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Date 16 March 2011
Ref

Dear Dave,

Annual Allowance charge:

1) Miscellaneous issues particularly relating to defined benefit (DB) arrangements

2) deferred pensioners

3) defined contribution schemes

Thank you for providing me with a copy of the three letters to HMRC (two from the members of the technical liaison committee of the JWG and one from the ACA), marked up with the responses that we have discussed. I confirm that the responses reflect our views and that these letters may be shared with interested parties.

Peter Seedhouse
Policy Adviser

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2029939

THIS AMENDED VERSION OF THE ORIGINAL LETTER IS TO BE READ IN CONJUNCTION WITH THE COVERING LETTER FROM HMRC DATED 16 MARCH 2011

30 December 2010
REF 2029939

Please reply to:
Miss K Goldschmidt
Lane Clark & Peacock
30 Old Burlington St
London W1S 3NN

To: Peter Seedhouse, HMRC
by email to: pensions.policy@hmrc.gsi.gov.uk

Changes to Annual Allowance charge: deferred pensioners

This letter, the first of two sent simultaneously, sets out the initial collective views of the representatives on the Technical Liaison Committee of members of the Joint Working Group (comprising ABI, ACA, APL, NAPF and SPC) on material issued by HM Treasury and HM Revenue & Customs on changes to pension tax relief on 14 October and 9 December 2010 – specifically on the Annual Allowance.

We are aware that there is relatively little time for HMT/HMRC to consider matters which involve changing the draft legislation. At the same time, there is urgency from the fact that some individuals already effectively fall under the impact of the legislation. So for expediency the representatives have not approached their respective bodies for formal endorsement of the views expressed but we believe that the views represent a substantial weight of opinion across the range of the represented professionals.

This particular letter considers the specific topic of the "deferred pensioner carve-out" described in the new draft section 234(5B) and draft section 230(5B) for defined benefit and cash balance schemes respectively. (For convenience we replicate the relevant draft legislation for DB at the end of this letter.) This topic is very important for members and for scheme management because:

- no Annual Allowance (AA) is used up by the deferred benefit involved and hence the benefits do not potentially - and unexpectedly - push an individual into Annual Allowance excess either on the benefits or on savings being made elsewhere; and
- there is no scheme administration – no AA calculation and no AA information to be provided – in relation to such members: this is very important given the potential number of individuals involved for each scheme.

We set out our queries in the Appendix, and if helpful we would welcome the opportunity to discuss these matters further with you. It would be appreciated if the conclusions can be incorporated into public guidance speedily, and we would be happy to act as disseminators of your written reply until this is possible.

Karen Goldschmidt FIA
for the representatives on the Joint Working Group Technical Liaison Committee

Copy to the committee

1. Definition of "deferred pensioners"

The legislation (FA04) defines a deferred pensioner by elimination. In particular such an individual must not be an "active member" where "For the purposes of this Part a person is an active member of a pension scheme if there are presently arrangements made under the pension scheme for the accrual of benefits to or in respect of the person." (This definition needs to be read in the context of a per-arrangement rather than per-scheme test for the AA deferred pensioner carve out.)

The concept of "benefit accrual" is therefore very important.

The Discussion Document Summary – an indicator of intent but not legislation itself – elaborates that the carve out is intended to apply in arrangements for individuals "where there is no increase in value attributable to ongoing service and salary" but this particular wording is not part of the legislation.

This leads to various specific questions:

1.1 If, in an arrangement, a member ceases accrual of pensionable salary on Date 1 and revaluation applies at rates specified in the scheme rules as at 14 October 2010 but with one rate applying specifically while the individual remains in service with the current employer, and then once the individual leaves service (at Date 2) reverts to the revaluation that applies for other exits, is the carve out operative from Date 1 or Date 2 (and how does this tie in with the legislation)?

There are many variations on this. In some cases the rate from Date 1 to Date 2 has potential for being (though in practice may in a year not be) higher than after Date 2, in some cases vice versa. Does your answer to the above question differ depending on this type of variation?

HMRC response:

Where an employed member's accrued pension rights increase at a rate that is higher than would have been the case had the member left the employer's service, then that higher prospective entitlement arises solely in connection with employment and is considered an accrual. As such, the individual is not considered to be a deferred member and the deferred member carve out would not apply to the arrangement(s) in question. Specifically, in the example above, the individual would not be able to rely on the deferred member carve out before Date 2.

1.2 If an employee has ceased accrual of pensionable service and has revaluation as for leavers from employment; but continues to have life cover under the scheme while an employee, does this count as accrual in any way (for example because it arises solely because of still being an employee)? If it does, would the cover be deemed to be from a separate arrangement such that the exemption condition is satisfied? Or would the scheme administrator have to document the creation of a new arrangement in a manner which is acceptable under the scheme (but with potential knock-on implications)?

HMRC response:

The member could be an active member of an arrangement solely because the arrangement provides life cover: while continuing life cover would in most cases contribute nil to the pension input amount, it could nevertheless constitute an "accrual" of benefit.

However, if the life cover is held within a separate arrangement to that within which the deferred pension is held, the existence of that life cover would not, in itself, prejudice the deferred pensioner status in the other arrangement. Whether arrangements are separate will depend on the facts, based on the scheme construction [your separate letter of 30 December and our answers there relate further to this].

1.3 Suppose an employee has ceased accrual of pensionable service (but not actual service) and has revaluation as for leavers from employment for accrued rights; but continues to have ill health cover – in the sense that no benefit accrues in the normal course of events but if the member falls long term ill the scheme grants an enhanced pension either (a) of the accrued pension paid immediately without reduction or (b) as (a) but uplifted to reflect prospective service. Does (a) or (b), while solely "risk cover" (ie not actually triggered) disqualify the member from the deferred pensioner carve-out? If no, is the carve-out turned off only in the year that the benefit entitlement actually arises (when AA would be used up and potentially AA charge triggered)?

HMRC response:

The member could be an active member in relation to an arrangement solely because of continuing ill-health cover: as in the life cover case (1.2 above), this could constitute an "accrual" of benefit, depending on its nature (and notwithstanding that it might create no pension input amount unless and until such time that the contingent event that triggers an actual benefit entitlement takes place).

If the ill-health cover provided for within an arrangement does not increase by more than revaluation linked to CPI (or the rate set out in the scheme rules on 14 October 2010) the deferred member carve-out could still apply within that same arrangement.

In the event of the contingency that triggers an actual entitlement to the ill-health pension, the deferred member carve-out would not be prejudiced simply by the unreduced payment of the accrued deferred pensioner rights (even if those benefits would not have been paid unreduced had the member left employment).

