

The background features a gradient from dark blue on the right to bright orange on the left. Two horizontal white lines are positioned above and below the text.

RAILPEN

NATIONAL GRID ELECTRICITY GROUP OF THE ESPS

Annual Allowance Webinar

RAILPEN

INTRODUCTION - YOUR RAILPEN TEAM

Enquiries@railpen.com

02476 472 580

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 £60,000 (or 100% of your earnings if this is less than £60,000). This increased for the 2023/24 tax year, previously the allowance was £40,000.
- 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.

HOW IS THE PIA CALCULATED?

- For defined benefit pensions (such as the National Grid Electricity Group of the ESPS), your PIA is based on the capital value of the increase in your pension benefits over the tax year.
- Any pension savings you make to any other registered pension arrangement are also added (including any amount paid into AVCs also administered by Railpen).
- 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 or your Pension Saving Statement. We can also provide this information on request.

IMPORTANT

- **PLEASE NOTE:** This presentation applies members of the National Grid Electricity Group of the ESPS. The benefits for former Gas scheme members are calculated differently.
- Even if your specific benefit category is not covered the details for the calculation of your PIA and scheme pays options remain the same.
- If you are a member of the defined contribution scheme the following will not apply.
- These presentation slides are based on the current rules, scheme factors and pensions legislation which are always subject to change.
- Railpen, the Company and the Trustees are not authorised to provide financial advice.

ESPS - HOW DO YOU CALCULATE THE PIA?

- The ESPS PIA is calculated by subtracting the opening value of your benefits from the closing value.
- The value is set out as the benefits accrued should the member have left on 5th April each year.
- **Opening Value:**
 - The pension benefits at the start of the tax year are valued by multiplying the accrued pension by 16.
 - As the National Grid Electricity Group of the ESPS provides a standard 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 2022/23 tax year this was 3.1%.
- **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.
- Closing Value – Opening Value = PIA (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 AVC contributions you make to the Group's AVC provider.

ESPS - HOW DO YOU CALCULATE THE PIA?

An example of this calculation is shown below:

Pension at 5th April 2022	£31,500 pa
Lump Sum at 5th April 2022	£94,500

Pension at 5th April 2023	£36,129 pa
Lump Sum at 5th April 2023	£108,387

Value of Benefits at 5th April 2022
 $(16 \times £31,500) + £94,500 = £598,500$
increased by CPI as at Sept 2021 (3.1%) = £617,053.50

Value of Benefits at 5th April 2023
 $(16 \times £36,129) + £108,389 = £686,451$

Value of AA $£686,451 - £617,053.50 = \underline{\underline{£69,397.50}}$

This member's PIA is in excess of the Annual Allowance of £40,000 for 2022/23.

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 salary calculation.
- The Opening Value was increased by CPI and the rate used was 3.1% (the figure for the year to September 2021).
- 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 2023.

DEFINITION OF PENSIONABLE SALARY(ELECTRICITY SECTION)

For ESPS section 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).

The former Gas section members of the National Grid Electricity Group of the ESPS have different salary definition.

CORE ESPS SECTION MEMBERS - 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 2023 are based on RPI increases to March 2023.
- For most members this will mean that the salary used in the calculation of benefits as at 5 April 2023 for the purposes of calculating the PIA will have increased by around 13.5%.
- Following the changes to the scheme made in 2013 salaries are split between pre and post 2013 benefits. We look at both sets of salaries and apply RPI to the last 10 years salaries and use the definition detailed on the previous slide.

EXAMPLE CALCULATION OF PENSIONABLE SALARY

- In this example the members pensionable salary is **£93,238**:
- **This would be done for both pre and post 2013 tranches**

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	1.0000	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 – 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 the Annual Allowance we have a statutory requirement to send you a pension savings statement. This is must be sent to you by 5th October for the previous tax year.
- Any amount over £40,000 (or £60,000 going forwards) 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 is in relation to your NGE Group ESPS benefits only. This includes payments to your AVC funds but not any contributions to any other schemes.
- 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 or have a taxable income 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

National Grid Electricity 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	2019/2020	2020/2021	2021/2022	2022/2023
PIA for tax year	£22,000	£26,000	£25,000	£41,600
Standard AA	£40,000	£40,000	£40,000	£40,000
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

CARRY FORWARD – EXAMPLE CALCULATION - WITH TAX CHARGE

National Grid Electricity Group of the ESPS				
Mrs N Smith				
The table below outlines the calculation of your pension savings in accordance with HMRC guidance				
Tax year ending	2019/2020	2020/2021	2021/2022	2022/2023
PIA for tax year	£22,000	£33,000	£49,500	£68,000
Standard AA	£40,000	£40,000	£40,000	£40,000
Excess over the standard AA			£9,500	£28,000 (A)
Unused AA (*)	£18,000	£7,000	£0.00	
Total unused	£18,000	£25,000	£15,500 (B)	
		(A) – (B)	Total amount liable for a tax charge (**)	£12,500

EXCEEDING THE AA

- What happens if I have exceeded the Annual Allowance (AA) and have no carry forward AA to offset?
 - 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.

WHAT TO DO IF YOU OWE A TAX CHARGE

- If you are liable for a tax charge there are two ways 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

- There are two categories of scheme pays, **Mandatory** and **Voluntary**.
- Pension schemes are only obliged to offer Mandatory scheme pays. However, the NGE Group Trustees allow both. In practice this means most tax charges could be paid through the scheme.
- For a request to come under Mandatory scheme pays, the tax charge must be over £2,000 and the PIA must be greater than the Annual Allowance.
- Your NGE Group pension benefits are reduced for any tax amount elected to be paid via Scheme Pays. The tax payment requested to be paid from the Group will be first deducted from any AVC fund, if applicable. If this does not cover the charge, or you don't have an AVC fund, then it is converted to a reduction to your pensionable service.

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 advise Railpen as soon as possible to allow time for us to send you the appropriate form and receive a confirmation letter once it has been actioned by us.
- If you intend to invoke Scheme Pays you also need to indicate this on your Self Assessment Tax Return for 2022/23 (which needs to be submitted before 31 January 2024).
- 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.

CALCULATION OF SCHEME PAYS REDUCTIONS

- The method used for Scheme Pays is determined by the Trustees
- Your NGE Group pension benefits are reduced for any tax amount elected to be paid via Scheme Pays. The tax payment requested to be paid from the Group will be first deducted from any AVC fund, if applicable. If this does not cover the charge, or you don't have an AVC fund, then it is converted to a reduction to your pensionable service.
- The reduction of service is calculated using the factors for transferring a pension into the scheme.
- The amount of service granted should a amount be transferred in is then added as a service deduction as the money is being paid out of the scheme.
- You are able to request an estimate of the service reduction.
- The final deduction will be calculated once we received your completed forms.

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 6%, but has been falling in recent months. The CPI value that is used to uplift your opening value is 10.1%. If this rate remains the same for the remainder of the tax year, we would expect PIAs to generally be lower than last year.
- However Railpen, the Company 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 CONTROL MY PIA

- For those individuals that are making Additional Voluntary Contributions (AVCs), you have the ability to change your AVC contributions made to the AVC provider.
- Members can complete a 'contribution change form' to request a change to AVCs.
- Please contact us if you wish to make changes to your AVC payments.

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](#)

[ngeg.nationalgridpensions.com](#)

[https://nationalgrid.myesps.co.uk/](#)

ANY QUESTIONS?