# Uniper UK Trustees Limited

# Scheme Pays

## What is the ‘Annual Allowance’?

The Annual Allowance is the maximum amount of pension savings an individual can make each tax year without an Annual Allowance charge applying. The limit covers all contributions to pension schemes but not the State Pension.

Further details can be found at: PTM053320 - Annual allowance: pension input amounts: defined benefits arrangements: worked examples - HMRC internal manual - GOV.UK (www.gov.uk)

OR

Tax on your private pension contributions: Annual allowance - GOV.UK (www.gov.uk)

https://www.gov.uk/tax-on-your-private-pension/annual-allowance

For the tax year 2024/2025 the standard allowance is £60,000.00. Please note that lower allowances may apply to high earners and to members who have drawn savings from a defined contribution pension arrangement during the year.

## What is Scheme Pays?

'Scheme Pays' is a mechanism by which the Annual Allowance charge can be paid out of a pension scheme, rather than by the member personally. This has the advantage of the member not having to find additional funds to pay the charge.

## How does Scheme Pays work?

If the Trustees pay a member’s annual allowance charge this amount is recorded as a notional negative defined contribution (DC) account on their pension record. In basic terms this is similar to the Trustees 'loaning' a member the money now to pay their tax bill (please note though that this is not a loan but a 'debt' to the Group Trustees), which the member then repays at the point of retirement or when they transfer their benefits out of the Group.

For ESPS final salary members, if the member has sufficient additional voluntary contributions (AVCs) at the point the tax charge arises then the AVCs will be used to meet the tax charge. If the member has some AVCs but does not have enough AVCs to meet the whole tax charge then a negative DC account will be created for the balance not covered by AVCs (see below for more details).

For Retirement Balance Plan Members (RBP) AVCs are treated as part of the fund as a whole so a negative defined contribution (DC) account will be created for the whole annual allowance tax charge which the member then repays at the point of retirement or when they transfer their benefits out of the Group.

## How does a member know whether they are liable for an Annual Allowance charge or not?

Every member of the ESPS (including Retirement Balance Plan (RBP) members) that has exceeded the annual allowance for that tax year will receive a Pension Savings Statement (PSS).

In addition, any members with earnings from their Uniper employment in excess of £70,000.00 will also receive a PSS regardless of whether or not they show a potential tax charge. The PSS will be issued by post and will also be available online via MyESPS (PenNet) on or before 6th October each year. If you haven’t received a PSS but think you may have exceeded the annual allowance, please contact Railpen to check the position. Any Member that does not fulfil either of the options above can request a PSS from Railpen.

A simplified example of a statement is shown below (note this is for 2022/2023 tax year but the overall principle is still valid for 2023/2024):

| **Uniper 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 *** | £19,356.24 | £20,554.62 | £38,470.08 | *£88,484.75* |
| **Standard AA** | £40,000.00 | £40,000.00 | £40,000.00 | *£40,000.00* |
| **Excess over the standard AA** | | | | *£48,484.75 (A)* |
| **Unused AA** | £20,643.76 | £19,445.38 | £1,529.92 | |
| **Total unused PIA *** | £20,643.76 | £40,089.14 | £41,619.06 (B) | |
| | | (A) – (B) | **Total amount liable for a tax charge** | £6,865.69 |

*PIA = Pension Input Amount i.e. the increase in a member's pension savings over the year. This is calculated in line with the method prescribed by HMRC. https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm053301

In this example the member has unused annual allowance headroom from previous tax years and can use this to offset the excess input amount in the current tax year. They can offset the previous three tax years. Railpen offset the amount from the oldest tax year first. However, in this example, as the excess over the PIA is greater than the unused annual allowance carried forward, an Annual Allowance charge would still apply.

## Can a member have a statement earlier than the 6th October?

The statutory deadline for issuing a PSS is on or before the 6th October. Railpen aim to issue as early as possible but due to various factors it is not possible to issue the statements much in advance of the 6th October deadline although Railpen and the Trustees will continue to investigate whether an earlier date is feasible.

