

## SCOTTISH TEACHERS' SUPERANNUATION SCHEME 11/2011

**WHO SHOULD READ:** All HR and Payroll Managers  
Pension administration staff  
Staff who submit data to SPPA

**ACTION:** Read and circulate as appropriate

**SUBJECT:** Pension Tax Relief and Auto Enrol

### The purpose of this circular is to :-

- provide an update to circular 04/2011

Circular 04/2011 advised of the changes that were being introduced during 2011 and 2012. The purpose of this circular is to provide an update and inform you of new information.

### Changes to the Annual Allowance (AA) – pension growth

From the tax year 2011/12, the AA is reduced to £50,000. This means that the AA limit will be exceeded where either (a) a member is in a pension only scheme and the value increases by more than £3,125 after inflation in the year tested, or (b) a member is in a pension and lump sum scheme and the value increases by more than £2,631 after inflation in the year tested.

Further information on how to calculate the increase in pension can be found at - <http://www.hmrc.gov.uk/pensionschemes/annual-allowance/pension-input.htm#2>

A member's total pension savings (from all sources) are subject to the AA test. Those who exceed the allowance will be able to use unused allowances from the previous 3 years (these are also set at £50k) which may mitigate the affect. This is known as "carry forward".

Members who exceed the allowance will be liable for a tax penalty, which can either be paid by the member directly to HMRC or, if the tax allowance exceeds £2,000, they can ask the scheme to pay their tax liability to HMRC. This is known as "scheme pays". If members ask for scheme pays SPPA will pay the tax liability to HMRC and make a reduction in their accrued scheme benefits. Members must make an election to SPPA to pay a specified amount.

There are restrictions to scheme pays which are:-

- members whose tax liability is £2,000 must make other arrangements to pay HMRC
- members can only ask SPPA to pay tax liabilities accrued within the scheme.

Further information on scheme pays can be found at - <http://www.hmrc.gov.uk/pensionschemes/annual-allowance/paying.htm>

The AA restrictions will not be applied:-



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- in the year of death
  - for serious ill health (life expectancy of less than a year)
  - to members who have deferred/preserved benefits in the scheme (unless the benefits are accrued in the current Pension Input Period).

Members who are retired through ill health and receive enhanced benefits (Total Incapacity Benefits) will need to be tested against the HMRC severe ill health test. The HMRC test is defined as “unlikely because of ill health to be able to do any type of gainful work, other than to an insignificant extent, before state pension age”. This HMRC test will be assessed by SPPA’s Medical Adviser at the same time as assessing the member for ill health retirement under the scheme’s criteria. Those members who meet HMRC’s severe ill health test will also be exempt from the AA restriction. However, any total incapacity benefit enhanced ill health pensions that do not meet HMRC’s serious ill health test will be subject to the AA restriction.

### **Changes to the Lifetime Allowance (LTA)**

From 6 April 2012, LTA will reduce from £1.8m to £1.5m. This may affect members who have either (a) an annual pension of over £65,217 plus the standard lump sum or (b) an annual pension of £75,000 before taking a lump sum.

HMRC has published guidance on how a member can protect their LTA at £1.8m. This is known as “fixed protection” and applications must be made to HMRC by 5 April 2012.

To keep fixed protection a member:-

- cannot start a new arrangement other than to accept a transfer of existing pension rights
- cannot have benefit accrual (i.e. cannot continue to contribute to the scheme)
- will be subject to restrictions on where and how to transfer benefits.

Further information on fixed protection is available at -

<http://www.hmrc.gov.uk/pensionschemes/lifetime-allowance/savings.htm#1>

SPPA has already identified and contacted members potentially affected by the AA change and has also notified the employer. We intend to issue letters to members affected by the LTA during September and again will also notify the employer.

Members who are concerned about how these changes will impact them should be advised to contact an independent financial or tax adviser. Further details including a factsheet, calculator and Q & A are available on our website at [www.sppa.gov.uk](http://www.sppa.gov.uk)

### **Automatic Enrolment**

The UK Government is introducing workplace pension reforms to encourage more people to save for their retirement and the workplace pensions reform changes have now been given Royal Assent in the Pensions Act 2011. A significant change being introduced from 1 October 2012 is Automatic Enrolment. As this is employment law, the responsibilities fall to the employer, however, SPPA are still considering how to administer the potential increases in starters and leavers to the scheme and STSS Employers will be fully consulted on this.



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HMRC have published a consultation document for employers and scheme administrators which sets out proposed amendments to regulations previously made in exercise of powers contained in the Pensions Act 2008. Employers may wish to consider responding to this consultation. The consultation period runs until 11 October 2011.

<http://www.dwp.gov.uk/consultations/2011/workplace-pension-reform-2011.shtml>

Further information on Auto Enrolment can be obtained from the Pension Regulator and DWP websites on the following links -

<http://www.thepensionsregulator.gov.uk/pensions-reform/detailed-guidance.aspx>

<http://www.dwp.gov.uk/docs/auto-enrol-and-wpr-the-facts.pdf>

SPPA will continue to update our website [www.sppa.gov.uk](http://www.sppa.gov.uk) with all the latest information as and when it is received.

**Ian Clapperton**  
**Director of Operations**  
**1 September 2011**

**Contact Information:**

If you have an enquiry about any aspect about the seminars, please email [SPPAstakeholderliaison@scotland.gsi.gov.uk](mailto:SPPAstakeholderliaison@scotland.gsi.gov.uk)

**Scottish Public Pensions Agency**  
**7 Tweedside Park**  
**Tweedbank**  
**GALASHIELS**  
**TD1 3TE**

[www.sppa.gov.uk](http://www.sppa.gov.uk)  
**Telephone: 01896 893000**  
**Fax: 01896 893214**



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