As with ongoing life cover, if the ill-health pension were considered accrual, but it is provided under a separate arrangement to that in which the deferred pension is held, the existence of the ill-health cover would not, in itself, prejudice the deferred pensioner status in the other arrangement. Whether arrangements are separate will depend on the facts, based on the scheme construction.

Until the occurrence (if ever) of the contingent event that triggers an actual entitlement to the ill-health pension, and provided that revaluation of accrued rights is in accordance with the scheme rules as at 14 October 2010 (or no more than CPI), there is no benefit accrual and the deferred member carve out would apply. At the triggering of the contingent event, an actual entitlement arises and the deferred member carve-out falls away.

There might not be a pension input amount in relation to the contingent event if that event satisfies the severe ill-health conditions.

Finally we suggest that your guidance should emphasise that the relevant definition of “deferred pensioner” is under tax law. We have had several clients assume that if their rules refer to an individual as a deferred pensioner, this makes them a deferred pensioner for the tax rules.

HMRC response:

We will make this point clear in guidance.

ACTION: Clarification on the questions raised above.

2. Late retirement

Deferred pensions are due to be paid from a Normal Pension Age (NPA). There may be provision under the scheme rules which allows individuals to defer that benefit until a later date, and if doing so, the whole of life pension must, in accordance with preservation requirements, be increased at least to give actuarial equivalence reflecting its late start date and likely shorter pay period. Typically, scheme rules might express the uplift as that set by the trustees, for example, “after obtaining the Actuary's advice, is reasonable having regard to the period of postponement; but being reasonably satisfied that the value of the pension payable to the Member is at least equal to the value required by the Preservation Requirements”. In general this would not be exercised with an intention to “add” value.

Our reading of the legislation is that it is possible that the deferred pensioner carve-out might not cover such an uplift. We would ask for further consideration of this:

The amounts involved could be material for AA. A typical calculation might be:

- pension due if retiring at age 65 £50,000 pa.
- pension due if delaying drawing 1 year to age 66 10% uplift so £55,000 pa
- actual increase in pension £5,000;
- increase in pension after CPI offset of say 3% £3,500 pa
- so HMRC value £56,000.

Some members may have carry forward from past years to offset some of this. If the member delays by more than one year, then the likelihood of unused AA is less and less. And in general planning individuals would not expect a deferred pension from the past to use up any AA (especially given the overall message in relation to the carve-out).

ACTION: Can the carve-out legislation be read to continue through such deferment, so long as the rules on late retirement uplift have not changed since 14 October 2010?

Alternatively can the legislation be changed to encompass this situation, possibly limited to such uplifts as (in the actuary's view) are intended to meet the minimum required by preservation?

HMRC response:

The carve-out legislation can be read to encompass the late retirement enhancements to which you refer, provided that the rules on late retirement uplift have not changed so as to provide a greater uplift since 14 October 2010 and that the enhancement factor applied can be expressed as a percentage. A review that leads to a higher factor, but which is allowed for within such a rule, would not disapply the carve-out.

3. "CARE" schemes

Consider a career average revalued earnings (CARE) scheme providing revaluation of each year's accrued benefits at a rate of RPI, which was set out in the scheme rules as at 14 October 2010.

Is it possible for such a scheme – if it wishes to – to specify that each year of accrual in the scheme arises within a separate (defined benefit) arrangement? If this is permissible, we believe that the consequence might be that the member would qualify, in each arrangement, as being a "deferred pensioner" once that year had passed. This would allow the scheme and member to ignore all "past" arrangements in relation to Annual Allowance, and calculation of Pension Input Amount would focus solely on the "open" year.

(If this overall approach is not available, so that the member has to be treated as in one arrangement, or in many arrangements that do not qualify for the deferred pensioner definition, then each year there will be a contribution towards the Pension Input Amount arising in respect of all past years' accruals due to difference between RPI revaluation and CPI leading to burdensome administration; and over time the cumulative impact could pull some individuals within the scope of the AA charge.

We believe that allowing past years of accrued CARE benefits to be treated as deferred arrangements is within the spirit of the purpose of the carve-out provided by the legislation which is to save huge amounts of administration and concern where possible and – as indeed the CARE approach is intended to achieve in many cases – means that actives and leavers are treated similarly for past accrued benefits.

ACTION Can you confirm that the "separate arrangement" approach is a legitimate approach and that you agree with our reading of the consequences?

HMRC response:

If each year's accrual arises in a separate arrangement, and provided that revaluation of accrued rights is in accordance with the scheme rules as at 14 October 2010 (or no more than CPI), the deferred member carve out would

apply to arrangements attributable to pension input periods that ended in previous tax years.

Whether or not there were separate arrangements would be a matter of fact and dependent on the scheme construction. Where a scheme's construction is amended on or after 14 October 2010 to ensure that each year's accrual takes place in separate arrangements, HMRC would not be likely to consider such an amendment as avoidance although it would consider challenging appropriate cases.

4. Miscellaneous interpretation issues

§ Our reading is that the carve out covers an individual joining the scheme after 14 October 2010 and then leaving, so long as the revaluation rate applying was in accordance with the rules for members at that date – please confirm

HMRC response:

Yes, the carve-out covers an individual joining the scheme after 14 October 2010 and then leaving, provided that the revaluation rate applying was in accordance with the rules for members at that date.

§ In many schemes, revaluation under the scheme rules is applied cumulatively only when the deferred member reaches NPA, or GMP age. We assume that this common situation will count as an "annual rate" within the definition of "relevant percentage" but would appreciate your confirmation.

HMRC response:

Yes, the revaluation on reaching NPA or GMP age will count as an "annual rate" within the definition of "relevant percentage".

§ The carve-out would seem to cease to apply once the member becomes entitled to (some or all) benefit under the arrangement.

Where the individual becomes entitled to all benefit during the PIP, we hope that this does not mean that the revaluation that happens from the start of the PIP to the actual BCE would be considered to generate Pension Input Amount – please confirm that this is not the intention.

HMRC response:

It is the policy intention that where a deferred member becomes entitled to their benefits during the pension input period (PIP), and is a pensioner member for the rest of the PIP, then the 'carve out' will apply throughout that PIP.

§ Where benefits under the arrangement are partially crystallised during a PIP again we hope that the exemption is intended to continue: can it be read directly into the legislation? (If not, could one set up some structure (at the point of drawing) to deem the benefits as being provided under two (or more) separate arrangements, to achieve the desired outcome – albeit that this seems an unnecessarily artificial step.)