## What does a member do if they are also a member of the Uniper Bonus Waiver Plan?

Uniper employees who have elected to join the Bonus Waiver Plan will have an account with Fidelity and they will need to contact them direct to request a PSS.

Please contact Fidelity on 0800 3 68 68 68 or Email pensions.service@fil.com.

## What if a member is also contributing to other pension arrangements?

If a member has benefits in more than one pension arrangement, which don't individually exceed the Annual Allowance but might when added together, then they can ask each of their pension scheme administrators for a PSS so that they can work out if their total pension savings for the tax year have gone over the Annual Allowance.

## How do the Trustees apply Scheme Pays to the ESPS Final Salary arrangement?

The process is as follows:

1. Where a member has a current AVC 'pot' at the point the tax charge is paid by the Trustees then the full amount of the tax charge is immediately taken from that AVC 'pot'. If there is an insufficient AVC 'pot' then a further calculation is undertaken under point 2 onwards for any remaining balance by the creation of a negative DC account balance. If the whole tax charge is settled at this point, there is no negative DC account created as no interest is payable.
2. If there is an insufficient AVC 'pot' at the point the tax charge is payable then a negative DC account is created for any balance which will have interest charges added, as described below, from the date the tax is paid until retirement or transfer out.
3. If there is an AVC 'pot' at retirement or earlier transfer out the rolled-up amount of the balance of the tax paid will be deducted before payment of any AVCs is made. This remaining sum will have had interest charges added from the date the tax is paid until retirement or transfer out.
4. If there is no AVC 'pot' then the tax paid by the Trustees will be rolled up to either the date of retirement or transfer and then the adjustment is made at that point by the member electing either to take the rolled-up amount from any tax free cash or by conversion into a permanent debit to the member's pension using the cash commutation factors in force at the time of retirement or transfer. Note: this differs from the slides in the recent presentations as the Trustees have widened the options to allow members the choice from either pension or cash.
5. If a member does not elect any tax free cash, then the rolled up amount would be converted into a permanent debit to the member's pension using the cash commutation factors in force at the time of retirement or transfer.
6. Please note: There are no administrative charges for using the Scheme Pays option.

## How do the Trustees apply Scheme Pays to the Retirement Balance Plan?

Where an RBP member elects to use Scheme Pays, a negative DC balance approach is used. The process is that:

1. The tax paid on the member's behalf will be rolled up until the date of retirement or transfer. Interest charges, as defined below, will apply up to the point at which the benefits are taken or transferred.
2. On retirement the rolled-up interest charge will be deducted from the member's retirement balance account before it is used to purchase benefits, including the payment of a tax free cash sum.
3. On a transfer the rolled-up interest charge will be deducted from the retirement balance account.
4. Please note: There are no administrative charges for using the Scheme Pays option.

## What Authority do the Trustees have to deduct monies from a member's AVC Account?

Legislation allows the Trustees to decide that an adjustment be made to a member's benefits (in this case AVCs) before the tax is actually paid over to HMRC by the scheme administrator or at the same time as the tax is paid or after the tax is paid.

As a consequence of the above, the Trustees are able to disinvest an amount from the member's AVC account to cover the annual allowance charge, normally at the same time as the charge is incurred by the Trustees.

If a member has more than one type of AVC fund available, those funds will be disinvested on a proportional amount to meet the tax charge.

Members are also not deemed to be accessing their funds early for the purposes of HMRC regulations.

## Can an ESPS Final Salary member refuse to have the tax deducted from their AVC 'pot'?

No. The Trustees have determined that the first call on any tax paid shall be AVCs and members cannot override this.

## Can RBP members that pay AVCs use these at the point the tax charge is incurred?

No. the way the RBP AVCs are structured means it is not possible to use these at the point the tax is incurred.

