

Triggering the Annual Allowance

Pension Guide – Information for members

BAE SYSTEMS

This pension guide explains what happens if the inputs to your pension savings in any one tax year (6 April to 5 April) exceeds the limit under which you can receive tax relief. This limit is known as the Annual Allowance and for most members it is £40,000.

Whilst your BAE Systems Scheme administrator will send you information if you exceed the £40,000 limit in relation to your BAE Systems scheme benefits, tax is your individual responsibility and we cannot 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. It also explains how 'carry forward' allows any unused Annual Allowance in the prior three tax years to be carried forward and added to your Annual Allowance for the current tax year. We recommend that you seek independent financial advice if you are concerned about how tax may affect your pension benefits. More information about getting independent financial advice can be found in the separate Pension Guide, *Independent Financial Advice*. If you have any queries about a tax charge, please contact your HM Revenue & Customs (HMRC) tax office.

What is the Annual Allowance (AA)?

The AA is the maximum value of inputs to your pension savings each year for which you can get tax relief. 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 £40,000.

How these inputs are calculated differs for Defined Benefit (DB) and Defined Contribution (DC) benefits. Further details are provided on page 3.

Tapered Annual Allowance (TAA)

In April 2016 HMRC introduced the TAA. Since April 2020 the TAA reduces the standard AA by £1 for every £2 of 'adjusted income' between £240,000 and £312,000.

Adjusted income includes personal sources of income (such as investment income or income from a buy-to-let property), together with employment-related income and a measure of the increase in pension savings over the tax year. Anyone with an adjusted income of over £312,000 or more has a fully tapered AA of £4,000. Please note that the standard AA is not reduced if your ***threshold income*** for the tax year was £200,000 or less, no matter what your adjusted income was. Threshold income is your adjusted income but excluding the value of your pension benefits over the tax year.

Further information on the TAA can be found at: gov.uk/guidance/pension-schemes-work-out-your-tapered-annual-allowance.

Before April 2020

There were two key changes that took effect from 6 April 2020. Prior to this date the standard £40,000 AA reduced by £1 for every £2 of adjusted income above £150,000 rather than £240,000. Anyone with an adjusted income of £210,000 had an AA of £10,000. The AA only

tapered down to £10,000 not £4,000. The tables below compare the old and new allowance levels for a selection of Adjusted Incomes so you can view these tapered AAs at a glance.

06/04/2016 – 05/04/2020	
Adjusted income	Tapered Annual Allowance
£150,000 or less	£40,000
£160,000	£35,000
£170,000	£30,000
£180,000	£25,000
£190,000	£20,000
£200,000	£15,000
£210,000 or more	£10,000

06/04/2020 onwards	
Adjusted income	Tapered Annual Allowance
£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
£312,000 or more	£4,000

Money Purchase Annual Allowance

Members who have flexibly accessed their benefits, for example using a drawdown arrangement, will permanently have an AA of £4,000 for future DC contributions. This is the Money Purchase Annual Allowance (MPAA).

Whose responsibility is it to calculate whether a member has a tax charge?

The tax calculation is your individual responsibility. You may have other pension schemes that you are saving into which the Scheme's administrators will not know about. Also, if you are subject to a tapered AA, the administrators will not know all of your taxable earnings nor will they know if you have flexibly accessed a pension elsewhere.

That said, 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 when considering paying AVCs. An article can also be found on the BAE Systems pension website which gives members information about the AA: [How are my benefits taxed?](#)

When your Scheme administrator is aware that you have exceeded the standard AA within the Scheme it must provide you with a Pension Savings Statement (PSS) confirming this (see below). Please note that a PSS will only be issued to you once you have exceeded the standard AA and not before.

If I have exceeded the standard AA when will I get my BAE Systems Pension Savings Statement?

Your PSS provides important information about the growth of your BAE Systems pension and will be sent if you have exceeded the standard AA in any tax year. It will help you decide if you have a pension tax charge to pay. Your Scheme administrator will issue statements by 5 October to your home address. 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 have not exceeded the AA threshold you may still ask to receive a statement of your AA usage so that you are better able to understand your AA position. This will be particularly important if you

are going to draw your pension at the time that you leave BAE Systems and you are considering taking a stepped pension (which is available under the Main Edition and 2000 Plan Benefits section). For more information on the stepped pension option and how this might impact affect your AA you should refer to the Pension Guide *Stepped Pension*.