HMRC response

The position rests solely on whether the original deferred pensioner qualified for the carve-out. The fact of a partial crystallisation does not impact such a position.

HMRC's technical team is considering the changes you suggest to the draft guidance relating to deferred pensioners.

The relevant legislation extract from draft Finance Bill 2011
(DB version – there is an equivalent CB version too)

9 (1) Section 234 (defined benefits arrangements) is amended as follows……

(5B) The pension input amount in respect of the arrangement is nil if-

(a)the individual is throughout the pension input period a deferred member of the pension scheme under which the arrangement is an arrangement (or would be if it were the only arrangement under the pension scheme relating to the individual), and

(b)the value of the relevant rights of the individual does not increase during the pension input period by more than the relevant percentage.

(5C)In this section-

"guaranteed minimum pension" has the meaning given by-

(a)section 8(2) of the Pension Schemes Act 1993, or
(b)section 4(2) of the Pension Schemes (Northern Ireland) Act 1993;

"predecessor arrangement", in relation to an arrangement, means another arrangement (under the same or another registered pension scheme) from which the sums or assets held for the purposes of the arrangement directly or indirectly derive;

"predecessor registered pension scheme", in relation to a pension scheme, means another registered pension scheme from which the sums or assets held for the purposes of the arrangement under the pension scheme directly or indirectly derive;

"the relevant percentage"—

(a)where throughout the pension input period the arrangement (or a predecessor arrangement) includes provision for the value of the relevant rights of the individual to increase at an annual rate specified in the rules of the pension scheme (or a predecessor registered pension scheme) on 14 October 2010, that percentage, and

(b)otherwise, the percentage by which the consumer prices index for a month falling within the pension input period and nominated by the scheme administrator is higher than it was for the same month in the previous period of 12 months (or nil per cent if it is not higher);

"the relevant rights of the individual" means rights of the individual under the arrangement, other than any rights to a guaranteed minimum pension;
"specified", in relation to an annual rate, means specified as a percentage figure or as a percentage produced by movement in an index (or a combination of the two) but does not include produced by the exercise of a discretion by any person.

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2037208

THIS AMENDED VERSION OF THE ORIGINAL LETTER IS TO BE READ IN CONJUNCTION WITH THE COVERING LETTER FROM HMRC DATED 16 MARCH 2011

14 January 2011

REF 2037208

To: Peter Seedhouse HMRC

Also emailed to pensionstax@hmtreasury.gsi.gov.uk

Please reply to:
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DDI 0207 432 6622
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karen.goldschmidt@lcp.uk.com

Dear Peter

Changes to Annual Allowance charge: Miscellaneous issues particularly relating to defined benefit (DB) arrangements

I refer to the material issued by HM Treasury and HM Revenue & Customs on changes to pension tax relief on 14 October and 9 December 2010, specifically as they relate to the Annual Allowance.

This letter considers some issues that we have identified, mostly relating to defined benefit (DB) arrangements (where the legislation has most complex impact).

We set out details in the Appendix, and if helpful we would welcome the opportunity to discuss the matters in this letter further with you. It would be appreciated if the conclusions can be incorporated into public guidance speedily, and we would be happy to act as disseminators of your written reply until this is possible.

Some aspects of this letter should be read in conjunction with the two letter of 30 December 2010 regarding money purchase schemes and regarding the deferred pensioner carve out) sent on behalf of the representatives on the Technical Liaison Committee of members of the Joint Working Group (comprising ABI, ACA, APL, NAPF and SPC). I am copying this letter to them as I am sure those bodies may well have view on the issues raised here.

Karen Goldschmidt FIA
Chair of the ACA Pensions Taxation Committee

Copy to the members of the Joint Working Group Technical Committee

1. Definition of arrangement

Finance Act 2004 defines the different types of "arrangement" (defined benefit, cash balance, other money purchase, hybrid) but has no other specification of how benefits are broken up between arrangements.

1.1. The flexibility needs to be preserved to achieve as much simplicity as possible in the regime. So that any constraint/guidance as to

- what counts as a separate arrangement; and
- what type an arrangement is

needs to be made with care and expressed clearly and consistently.

1.2. This is particularly important in relation to DB arrangements with potential negative values – as illustrated by the following example:

> Suppose a scheme that operates main accrual on a DB basis but also offers members the opportunity to buy added years (so also DB). What counts as a separate arrangement makes a very material difference to the member. If accrual of normal DB benefits and accrual of added years are treated as two separate arrangements, each arrangement contributes a separate pension input amount to the annual allowance threshold, with individual zeroing of negative values. A more natural way of operating (if the scheme so wishes) is to treat the arrangement as one – so that if the main accrual calculation were to produce a negative pension input amount element, this is automatically netted off against a positive pension input amount in respect of the added years benefits. Having the flexibility to define whether the benefits are from one arrangement or two allows consistent results to the situation where the employer sponsors an increase by way of augmentation to the main benefit of the same shape (which we assume is incontrovertibly the same arrangement as the main benefit).

1.3. Where main DB accrual would, on its own, result in a negative value, it is important to understand what can count as a " defined benefit" arrangement – and so can be counted as the same arrangement as the main DB accrual - rather than defined contribution and therefore necessarily a separate arrangement that cannot be "netted off" a potential negative value. The very useful material exchanged with JWG and HMRC in August 2009 (in the context of anti-forestalling but with general application) included some important guidance of what HMRC does consider to be defined benefit which we replicate at the end of this Appendix.

These two issues (separation of arrangements and what is DB or DC) will have real implications for members' tax liabilities, and are relevant in other areas that we mention.

ACTION: We would ask that the RPSM supports the flexibility of when benefits of one type are counted as being from one or more arrangements; and gives clear guidance on what counts as DB - including the JWG/ HMRC exchange being quickly incorporated into the published HMRC guidance. If you disagree with these principles we urgently request an opportunity to discuss this.

The general policy of flexibility should be applied throughout the guidance. So, for example, in the following extract from the guidance issued on 14 October (http://www.hmrc.gov.uk/pensionschemes/annual-allowance/arrange-types.htm) there is an implied constraint: “you might be a member of your employer’s final salary scheme, accruing benefits at 1/60th pay for each year’s service and also buying added years – two defined benefits arrangements in one scheme”. We would ask that this be changed to: “this may be one arrangement or two – you should ask the Scheme Administrator what applies”.