## What historic interest rates have been used in the roll up calculation?

The historic rates proposed by the Actuary (and the 2024/2025 rate (highlighted in bold)) and agreed by the Trustees are:

- 1 April 2016 – 31 March 2017: 2.3%
- 1 April 2017 – 31 March 2018: 2.1%
- 1 April 2018 – 31 March 2019: 2.7%
- 1 April 2019 – 31 March 2020: 2.7%
- 1 April 2020 – 31 March 2021: 2.1%
- 1 April 2021 – 31 March 2022: 2.0%
- 1 April 2022 – 31 March 2023: 3.2%
- 1 April 2023 – 31 March 2024: 5.9%
- **1 April 2024 - 31 March 2025: 6.5%**

It is the decision of the Trustees on advice of the actuary as to what an appropriate measure of interest to be applied to tax charges should be. The roll-up rates currently applied have been in line with the one-year spot rates on the fixed interest yield curve rate plus 2% as at 1st April. This is consistent with how members' benefits are valued for the actuarial valuation.

## Where can a member find the one-year spot rate on the fixed interest yield curve at 1 April?

The yield curves can be found on the Bank of England website, via this link: https://www.bankofengland.co.uk/statistics/yield-curves

The yields can be found by scrolling down to the archive yield curve data section and looking at the "Daily government liability curve (nominal): archive data" zip file and opening the 2016 to present excel file. To find the yield for each tax year the member would need to look at the 1-year rate on 1 April, noting that if the 1st of April in a given year fell on a weekend or a bank holiday then they would need to look at the last working day before the 1st of April. Once the correct yield has been found members would need to then add 2% to the one-year spot rate to work out the interest rate for that tax year.

## Worked Example 1 – Final Salary with no AVCs:

A member has exceeded the annual allowance twice, once in 2019 and once in 2021. The tax charge due in 2019 was £2,000 and £4,000 in 2021. The member elected to use Scheme Pays to meet both tax charges. The member has elected to retire in March 2023 and has no AVCs and is expected to have accrued a tax-free pension commencement lump sum of £25,000 at retirement.

### Scheme Pays interest rate and deduction to member's benefits

The table below sets out the applicable rates for this worked example.

| Year | Yield curve rate (1 year spot rate at 1st April) | Scheme Pays interest rate |
|---|---|---|
| 2019 | 0.7% | 2.7% |
| 2020 | 0.1% | 2.1% |

| | | |
|---|---|---|
| 2021 | 0.0% | 2.0% |
| 2022 | 1.2% | 3.2% |

The deduction to the member's benefits would be:

£2,000 * 1.027 * 1.021 * 1.02 * 1.032 = £2,208 (In respect of the 2019 tax charge)

£4,000 * 1.02 * 1.032 = £4,211 (In respect of the 2021 tax charge)

Total = £2,208 + £4,211 = £6,419

Revised tax-free cash at retirement would equal £25,000 - £6,419 = £18,581.

Implementation

The current order in which benefits are to be used to meet the Scheme Pays charge is DC/AVC benefits first, then DB lump sum benefits then a conversion of DB pension benefits if required.

1. As the member has no AVCs, £6,419 would be deducted from their DB lump sum at retirement.
2. If the member had no DB lump sum, the £6,419 value would be converted into a debit to the member's pension using the cash commutation factors in force at the time of retirement.

## Worked Example 2 – Final Salary with AVCs more than the tax amount:

A member has exceeded the annual allowance in 2022. The tax charge due is £6,500. The member elected to use Scheme Pays to meet the tax charge. The member is not due to retire until 2025 but has £8,400 in AVCs.

.Implementation

As the member has AVCs at the point the tax is paid by the Trustees of £8,400 the £6,500 is deducted at the point the tax is paid and the remaining £1,900 would be left in the AVC fund.

## Worked Example 3 – Final Salary with AVCs less than the tax amount:

A member has exceeded the annual allowance in 2022. The tax charge due is £6,500. The member elected to use Scheme Pays to meet the tax charge. The member is not expected to retire until 2025 and has £5,500 in AVCs.

Implementation

The current order in which benefits are to be used to meet the Scheme Pays charge is DC/AVC benefits first, then DB lump sum benefits then a conversion of DB pension benefits if required.

