retirement before your normal pension age; **and**
- The amount of any Stepped pension, if you choose this option.

Excluding:

- Any reduction to your pension if you choose to exchange any of your annual pension to receive a tax-free cash sum at retirement.

Your closing amount is therefore your final pension put into payment, but on the basis that you did not choose to exchange any of your pension for a tax-free cash sum. This does though include any increase to your initial retirement pension if you choose the Stepped pension option.

Some worked examples are shown below.

Example: 2023/24 tax year

Accrued pension as at 5 April 2023: $\pounds 10,000 \times 16 = \pounds 160,000$

Increased in line with inflation: $\pounds 160,000 \times 1.101 = \pounds 176,160$ (opening amount)

Accrued pension as at 5 April 2024: $\pounds 12,000 \times 16 = \pounds 192,000$ (closing amount)

Pension Input Amount for 2023/24 tax year: $\pounds 15,840$ ($\pounds 192,000 - \pounds 176,160$)

Please note that for a large number of members for the 2023/24 calculation their AA usage was relatively low when compared to previous years, and in some cases was zero. This was due to the increase in the CPI used in the opening value outweighing the actual growth of the increase in scheme pension over the year.

Future example: 2024/25 tax year (member looking to maximise AVCs paid during the tax year)

Accrued pension as at 5 April 2024: $\pounds 12,000 \times 16 = \pounds 192,000$

Increased in line with inflation: $\pounds 192,000 \times 1.067 = \pounds 204,864$ (opening amount)

Predicted accrued pension as at 5 April 2025: $\pounds 14,000 \times 16 = \pounds 224,000$ (closing amount)

Total AVCs paid to the Mercer Master Trust: $\pounds 7,200$ ($\pounds 600$ per month)

Predicted Pension Input Amount for 2024/25 tax year: $\pounds 26,336$ (DB: $\pounds 224,000 - \pounds 204,864$; DC: $\pounds 7,200$)

In this example the member would have an estimated $\pounds 33,664$ ($\pounds 60,000 - \pounds 26,336$) remaining AA, along with any unused allowance from the previous three tax years that could be carried forward, to use for any further AVCs before 5 April 2025

Future example: 2024/25 tax year (member retiring during 2024/25 tax year with Stepped pension option)

Accrued pension as at 5 April 2024: $\pounds 12,000 \times 16 = \pounds 192,000$

Increased in line with inflation: $\pounds 192,000 \times 1.067 = \pounds 204,864$ (opening amount)

Retirement pension (including Stepped pension but ignoring any tax-free cash taken): $\pounds 19,000 \times 16 = \pounds 304,000$ (closing amount)

Estimated Pension Input Amount for 2024/25 tax year: $\pounds 99,136$ ($\pounds 304,000 - \pounds 204,864$)

In this example the member would exceed their AA by $\pounds 39,136$ ($\pounds 99,136 - \pounds 60,000$), however a tax charge will be avoided if there is at least $\pounds 39,136$ of unused allowance from the previous three tax years which could be carried forward. If we assume there was no unused allowance to carried forward, and assuming the member was a higher rate tax payer, an AA tax charge of **$\pounds 15,654$** would be owed ($\pounds 39,136 \times 40\%$)