
RAILPEN – ANNUAL ALLOWANCE SEMINAR 2023

Frequently asked questions (FAQs) v2 update 18 January 2024

Thank you to everyone who attended the Annual Allowance Webinars during November. We have compiled a list of the most commonly asked questions and have provided answers to them below. If the answer is also included in the slide presentation we have also included the page reference. This version has been updated to provide answers to all questions.

Scheme specific questions

	Question	Answer	Slide Page
1	Has the company had to increase contributions to match RPI?	National Grid pays contributions of at least twice the member's contributions, together with any additional contributions required as a result of the actuarial valuation. The rate of employer contributions is published in the NGE Group's Annual Report and Financial Statements available in the library section of the website https://ngeg.nationalgridpensions.com/library/	
2	What's the differences if you transferred in from the gas scheme?	There is no difference in the calculation of the Pensions Input Amount, however your benefits will be calculated differently if you transferred in from the gas scheme.	
3	What month do we use for RPI to increase our DB pension?	Railpen uses the last day of the previous month to determine the rate of RPI used in the salary calculations, in line with the Scheme Rules. Therefore, calculations as at 5 April 2023 are based on RPI increases to March 2023.	11
4	Can members leave the Scheme whilst still in employment? I'm concerned I'm going to be hit with a massive tax bill next year.	Yes, you can opt-out of the Scheme. You need to contact Railpen if you wish to do this. You should take Independent Financial Advice if you are considering this. Your benefits will then become deferred in the Scheme and you cannot then rejoin in the future.	
5	Are "protected members" treated differently i.e. pensions protected by the act of parliament upon privatisation?	No, these members are still subject to the same Annual Allowance limits.	

Calculation questions

	Question	Answer	Slide Page
1	So RPI is driving the Pension Input Amounts up? Why have PIAs increased so much over the last three years despite no change in personal circumstances/salary?	The increase in Pension Input Amount was largely a combination of the low increase to the Opening Value (increased by CPI of 3.1% to September 2021); and the rate of this year's RPI which is used in the salary calculation.	9 and 14
2	How many years does unused Annual Allowance (AA) last for?	If you are over the Annual Allowance (AA) you can use any unused AA from the last three tax years.	
3	Why limit the unused allowance to three years, why not include all unused allowance?	Railpen has to adhere to the rules on carry forward of unused allowance issued by HM Revenue & Customs (HMRC) and these rules limit this to three years.	
4	If I am under the Pension Input Amount (PIA) next year and this gives me spare PIA do I get a tax rebate on the PIA difference as it's within the four years of PIA?	No, unfortunately not.	
5	How are the opening and closing pension values calculated in the first instance as there are various calculations to get those figures?	Details of the calculation we carry out to determine the Pension Input Amount is detailed on page seven of the presentation, with an example included on page eight.	7 and 8
6	Why is a factor of 16 used in the calculations?	16 is the factor used to place a value on the growth of your benefits for the purposes of calculating if your benefits exceed the Annual Allowance, and is set by HMRC.	
7	Is it possible for Railpen to provide a breakdown of our individual calculations so that we can verify the calculation against our own figures?	Yes, please contact Railpen if you require this. We have a 10-day turnaround for responding, however if your enquiry is urgent please email enquiries@railpen.com or phone the helpline on 02476 472 540.	
8	Could Railpen help us determine how (from information on our payslips) what the Pension Input Amount is. I believe we have an amount per month stated on our payslips which can be added up for the tax year April to April? Is this correct?	No, you cannot determine the amount of your Pension Input Amount from your payslips. It is calculated showing the methodology explained in the presentations and is not related to the contributions that you pay in.	7 and 8
9	Why don't you recalculate last year's figures against the predicted figures?	Pension Input Amount is calculated at a point in time and usually not revisited in future years.	
10	Are you saying that the calculation is not completely accurate, therefore how do I do a self-assessment submission?	No, the calculation is accurate based on the information available to Railpen at the time that it is calculated. You should	