HMRC response:

With the exception that benefits of a different shape (DB, DC) will always be treated for the purpose of the tax rules as being within separate arrangements (as set out in section 152(9) FA04), the number of arrangements within which a member’s benefits are contained is a matter of fact and dependent on the scheme construction. How and when this matter of fact is determined (including whether it is done so with retrospective effect) is for the scheme alone to establish.

We are happy to take on board the suggestions you have made regarding changes to the RPSM including the JWG/HMRC exchange included within the Appendix.

As an aside, please note that if an individual is solely a deferred member of a scheme and still pays contributions to the scheme (whether for death in service benefit or otherwise) then they get no relief on the payments under section 188 FA04 as they have to be an active member of a registered pension scheme to get relief.

2. Differences between leaving service and retirement scales

For calculating DB pension input amount, the “valuation assumptions” (as in section 277 FA04) are an important feature. In this context, as we have noted in the past that, while many schemes have very similar scales operating for early leavers and retirements, some have actual or apparent differences and this leads to some concern.

2.1. Non uniform accrual scales

A particular feature relates to accrual rates, best demonstrated by an example. A scheme with a Normal Retirement Date (NRD) 65 has benefit formulae expressed as:

- On retirement **[MISSING WORDS: at Normal Retirement Date (retirement below this age is subject to a reduction reflecting age)]**

  pensionable salary x 1/45 x (service limited to 30 years)

- On leaving,

  $$\text{pensionable salary} \times \frac{\text{actual service}}{\text{potential service to NRD}}$$

  x (fraction applicable on staying to NRD)

  So an individual who joined aged 40 (with 25 potential years of service) has

  - on retiring from service at NRD, a fraction of 25/45; and
  - on leaving after N years, a fraction of N/45;

But an individual who joined age 25 (so potential service 40 years) has

- on retiring from service at NRD ,a pension fraction at NRD of 2/3rds; but
- on leaving after N years, a fraction of N/60 (being N/40 x 2/3)

so effectively he has uniform accrual of 1/60 for all purposes.

If the member who joined at 25 is now 54 so has service 29 years at the start of the PIP, the valuation assumptions could be read by some to require a pension input amount based on 29/45 at the start of the PIP and 30/45 at the end of the PIP; and then the next PIPs would use 30/45 for both the start and end of the PIP; so +1/45 for one year and zero accrual thereafter – this although real accrual is 1/60ths. Any member who joined before age 30 and then leaves service within the first 30 years, with this reading of the formula, would feel substantially overcharged Annual Allowance. (And conversely if they have already completed 30 years by the start of the new AA regime, HMRC might feel this reading substantially undercharged them.)

ACTION: Could you confirm that the appropriate reading of the tax legislation applying to rules such as the above is to recognise that the "1/45th accrual" wording has no meaning for some members: it should be recognised that if the retirement rule had instead been expressed as "service times an annual fraction of (the lesser of 1/45, and 2/3 x 1/NS) where NS is potential service to NRD", the same benefits would emerge - but for AA testing, there would be an easy-to-read way of applying the valuation assumptions, with an appropriate and intuitive outcome – and this is what should be used in the above case. It would be good to have an example like this in the guidance.

In case it helps to interpret the legislation, we note that IR12 2001 (and previous versions) stated the following:

"7.36 Schemes with high accrual rates: It is permissible for an approved scheme to provide benefits on an accrual rate in excess of 1/60th of final remuneration for each year of service provided that the rules are framed to exclude the possibility that members will become entitled to a 2/3rds pension well before normal retirement date. This can best be done by expressing the entitlement for an employee who on entry, has potential service to normal retirement date in excess of that necessary to produce a 2/3rds pension using the scheme accrual rate, as a pension of 2/3rds of final remuneration on retirement at the normal retirement date. Members with shorter potential service may be promised benefits on the desired accrual rate."

HMRC response:

We note the omitted wording in your original question now added in following discussions with you.

For the purposes of working out the pension input amount, the pension is calculated on the valuation assumptions. In otherwords, the pension the member would be entitled to (if they retired now) having reached the age at which no actuarial reduction applies. This cannot be read "purposively".

This means that, in the example, while actual service is less than 30 years when the pension input amount is calculated, then the accrual would be worked out on the basis of 1/45th accrual per year of service (and once accrued service at the calculation is more than 30, accrual will be zero by reference to the 1/45th accrual rate, but there may still be accrual by reference to salary linkage). Schemes may want to change the wording of their rules expressing accrual (without such a rule change actually affecting the benefit due to be paid) if that is possible in the circumstances for certain members but that is a matter for the scheme. The calculation of the PIA will reflect the rules of the scheme at the effective date of the opening and closing valuations.

To assist understanding: if for a member the rules had been written as above except

> **"On retirement at Normal Retirement Date (retirement below this age is subject to a reduction reflecting age)] pensionable salary x 2/3rds"**

with all else remaining the same as in your example, our view is that a new joiner's pension input amount in their first PIP would reflect accrual of a full 2/3rds fraction. And thereafter there would be no accrual as far as the 2/3rd fraction is concerned but there could still be accrual by reference to salary linkage. Such an immediate accrual of the full 2/3rds pension would, of course, mean a significant PIA in the first PIP after joining.

We would emphasis that the exact conclusion from a particular case depends on the precise wording in the rules.

2.2. Pensionable Earnings definition

Another feature that can differ, again for reasons connected with preservation, is a different definition of final pensionable salary can apply depending on whether looking at the leaving service or retirement rule. (For example one definition might use rate of salary, one might use an averaged salary .)

Again the valuation assumptions seem to require looking at the normal or early retirement definition rather than the leaver definition. ThIs creates a notional accrued benefit different from the actual leaver benefit that would apply.

ACTION: If this is the correct reading of the legislation, it would be helpful to have the guidance highlighting this difference from leaver benefit.

HMRC response:

The valuation assumptions within section 277 Finance Act 2004 require the pension entitlement to be considered as if the member had reached the age at which no early retirement reduction would apply. The definition of pensionable salary used within the AA valuation process should reflect the member's actual status at the relevant date i.e. the salary definition for an active member reaching the age for drawing an unreduced retirement benefit should be used until such time as a member has actually left service.

We will review our guidance to make sure this point is clear.

3. Late retirement actuarial uplifts for active members

The new AA regime aims at simplicity with a 16:1 valuation regardless of actual age or age when the benefit is due. Without wishing to compromise this simplicity, it is important to explore the knock on impact for schemes when benefits are paid later than normal pension age.