1. As the member has AVCs at the point the tax is paid by the Trustees of £5,500.00 the whole AVC 'pot' will be used as an offset from the tax due of £6,500 i.e. a balance of £1,000 rolled up to retirement with interest would be deducted from their DB lump sum at retirement or transfer.
2. If the member subsequently made further AVCs, the balance of £1,000 rolled up to retirement or transfer with interest would be deducted from the AVC 'pot' as a first charge.
3. If the member had no, or an insufficient, AVC 'pot' or did not elect to receive any tax free cash, the £1,000 rolled up to retirement with interest would be converted into a debit to the member's pension using the cash commutation factors in force at the time of retirement.

## Worked Example 4 – Retirement Balance Plan

A member has exceeded the annual allowance twice, once in 2019 and once in 2021. The tax charge due in 2019 was £2,000 and £4,000 in 2021. The member elected to use Scheme Pays to meet both tax charges. The member has elected to retire in March 2023.

### Scheme Pays interest rate and deduction to member's benefits

The table below sets out the applicable rates for this worked example.

| Year | Yield curve rate (1 year spot rate at 1st April) | Scheme Pays interest rate |
|---|---|---|
| 2019 | 0.7% | 2.7% |
| 2020 | 0.1% | 2.1% |
| 2021 | 0.0% | 2.0% |
| 2022 | 1.2% | 3.2% |

The deduction to the member's benefits would be:

£2,000 * 1.027 * 1.021 * 1.02 * 1.032 = £2,208 (In respect of the 2019 tax charge)

£4,000 * 1.02 * 1.032 = £4,211 (In respect of the 2021 tax charge)

Total = £2,208 + £4,211 = £6,419

### Implementation

The £6,419 will be deducted from the member's retirement balance account before it is used to purchase any benefits, whether within the scheme or if transferred out.

## What if a member receives a Pension Savings Statement but has enough unused Annual Allowances from earlier years to avoid a charge, do they have to complete a self-assessment form?

No.

## What if a member dies before retirement?

The rolled-up interest will cease at the date of death and that rolled up amount will be deducted from any lump sum death benefits due.

## What happens if a member takes their pension early?

A member will pay less interest as the calculation will only be taken up to the date of retirement.

## Does Scheme Pays affect any spouses' benefits?

No, any Scheme Pays calculations are only applicable to members' benefits,

## Will Scheme Pays calculations be available as part of the Annual Benefit Statements?

Unfortunately this is not currently possible although the Trustees continue to explore ways to enable this function with Railpen in the future.

## How can a member find out what the current balance of a negative DC account is?

Members should contact Railpen who will be able to advise the member of the current value of the negative DC account.

## Having elected Scheme Pays, can a member pay off the amount early?

No, if the full tax amount is not deducted from any AVC 'pot' that a member may have at the point the tax is paid by the Trustees then it cannot be paid off until the member retires or transfers out.

## Can a member pay any historic tax charges through Scheme Pays?

No. It is not possible to pay any previous tax years' charges through Scheme Pays. A member will need to make other arrangements to pay these.

## If the interest method used to calculate Scheme Pays changes is this applied retrospectively to a negative DC account already incurred?

Although the Trustee reserves the right to change the methodology it is not expected that any change would be retrospective.

## If I have a negative DC account from a previous years Scheme Pays will the two be amalgamated?

No. Each year will be treated separately.

## If a member has a tax charge this year because of high inflation but has a negative or nil Pension Input Amount (PIA) next year if the HMRC allowance for inflation is much higher, can a member claim a rebate?

No. Negative PIAs (which will normally be shown as nil) cannot be used to offset Annual Allowance breaches in other years.

## Can a member request 'scheme pays' covers a partial amount of their PIA tax liability?

Yes. Railpen will simply pay to HMRC the amount a member instructs them to pay.

## Where can a member find commutation and early retirement factors?

The Trustees formally review these factors after each triannual valuation. However both rates are subject to change at any time. Members who are looking for a factor for a given age should contact Railpen who will be able to advise the member.