		wait until your Pension Savings Statement is received to complete your self-assessment submission.	
11	So if I get my forty years in and continue to work are the same calculations applied?	Yes the same Pension Input Amount calculations are applied, but it does take into account your salary growth even though your pension accrual will have ceased.	
12	If you become a deferred member what applies then as nothing is added?	Calculation of Pension Input Amounts is only relevant for active members of the Scheme. Your pension ceases to accrue when you become a deferred member and we will calculate your last Pension Input Amount for the tax year that you leave in.	
13	If you reduce the hours you work is there a corresponding reduction in salary and pension and Pension Input Amount?	Any changes in contractual hours will affect your pension benefits accordingly based on your individual circumstance and be reflected in your Pension Input Amount calculation for that tax year.	
14	Even if RPI falls, are we still at risk of exceeding the Pension Input Amount because best salary goes back 10 years?	Yes, it is possible.	
15	Why use CPI from September?	The CPI value used in calculating the opening figure for the purposes of the Pension Input Amount is set by HMRC, so Railpen have to adhere with this and have no discretion regarding which CPI figure to use.	
16	So for my salary of five years ago do you apply compounded inflation of all five years?	We compare the change in the value of RPI between the two dates for your Pensionable Salary calculation.	12
17	How are added years treated when it comes to capped and uncapped pensionable salary?	If you started Added Years before 1 April 2014 then the pensionable salary applied to the Added Years will be uncapped. If you started them after that date the salary will be capped.	

Scheme Pays and Tax

	Question	Answer	Slide Page
1	By using Scheme Pays does this reduce the Pension Input Amount for following years as you are reducing the pension increase for that year?	Potentially if you have used Scheme Benefits to pay the Scheme Tax charge as this will reduce your benefit accrual for that tax year.	
2	Do you notify us of the service reduction once you have received the Scheme Pays forms from us?	Yes, Railpen does this. If you require this you can request an estimate of the pensionable service reduction from Railpen. (See question 11 below). Please email enquiries@railpen.com	
3	Would you deduct any amount directly from the current AVC savings held by L&G?	Yes, you can select which AVC funds any Scheme Pays amount is deducted from (see question 8 below for more detail).	
4	Would it be possible to use payments from this year's AVC contributions to pay any tax liability?	Yes, any Scheme Pays amount can be deducted from any existing AVC funds you hold, but you won't be able to pay any Annual Allowance charges from future AVC contributions.	19
5	Is it possible to pay the tax via one's salary, rather than via the pension?	No, HMRC rules mean you are only able to pay any tax charge via the pension scheme, or directly to HMRC, not through deductions from your salary.	
6	Will it reduce both capped and uncapped service? I.e. pre-2013?	It will always be capped service.	
7	Is interest charged on the payment and or is the value reverted once the payment is made?	Railpen does not add interest to the payments. There may be penalties imposed by HMRC if the tax is not declared and paid in advance of the payment deadlines. Further details are shown here https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm056430	

8	Can you provide detail as to how tax will be paid under Scheme Pays and how that will impact pension benefits in the future?	<p>Upon a member electing to use the Scheme Pays facility, Railpen will deduct the amount due from their pension benefits.</p> <p>If have Money Purchase Additional Voluntary Contributions (AVCs) you can elect for the tax charge to be paid from your AVCs and tell Railpen which funds that the deduction is to be taken from.</p> <p>If you do not have AVCs, or do not wish to use them for this purpose, or if your AVC fund is insufficient to meet the charge due, your pensionable service in the Scheme will be reduced to pay for the tax charge. The factors for calculating this are provided by the Group Actuary, with the basis for their calculation being determined by the Group Trustee.</p> <p>Please contact Railpen if you would like further details on this, enquiries@railpen.com</p>	
9	Can we all get a personalised example calculation so we are clear at an individual level what our tax liabilities are?	<p>There is a calculator available on the HMRC Website, shown below:</p> <p>https://www.tax.service.gov.uk/pension-annual-allowance-calculator?_ga=2.31384063.1922245377.1662382643-547194967.1648407476</p>	
10	Scheme Pays seems like the wrong thing to do	<p>If you require advice on your own financial situation then you should seek financial advice. You can also get general information and guidance about financial products, including pensions at https://www.moneyhelper.org.uk/en.</p>	
11	Adjusting your benefits accordingly when electing "Scheme Pays" makes sense - but not being given information about this impact before making your choice seems strange. Presumably you can ask for, and receive indicative figures, before making the decision?	<p>Yes you can request an estimate of the pensionable service reduction from Railpen at enquiries@railpen.com</p>	
12	Does Railpen advise HMRC of an individual's tax liability or is it the responsibility of individual to advise HMRC once they have calculated their tax liability, and include in their self-assessment?	<p>Members with any Annual Allowance tax liability, whether they choose to pay by Scheme Pays, or directly to HMRC, must declare this tax liability on their self-assessment tax return.</p>	18