We write in a separate letter about the impact of this for deferred pensioners who qualify for the "deferred pensioner carve out" for AA testing; but delay drawing their pensions under a provision of the scheme's rules and therefore must have a late retirement uplift according to preservation requirements. Our separate letter asks whether this can be accommodated within the "deferred pensioner carve–out". The paragraph below sets out issues specific to individuals still in active membership.

3.1. Delayed drawing of all benefit

For DB benefits, the valuation assumptions require benefits to be calculated at the earliest age at which no reduction on account of age applies [known as NPA], or, implicitly, actual age if later.

Commonly, members who continue in pensionable service after NPA in a DB arrangement are offered (a) continued accrual or (b) to have their benefits at NPA increased with late retirement factors or (c) the better of the two scales – and either could be better. Our reading is that, once a member in active service has reached such an age, the impact of late retirement increases must be included when calculating rights for assessing their pension input amounts.

We note that trustees typically review factors annually and update them for the latest financial and demographic information. For fairness both the opening and closing value for the PIP should reflect the latest factors; but it may be that this introduces too much complexity into the system, so that the opening value must reflect the closing value assessed at the end of the previous PIP: if so, a change of factor basis will create an extra positive or negative element to the PIA.

ACTIONS:

§ **If you agree with our view on carve out for deferred pensioners in late retirement, would it be possible to extend this for active members if they opt** out of the scheme on or just before reaching NPA – always subject to the conditions as apply at that time for "true" deferred pensioners?

§ Ignoring this special case, do you agree our reading set out above? If so it would be helpful to have examples of this in the guidance.

§ Where late retirement factors are reviewed during the year would it be possible to rebase the start year position to the latest factors? Whether or not, can the position be made clear in the guidance?

HMRC response:

We refer to your separate letter in relation to deferred pensioners.

Where an active member reached the scheme's normal pension age (NPA) and, continuing in service, does not take their benefits until after NPA and when the benefits to be paid are to be increased by the Trustees (having, in accordance with the scheme rules, considered advice from an actuary) solely to reflect that the benefits have been paid later than the member was entitled to receive them, then any such increase will not trigger an AA pension input providing the increase is in accordance with a provision in the scheme rules (predecessor scheme rules etc) on 14 October 2010 and the enhancement factor can be expressed as a percentage. For the avoidance of doubt, this includes the case where the rules on 14 October 2010 set out an approach, and the rules are left unchanged but the factors are reviewed from time to time, consistent with that approach.

The same does not hold where benefits continue to accrue because of an increase in pensionable pay or service etc.

Where scheme rules require a 'best of between late retirement actuarial uplift and benefits based on further service/salary' calculation there would be no AA pension input if the late retirement actuarial uplift is the 'better result'. (There would be an AA pension input if further service/salary gave the 'better result'.)We appreciate that the ultimate position when an individual draws "Better of" benefits may be different from the year by year assessment of "better of", and will provide examples separately of how this complex case should be followed through.

<u>Example of the first scenario (uplift only)</u>
A is an active member of a pension scheme that has a normal pension age (NPA) of 60, at which point in time they are entitled to a pension of £28k per annum. A does not draw their pension on reaching age 60 and remains in service.

Under provisions in place in the scheme rules on 14 October 2010 A ceases to accrue further pension in relation to service and salary from NPA and benefits are increased by a late retirement actuarial uplift, which is assessed as +8% when he reaches one year after NPA not having drawn benefit (ie £30.2 kpa). The uplift is +14% when A reaches two years after NPA (ie +6% between year 1 and 2 or an average of 7% for the two years) etc. The uplift is based on the factors in force from time to time but these are always set in accordance with the rule provisions in place on 14 October 2010, and result in the same uplift as would have applied for an identical member B who had instead been a deferred pensioner with similar delay in drawing pension.

This approach results in A being entitled to a pension of £40k when A finally elects to take their pension at age 65, but the increases create no pension input amount in the years from age 60 up to drawing the benefit at 65

The above may well mean that the actual factors being used and the extent towhich they are reviewed during the year is not an issue for such cases.

<u>Example of second scenario ("better of")</u>

A is an active member of a pension scheme that has a normal pension age (NPA) of 60, at which point in time they are entitled to a pension of £28k per

annum. A does not draw their pension on reaching age 60 and remains in service.

Under provisions in place in the scheme rules on 14 October 2010 A's pension of £28k at NPA is increased each year by a late retirement actuarial uplift factor, Also, A's pension of £28k could be increased by reference to continuing service and/or salary after NRA if that gave the "better of" result compared to the actuarial uplift factor.

When A reaches the end of year one after NPA (for the purpose of this example this is also taken to coincide with the end of A's pension input period in relation to the pension of £28k) and having not drawn benefits the late retirement actuarial uplift is +8% (the same uplift as would have applied for an identical member B who had instead been a deferred pensioner with the same delay in drawing pension after NRA). A's payable pension is increased to £30.2k at the end of year one after NRA.

Based on service and salary to the end of the first year after NRA, A's pension would have been £29k.

As the "better of" increase in this case is by reference to the late retirement actuarial increase factor there is no pension input amount in respect of the 'increase' of A's pension at the end of year one to £30.2k as no further benefit has accrued in respect of A.

When A reaches the end of year two after NPA and having not drawn benefits the late retirement actuarial uplift is +14% which increases A's payable pension to £31.9k.

Based on service and salary to the end of the second year after NRA, A's pension is now £32.5k.

As the "better of" increase at the end of year two is by reference to service and salary there is a pension input amount in respect of the increase of A's pension from that of £30.2k at the end of year one (uprated in line with CPI) to £31.9k at the end of year two.

3.2. Barber NPA splits

The above is useful background to the most common area where late retirement uplifts apply, about which many queries are arising: The vast majority of DB schemes have at least some of their members with pension effectively determined by relation to two pension ages in respect of their past service. For example, a man may typically have a tranche of service with normal pension age (NPA) 65 in relation to service before the Barber date (17 May 1990), a tranche with service at a NPA of 60 (being the female pre-equalisation NPA) and a tranche following the date of equalisation with an NPA of 65. The recent Foster Wheeler judgment in the Court of Appeal effectively ruled that such 'split' benefits should either be treated as coming into payment at age 60 (with early payment reductions applied to the age 65 tranche if so specified in the scheme rules) or as two separate 'split pensions', one with an NPA of 60, the other with an NPA of 65 – although the practical implementation of this varies between schemes.

This begs the question of how to deal with this in the AA test. Our initial view is that this is best dealt with by HMRC giving examples of some acceptable approaches. It may be that other approaches can be devised and put to HMRC later.