## If a member is purchasing Added Years under the ESPS Final Salary section are they dealt with in same way as AVCs?

No. Added years purchase extra main scheme pension and so unless a member has other AVCs within the Final Salary section they are not taken into account as part of any rolled up negative DC account.

## If a member is not currently paying AVCs can they start?

Yes, a member should contact Railpen for details of the current AVC options on offer.

## If a member becomes deferred and has a negative DC account how is this handled?

As the member is not retiring or transferring at the point of becoming deferred the negative DC account roll up will continue until the member actually does retire or transfers their benefits at which point it will be crystalized.

## What does a member need to tell HMRC?

Those members whose Pension Savings Statement (PSS) from Uniper (or a combination of Uniper and any other eligible pension scheme) show that a tax charge is due should complete a Self-Assessment tax return. It a member has not had an assessment in previous years they **need to register for Self-Assessment by <u>5 October of each year</u>**

Registering is a simple process and below is a link to a You Tube video explaining how to do this.

[How do I register online for Self-Assessment if I'm not self-employed? - YouTube]

Whether or not a member decides to make a request under Scheme Pays, they will need to declare the tax liability to HMRC on a Self-Assessment tax return for 2023/24.

The tax return allows a member to inform HMRC of any tax paid by the Trustees on their behalf. In order that a member can do so, they will need the Uniper Group's Pension Scheme Tax Reference (PSTR) which is 00825995RV.

## What if the deadline has passed for registering for self-assessment?

HMRC set the deadline for registering for self-assessment which unfortunately falls the day before the statutory deadline for issuing PSSs. There is nothing Railpen or the Group Trustees can do to change either of these dates. As set out above the Trustees will endeavor to issue PSSs before the 6th October each year.

Any member who feels disadvantaged by this issue is encouraged to contact HMRC direct to put their case for an extension to the stated date.

## How much tax will a member have to pay?

The Annual Allowance (AA) tax charge is not a fixed rate. It depends on the rate of income tax that would be charged if a member had excess pension savings, and these were added to their taxable income. For the 2023/2024 tax year, the charge could be in whole or in part 45%, 40% or 20% of the excess pension savings, depending on a member’s circumstances. Different income tax rates may apply if a member is a Scottish taxpayer.

## Can a member use his wife’s tax allowances?

In principle No, however there may be a limited set of circumstances where this may be possible. However, neither the Trustees, the Company or Railpen are qualified to give tax advice so members will need to seek specific advice either from HMRC or a tax advisor.

## By what date does a member need to advise the Uniper Trustees that they wish to elect Scheme Pays?

Members that have exceeded the Annual Allowance and incurred a tax charge need to complete a self-assessment tax return by 31 January (of the following tax year). Therefore, they should make a request to use Scheme Pays by **31 December** or if earlier before date of retirement or transfer out of the Uniper Group. Members need to forward a completed election form for the 2022/2023 tax year to be received by the Group Trustees’ administrators (Railpen) before the earlier of **31 December 2024** or the date that a member retires or transfers from the Uniper Group of the ESPS.

## How does a member obtain an Annual Allowance Scheme Pays Election form?

Please go to https://ukpensions.uniper.energy/esps/scheme-pays to print down the form and send to Railpen. Please note that electronic submissions are permitted (members need to print off the form, complete it, sign it, rescan it and then send to Railpen). If posting, please leave adequate allowance for postage times.

Alternatively, you can contact Railpen direct using the contact information at the bottom of this leaflet and request a form. In this instance there is a 10-working day turnaround before you will receive the form.

## 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

[HS345 Pension savings — tax charges (2023) - GOV.UK (www.gov.uk)]

https://ukpensions.uniper.energy

https://uniper.myesps.co.uk

**Railpen contact details:**

**Railpen**
2 Rye Hill Office Park
Birmingham Road
Allesley
Coventry CV5 9AB

**T:** 02476 472544
**E:** enquiries@railpen.com