13	Lots of people will never have done self-assessment before. Any chance of a 'how to guide' for HMRC Self-assessment which covers this should you have a charge to pay?	You can find a guide to this on the HMRC Website shown below: https://www.gov.uk/government/publications/pensions-tax-charges-on-any-excess-over-the-lifetime-allowance-annual-allowance-special-annual-allowance-and-on-unauthorised-payments-hs345-self	
14	Any tips on ways to reduce your tax liability?	You will need to seek financial advice on how to reduce your tax liability. We are unable to offer you financial advice (see question 10 above for further information).	7 and 23
15	If we reduce service due to this tax bill can we earn this deduction back?	Subject to the Scheme Rules, you could increase the value of your pension benefits by remaining in pensionable service longer, paying increased AVCs and in some cases, if you are eligible, paying Added Years.	
16	Is the reduction applied to pension and lump sum?	Any reduction in service due to Scheme Pays would be applied to your pension and lump sum along with any potential future dependant's pension.	
17	Why are my values for 5th April of each year higher than they are on my pension statement for leaving on 30th June each year? Wouldn't they be expected to be higher in June than April as paid more in?	<p>The Pension Input Amounts on Annual Benefit Statements and Pension Savings Statements are calculated in the same way and as at 5 April on both statements.</p> <p>Although the salaries quoted on the Annual Benefit Statement, which are used to calculate the pension and tax-free cash estimates, do not take account of the RPI underpin, this is included in the calculation of the Pension Input Amount.</p> <p>Please note that if you are a former NGUKPS member there is no RPI underpin in your pensionable salary calculation.</p>	

Timescales and further information

	Question	Answer	Slide Page
1	Why does it take six months for Railpen to provide a statement for members? It makes it very difficult for prudent tax planning	In line with the legislation Railpen have to issue all Pension Saving Statements by 5 th October each year. However, as more members are now becoming liable to tax charges we will endeavour to send these out earlier in future years. We also include a Pension Input Amount on your Annual Benefit Statement.	
2	Can a member's guide be made available on the website please?	If you would like further information regarding the scheme you can find this on the member website : https://ngeg.nationalgridpensions.com/contributing-members/	
3	Is it a 10-working day turnaround for all Railpen queries?	Yes, general written enquiries have a 10 day turnaround. If your enquiry is urgent please phone the helpline on 02476 472 540.	
4	Can contributing members have access to a full copy of the pension terms to which they are a member please?	More details regarding the scheme can be found at https://ngeg.nationalgridpensions.com/	

General comments

	Question	Answer	Slide Page
1	Defined benefit pension schemes have clearly become a target and stealth taxes are being applied. Is the application of these taxes consistent with the treatment of defined contribution members?	Members of Money Purchase Schemes are still subject to the calculation of a Pension Input Amount but this is calculated differently and is based on the total contributions received in the tax year.	
2	Why can't Railpen provide a prediction so that we can modify our estimated taxable earnings with HMRC so that we can manage potential tax liabilities in the applicable tax year rather than arrears and ending up with tax liabilities via self-assessment?	We are unable to predict future RPI so we cannot calculate potential Pension Input Amounts for future tax years.	22
3	Can there be a seminar on our options, i.e., taking funds out?	Unfortunately Railpen cannot provide financial advice. However, we will discuss the provision of future seminars on potential areas of interest with the Group Trustees.	
4	Are we expecting hopefully next year's lower inflation to reduce or remove tax liabilities?	The rate of RPI was 6% over the 12 months to October 2023, but has been falling in recent months. The CPI value for the 12 months to September 2022 that will be used to uplift your opening value is 10.1%. If RPI remains the same for the remainder of the tax year, we would expect Pension Input Amounts to generally be lower than last year, but this is not guaranteed.	22
5	Am I correct in thinking that the 3% salary cap was only to be in place for 10 years, therefore our salary from April 2024 will then be uncapped?	The cap will apply right up to the point you leave employment (or pensionable service if earlier).	
6	Are the pensions industry (including NG) lobbying government on this as its potentially hitting a lot of hard-working people for doing the right thing?	<p>The changes to the Annual Allowance announced in the Spring 2023 budget, e.g. to increase the standard Allowance from £40,000 to £60,000 and reduce the tapering for high earners, were made by the UK government to address concerns that had been raised.</p> <p>The "Building a Consensus for Better Pensions" charter brings together voices from across the pensions industry, as well as employer and consumer representative groups, who are lobbying for positive change in pensions. Further details can be found here: https://www.plsa.co.uk/Press-Centre/Press-Releases/Article/New-charter-signifies-wide-consensus-for-building-better-pensions.</p>	