The easiest approach for a scheme might be to treat the above example member as having two tranches as separate arrangements, one with an NPA of

60 and one with an NPA of 65 – mirroring the concept of ‘split pension’ position in *Foster Wheeler.* Until age 60, the rights underlying PIA calculations for an active member would be calculated based solely on service and salary as normal (i.e. ignoring any early retirement reductions, in line with the valuation assumptions). Once an active member is actually between age 60 and age 65, special treatment might be needed for the NPA 60 tranche: in a scheme where late retirement increases are granted to this tranche for active members above age 60, we would expect that those increases should be included in assessing rights for testing against the AA (as set out above).

An alternative approach might be to treat the arrangement as a single one – in which case our reading in the above example is that the relevant valuation assumption age for a member would be 65. Again the age 60 tranche would need careful consideration: if the scheme operates late retirement uplifts on this part for members who are still in service after age 60, these uplifts would need to be reflected prospectively in rights underlying AA testing, throughout the individual’s active membership.

ACTION: can RPSM guidance include examples of how Barber splits can be treated for AA testing.

HMRC awaiting examples from JWG before considering further (but we hope that the guidance given above in relation to late retirement uplifts may make the issues under consideration simpler).

4. Backdated pay rises

Backdated salary rises are relatively common, primarily occurring in two scenarios: in situations where negotiations with a trade union representing a large number of employees end some time after the date on which salaries are deemed to have increased; and in individual salary negotiations for senior management which may involve remuneration committee consideration.

ACTION: can HMT clarify when such increases are treated as having occurred for the purpose of calculating the PIA - in particular where the salary increase is granted at a date within one pension input period, but has backdated effect to a previous pension input period?

HMRC response:

We would look at what was paid and when as a matter of fact. Where the salary increase is awarded at a date within one pension input period (the current pension input period) but has backdated effect to a previous pension input period the effect of the salary increase is included in the current pension input period and not in the previous pension input period. This would not, of itself require recalculation of the previous pension input amount in order to arrive at a new opening value for the current pension input period.

We acknowledge that, in relation to previous years, schemes records are likely to note only the effective date of any pensionable salary increase and that endeavours to validate whether any backdated pay increase awards had been made could be disproportionate. For pension input periods ending in tax years before 2011/12, where the actual date of payment of the increase is not known, schemes may assume that the recorded effective date of an increase in pensionable pay was the date on which it was awarded.

The answer that seems to lead to least ambiguities is to recognise the salary increase and its impact on accrued pension only once the salary increase is agreed/implemented, not recognising any pension impact before then. However, this could mean that the pension input amount for one year is effectively understated, and - depending on the timing of next year's negotiations, some pension input periods could see the impact of two salary increases, which could lead to individuals unreasonably being tipped over the annual allowance threshold. Carry forward would reduce the possibility of such an individual being liable to the annual allowance, but would not eliminate the possibility entirely given that the inevitable negative accruals would be nullified.

The alternative would be for the salary increase to be taken into account retrospectively from the date to which it is backdated. The delay in waiting for the information may leave little time for the administrators to achieve the information disclosures or in some cases may cause the deadlines to be breached (particularly for schemes with PIP ending 5 April, and deadline to produce statements by 6 October) and indeed mean the member misses the deadline for completing a self-assessment form - so the individual would have to revisit their tax return at a later date when the actual salary increase was known. This approach however does probably better reflect the information stored by pensions administration systems which are far more likely to show the effective date of a salary rise and not record when it was finalised. (It is unlikely that carryforward figures for before 2011 can take any other approach.) This approach may mean scheme administrators having to provide two pension savings statements – an initial one and then one using the backdated salary - in respect of the same PIP. Where this involves a large number of employees, this could be administratively very burdensome; for the occasional senior executive, having to revisit previous years would be easier. However there does not seem any obvious way of distinguishing between the two classes.

ACTION: It may be worth HMRC discussing this further with the industries involved. Whatever decision is taken, it is essential that this is clearly explained in the guidance (ideally with an example).

HMRC response:

See previous answer

5. Changes to benefits by Rule changes

It seems likely that employers will be changing scheme rules for various reasons including "aiming off" or because the new Annual Allowance provisions bring into high profile issues that might otherwise only emerge in rare cases.

If the employer makes such a change once in its PIP ending after 5 April 2011, the change could uplift the closing value so create a Pension Input Amount. If the employer makes such a change before 5 April 2011, it potentially hits the anti-forestalling legislation (unless it knows that at least 50 members are specifically affected by the change) – or Indeed could trigger both charges.

5.1. Removal of Inland Revenue limits

One example would be where a scheme has maintained Inland Revenue limits within its operation past A-day but comes to view its operation as difficult to manage and giving anomalous results. It may be for example that it removes IR limits – except perhaps retaining the Earnings Cap on pensionable salary – for all members.

5.2. Changing entitlement to a Temporary pension to whole of life

See below for similar issues

ACTION: Would it be possible to have a carve-out from AA for scheme-wide changes of this sort? I.e. the AA test in the PIP in which the change is made can treat the member as being under the new provisions in the opening value as well as the closing value.

HMRC response:

As you note, any increase in pension input amount prior to 5 April could be caught by the special annual allowance and the annual allowance and that potentially both charges could apply. We have previously advised that that is possible.

In the type of cases you have illustrated, the member has become entitled to additional benefits and therefore it is only fair that these are included within the AA calculation. Many people who may be affected by these types of increases would be able to use the three year carry forward rules to ensure that they are not liable to any AA charge in the particular year.

6. Temporary bridge pensions

Many schemes operate a provision under which a higher temporary pension (so an additional "bridge" pension) is paid for a few years after retirement (usually until the coming into payment of state pension). Typically, the temporary pension is payable to age 60 or 65, and Finance Act 2004 recognises this in its definition of scheme pension.

Under the existing draft annual allowance legislation, the annual rate of pension (PE) to be used to value defined benefit rights is the higher starting amount that will come into payment at retirement. This means that the 16x value factor applies to the temporary bridge pension as it would to a whole-life pension so (even in the context of the simplification involved in using 16) overstates its value.

A similar issue arose in designing the lifetime allowance calculations but for that there is a sensible mitigation action: scheme rules often allow an individual to opt at retirement to exchange the temporary pension for a lower whole-of-life pension – and applying the standard 20x LTA factor to this latter is "consistently fair".