What should I do when I receive my Pension Savings Statement?

After receiving your PSS, you will need to calculate whether or not you have an AA tax charge to pay. Information about how to calculate, declare and pay a tax charge can be found on the HMRC website [here](#). You will need to review your BAE Systems PSS alongside any statement(s) you may have received from any other pension arrangements that you currently paying into or accruing benefits within.

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

Your Pension Input Amount

This is the value of the growth of your pension benefits in the relevant Pension Input Period (PIP). The PIP each year is aligned to 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 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.

Defined Contribution (DC) savings

If you are a member of a DC scheme or pay AVCs into 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 PIP.

Defined Benefit (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 the DB benefits from year to year. A value is then placed on this growth using a factor set by HMRC.

Following each PIP, the Scheme administrator 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 PIP and multiply this by a factor published by HMRC (currently 16).
2. The total amount is increased in line with inflation, this is 2.4% for 2018/19 (CPI for the year to September). This then gives the value at the start of the PIP in April 2019/20.
3. They determine the benefits you had built up at the end of the current PIP and multiply this by the same factor as used in Step 1 (16).
4. They deduct the value in Step 1 from the value in Step 4 which gives you your Pension Input Amount.

Example:

Accrued benefits at 5 April 2019: £10,000 x 16 = £160,000

Increased in line with inflation: £160,000 x 1.024 = £163,840 (opening amount)

Accrued benefits at 5 April 2020: £15,000 x 16 = £240,000

Pension Input Amount for the tax year to 5 April 2020: £240,000 - £163,840 = £76,160

Any contributions you and the Company have paid into any other pension arrangement, for example a personal pension outside your BAE Systems pension scheme, are not included on your PSS and therefore it is your responsibility to combine these figures. You will need to request a PSS from any other pension scheme you have.

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 the AA. This is called 'carry forward'. Previous Pension Input Amounts for your BAE Systems pension benefits are shown on your Pension Savings Statement to help you identify if this is possible.

Does my BAE Systems pension automatically restrict my benefits so I don't exceed the AA under the Scheme?

Under the Scheme Rules, members' benefits under the following schemes are automatically restricted so that the increase in their benefits remains within the standard AA. If you tell the administrator of these schemes of a different tapered AA then they will automatically restrict your benefits to this amount.

- ❖ BAE Systems Pension Scheme: Main Edition
- ❖ BAE Systems Pension Scheme: 100+
- ❖ BAE Systems Pension Scheme: 2000 Plan Benefits
- ❖ BAE Systems Pensions Scheme: Alvis Benefits
- ❖ Royal Ordnance Pension Scheme
- ❖ BAE Systems Executive Pension Scheme

This does not apply to any AVCs you may have paid and so AVCs may cause you to exceed the AA. If you are a member of one of the schemes/sections listed above, you have the choice whether you wish to opt out of this restriction when you are sent a copy of your PSS. Also, if at retirement members elect to take the Stepped Pension option (available under the Main Edition and 2000 Plan Benefits section), this may also mean that you inadvertently exceed the AA for that year and you will be made aware of this by the Scheme administrator, Equiniti at the time. *{Note: You may be comfortable with selecting the Stepped Pension option if you have visibility that you have enough unused 'carry forward' allowance to negate a tax charge occurring. More information about the Stepped Pension option can be found in the separate Pension Guide, **Stepped Pension**}.}*

There are no rules restricting contributions into the following schemes against the AA:

- ❖ BAE Systems Pension Scheme: DC Retirement Plan
- ❖ BAE Systems Pension Scheme: SIPS Benefits

Any tax charge due is payable at your marginal rate of income tax. You will need to consider your 'carry forward' position and any other statement(s) you may have received from any other providers that you are currently paying into. You will be signposted to the HMRC website to help you and you are advised to consider taking independent financial advice.

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.

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

If you have not been restricted under the Scheme rules (or for those Scheme sections that do restrict – you give notice not to be) you 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 with HMRC no later than 31 January of the following year. Alternatively if the tax charge due is more than £2,000, you can ask the Scheme to pay the charge on your behalf in exchange for a reduction in your benefits. This is known as 'Scheme Pays' and for further information on this option you should contact your Scheme administrator. You can apply for Scheme Pays after you receive your PSS.

Contact details for your Scheme administrator can be found at: baesystems.com/en-pensions/contact-us.