In the context of the AA, this mitigation is not usually available. In general scheme rules only allow members to opt to exchange a temporary pension when they reach retirement, not on a "prospective" basis as would be needed for AA not to take it into account - so the 16x would apply through all accrual years; and even in the PIP of retirement, there is a provision in the draft legislation for adjusting closing DB *values "(8) If, during the pension input period, the annual rate of the pension, … to which the individual would be entitled under the arrangement has been reduced by any ... similar action taken, pursuant to an option available to the individual under the arrangement, the amount of the reduction is to be added to PE..."* suggesting that any actual conversion to whole of life at retirement is to be "looked through" in the year it happens.

ACTION: Would it be possible – if conversion options exist in the scheme rules - to allow a scheme to anticipate whole of life conversion (subject to doing this consistently for the open and close values)? (As an aside, could you confirm whether our reading of (8) here is correct?)

If this is not possible, one partial solution some employers may consider is to change their scheme rules so that future accrual no longer has a temporary pension but instead has a higher year for year whole-of-life fraction; with, at retirement, an option for the member to reshape benefits back to a temporary higher pension. Making a similar change for the past would be time consuming, and either involves section 67 certification or else be subject to individual by individual consent. (The latter would mean that under para (8) above, the reduction would be ignored in the closing value for the PIP in which the change was made; but from the next PIP onward, the benefit to be recognised would be the whole of life pension.) See 5 above.

HMRC response:

Temporary bridging pensions are valued for AA purposes using the standard 16:1 factor.

HMRC is aware of the issues arising from how the annual allowance operates for a bridging pension both as of default under scheme rules (as described above) and where the bridging pension is created by a member exercising an option (raised in other correspondence). HMRC is considering possible options to address those concerns, but cannot guarantee that changes will be forthcoming.

HMRC shares your interpretation of s236(8) Finance Act 2004.

7. Entitlement versus discretion

At present, HMRC sees a clear distinction between discretions and entitlement – AA is based on entitlement; however, issues as to when a discretion may be treated as a right need to be resolved. This problem has already caused difficulties in relation to the protected minimum pension age and anti-forestalling. In the new regime, it will be even more critical in deciding what value to place on a member's benefits.

When assessing “entitlement”, might the normal practice of the trustees or other person exercising the power be taken into account and factored in? Such an approach is currently used in relation to bulk transfers without consent between occupational pension schemes to assess comparative value. Where members have every reasonable expectation that a certain benefit will be paid because of the unchanging practice of the trustees, it seems an extreme interpretation to say that they have no entitlement to that benefit.

The issue is particularly one at the start of this new regime: if a benefit is already recognised as an entitlement it will feature in the opening amount for the 2011/12 PIP; if it does not, it will newly appear in the closing value of the PIP in which is granted.

ACTION: Can Guidance be given on 'rights" for the purpose of AA tests to encompass cases of 'trapped' discretion (i.e. where trustees feel obliged to follow past precedents even where they appear to have the discretion not to) that would have an impact on the AA test.

HMRC response:

In the circumstances described here the member's rights go up when any increase is given – not before. So, the increase will be captured for AA purposes when it is given and not in anticipation of it happening. [1]

In circumstances where it becomes established, for example through a Court judgement, that what had been believed to have been a discretion was, in fact, a right, it is recognised that issues will arise in revisiting AA assessments that prove to have been incorrect. Such issues will always depend on the facts and circumstances of the particular case and, if appropriate, HMRC will provide guidance on how it interprets the judgement.

[1] We gave guidance on the use of discretionary powers in the special annual allowance guidance at RPSM15103150 so that something that could reasonably have been expected was not treated as a material change in the rules for special annual allowance purposes, however this was about giving protection to something if it did occur, not treating it as if it had.

Replication of the exchange of correspondence between HMRC and the JWG committee in 2009

1. What is an arrangement and in particular what is a Defined Benefit (DB) arrangement? Are the following DB arrangements?

Case A Removal of an early retirement factor that increases member pension by £10,000 pa

Case B The granting of one added year's pensionable service leading to an additional pension of £10,000 pa

Case C The purchase of added pension of £10,000 pa by a member contribution, or salary/bonus/redundancy lump sum sacrifice (possibly based on a scheme table).

Case D The payment by a member of an AVC of £124,500 on the pre-arranged basis that this will grant him additional pension of £10,000 pa.

HMRC RESPONSE:

The concept of an arrangement is fundamental to the 2004 pension legislation and has been part of the legislation that has applied successfully since A-Day. The term refers to the rules applying to a pension scheme member under which benefits are calculated. If the member has two or more sets of provisions under which separate benefits are calculated, they may have two or more arrangements.

Although "arrangement" is not specifically defined in the legislation, every arrangement relates to a member and every member has at least one arrangement relating to them under which they are entitled to benefits. The legislation has the effect that different varieties of benefits are provided under separate arrangements relating to the member. In this context an arrangement is simply the individual member's agreement for the purposes of which the scheme holds sums and assets relating to the member and under which benefits are provided.

A defined benefit arrangement is one where the level of benefits paid is calculated by reference to the member's salary, length of service with the employer or some other factor other than an amount available for the provision of benefits. Though contributions might be made to such an arrangement, and so there may be a pension fund or pot, the benefits that may be paid are not calculated by reference to that fund or pot.

Cases A to D appear to be defined benefit arrangements.

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2032875

THIS AMENDED VERSION OF THE ORIGINAL LETTER IS TO BE READ IN CONJUNCTION WITH THE COVERING LETTER FROM HMRC DATED 16 MARCH 2011

30 December 2010
REF 2032834

To: Peter Seedhouse, HMRC
by email to: pensions.policy@hmrc.gsi.gov.uk

Please reply to:
Miss K Goldschmidt
Lane Clark & Peacock
30 Old Burlington St
London W1S 3NN

Changes to Annual Allowance charge: Defined Contribution arrangements - timing

This letter, the second of two sent simultaneously, sets out the initial collective views of the representatives on the Technical Liaison Committee of members of the Joint Working Group (comprising ABI, ACA, APL, NAPF and SPC) on material issued by HM Treasury and HM Revenue & Customs on changes to pension tax relief on 14 October and 9 December 2010 – specifically on the Annual Allowance.

We are aware that there is relatively little time for HMT/HMRC to consider matters which involve changing the draft legislation. At the same time, there is urgency from the fact that some individuals already effectively fall under the impact of the legislation. So for expediency the representatives have not approached their respective bodies for formal endorsement of the views expressed but we believe that the views represent a substantial weight of opinion across the range of the represented professionals.

This letter considers issues relating to the date counting as "date contribution is made" for defined contribution (DC) arrangements. This will be key for:

- which contribution falls into what PIP year, especially around PIP end dates – which will determine the current PIP's Pension Input Amount (PIA) and potentially past years' unused annual allowance; and
- establishing the default PIP where no nomination is made.

We set out our queries in the Appendix, and if helpful we would welcome the opportunity to discuss the matters in this letter further with you. It would be appreciated if the conclusions can be incorporated into public guidance speedily, and we would be happy to act as disseminators of your written reply until this is possible.

Karen Goldschmidt FIA
for the representatives on the Joint Working Group Technical Liaison Committee

Copy to the committee

1. Missing guidance

The Registered Pension Scheme Manual contains some guidance (eg RPSM05300080 and RPSM05300100) but this seems to focus on contract-based arrangements set up between individuals and providers. In employer-sponsored schemes, there are additional issues which we raise below and about which we ask for clarification.

1.1. Contract based schemes with group administration with the employer acts as delivery agent

It is common for an employer to act as the collector of employee contributions for a Group Personal Pension. Group administration processing can cause some delay (eg following through individual figures that need adjustment for part-timers or exits) between the employer deducting the contribution from the employee's pay and the date that the provider is authorised to take money by direct debit from the employer account or the money is paid by BACS direct credit. Our reading is that it is the latter date which counts as when the contribution is "made" for AA purposes. Is this correct?

HMRC response:

The RPSM guidance is more focussed on Personal Pensions but we would want the same principles to apply to other types of schemes except for the point at 1.2 below. Looking at the date of receipt as being date of payment (except for 1.2 below) then for a direct debit this would be the date that the provider was authorised to take the money and for a BACS credit this would be when the money reached the provider.

1.2. Employee contributions deducted under net pay relief

By contrast, for employee contributions deducted under net pay relief, our expectation for other tax law is that the relevant date is the date of actual deduction from pay (ie the tax point). Is our reading correct?

HMRC response:

The pension input amount for other money purchase arrangements is the relievable contributions 'paid during the PIP'. The date of payment is the date of deduction from salary (in the same way as for the member getting relief on relievable contributions 'paid during the tax year').

For Annual Allowance purposes, we accept that scheme administrators may not readily be able to identify the date of deduction from salary from their member records. In these circumstances they may either use the date the money was received by the scheme or an estimate of the date the payments were deducted from salary for the purposes of determining:

- **commencement dates of Pension Input Periods;**
- **Pension Input Amounts attributable to Pension Input Periods, which will be provided to members either automatically or on request.**

Where the scheme administrator issues a statement to a member on this basis, the member may rely on the information for Self Assessment purposes for Annual Allowance purposes.

Overall in the table at the end of this letter we summarise what this might result in as an overall regime.

HMRC response:

We have modified your table.

2. Issues arising overall

A key overriding requirement is for as much clarity and comprehensive cover as possible in HMRC's guidance for the various types of pension arrangements arising and also explaining what is specifically prescribed and where there may be flexibility.

But there are further issues:

2.1. Easement in relation to information for past years

The date noted above may not have been of relevance to administration in the past. For example the occupational scheme disclosure regulations (SI 1996/1655) requires the date a contribution is "credited" – which may well be the date it "should" have been paid to the scheme ignoring what actually happened. (So, for example, records might show the notional credit dates for an individual whose entry into the scheme was delayed but arrears payments were made.)

Similarly a variety of practices may have been adopted under some insurance contracts. For example old contracts may have "X days of grace" – so long as the contribution is received within X days of the date due, it is treated as having been invested on the date initially due, and this is what has appeared in statements sent to members. One benefit of this approach is that for regular payments that are nevertheless dependent on exact payroll date, it lessens the chance of 13 payments falling in one year/PIP and 11 in another solely because of minor variations in payroll date.

For these reasons we request that an easement is granted for the above type of practice so that the date that a historic contribution has been notionally credited is accepted as the relevant date for PIP purposes. If this easement is not granted then huge exercises regarding IT systems could be required for "carry forward" information in relation to past years as well as some urgent work to set up the holding of two sets of data.

This easement would relate both to the allocation of contribution dates (so how they are collated between PIPs) and also to what is identified as the PIP if under default legislation because no nomination has – or will – be made: for example it seems very likely that schemes will not have recorded the date a member contribution is deducted from pay but will have recorded the date it is paid to the scheme: so if 1.2 is the correct analysis of what should apply, it will not be possible to establish the correct date for the default PIP ending.

HMRC response:

See above answer

2.2. Easement for weekends/bank holidays

There are also particular concerns where the PIP end date falls on a weekend or bank holiday so a payment that would naturally fall into one PIP (as one of twelve monthly payments) is pushed into the next.

HMRC have specified an easement specifically in relation to direct debits from individuals to personal pension providers (See RPSM05300100); and furthermore made announcements effectively extending a tax year for a parallel situation (the increase in normal minimum pension age at 6 April 2010).

We ask that HMRC extend this easement - for example: where 5 April falls on a weekend or bank holiday, any DC payment received by the provider on the first subsequent working day may be taken as having been made on 5 April; and similar provisions where PIPs other than the tax year are in use.

(We would be happy to discuss further the practicalities of applying this easement appropriately to avoid abuse.)

HMRC response:

The easement around direct debits and bank holidays in RPSM05300100 applies for any payments made by direct debit, although we appreciate that the guidance does specifically refer to personal pension providers.

Overall, the guidance is written so that is sets out the principles. We don't think it would be possible or desirable to cover every possible eventuality.

DC “made” when? – a possible reading of the requirement of the legislation

Type of contribution	Effective date
Occupational DC	
DC employee contributions using the standard “net pay” tax relief	Date of deduction from salary (ie the tax point)
DC employee contribution made by cheque	Date received by the scheme
DC employer contributions (includes salary sacrifice)	Date received by the scheme but what this is would depend on how paid eg. Direct debit/cheque
Group Personal Pension - administered by employer	
DC employee contributions deducted (“relief at source” at 20% etc) by the employer, collated and then the employer gives the PP provider permission to take the amount from the employer account using direct debit	Direct debit instruction date (usually the date received by insurer)
DC employer contributions (includes salary sacrifice)	Direct debit instruction date if this was the method of payment. Otherwise as for occupational DC above
Other Personal Pension on a personal basis	
DC individual regular contribution using a direct debit But contributions could be paid in other ways – see RPSM05000080)	The effective date of deduction under the direct debit. There is a specific easement (RPSM05300100) where that date falls on a weekend or bank holiday