

## ALPHA, THE ANNUAL ALLOWANCE AND INFLATION IN 2022-23 - Q&A

### How does alpha pension build up?

The alpha scheme is a defined benefits scheme with generous accrual and revaluation. Members of the alpha scheme build up pension in two ways.

1. They accrue 2.32% of their pensionable earnings during the scheme year (1 April - 31 March).
2. The pension they had already built up at the beginning of the scheme year, plus the pension they accrue during the year (1 above) is adjusted at the start of the next scheme year in line with inflation (the measure used to date has been the annual Consumer Price Index (CPI) increase in the previous September).

For example:

Accrued pension (including revaluation) as at 1 April 2021 = £20,000

Pension built up in 2021-22 (based on pensionable earnings of £100,000) = £2,320

Pension as at 31 March 2022 = £20,000 + £2,320 = £22,320

Pension as at 1 April 2022 = £22,320 plus revaluation of 3.1% = £23,011.92

### How is alpha pension valued against the Annual Allowance work?

A tax charge may be payable if the increase in benefits (the "Pension Input Amount") in the tax year exceeds £40,000 in 2022/23 (£60,000 for tax years from 2023-24 onwards). To calculate the Pension Input Amount, the pension at 5 April is multiplied by 16, and an allowance is made for inflation by adjusting the opening value of pension by the annual CPI increase in the previous September. Using the figures from the example above (and, for simplicity, ignoring the small amount of pension built up between 1 April and 5 April):

Opening value as at 6 April 2021 = £20,000 x 16 = £320,000

Opening value following adjustment for inflation = £320,000 plus 0.5% = £321,600

Closing value as at 5 April 2022 = (£22,320 plus 3.1%) x 16 = £368,190.72

Pension Input Amount = £368,190.72 - £321,600 = £46,590.72

**In what circumstances is the increase in value of members' benefits likely to exceed the Annual Allowance?**

The Annual Allowance reduced from £255,000 to £50,000 in 2012 and again to £40,000 in 2014, potentially bringing more members into scope of the Annual Allowance.

Generally, higher earning members of alpha are at risk of exceeding the Annual Allowance of £40,000 in 2022-23. Members earning a salary of around £107,000 will accrue alpha benefits valued at £40,000 during a tax year, irrespective of any revaluation.

More members are likely to have an increase in their pension value which exceeds the Annual Allowance when there is a large rise in inflation from one year to the next. This is because the adjustment to the opening value for the purposes of determining the Pension Input Amount is based on the annual CPI increase a year earlier than the annual CPI increase used for the revaluation of alpha pensions. In the example above, the adjustment to the opening value is 0.5% (the annual CPI increase in September 2020), whilst alpha benefits were revalued by 3.1% (the annual CPI increase in September 2021).

However, there is a more significant difference in 2022-23 which means that more people may exceed the Annual Allowance.

### **What is the issue in 2022-23?**

The opening value will be adjusted by 3.1% (the annual CPI increase in September 2021) to allow for inflation, whereas alpha benefits will increase by 10.1% (the annual CPI increase in September 2022).

The position for 2022-23 described above is not reflected in Pension Savings Statements already issued or in any resulting tax charges. It may impact members who receive their Pension Saving Statements in summer/autumn 2023, and support will be available to those who exceed the Annual Allowance.

### **Is the difference between the inflation adjustment used for Annual Allowance purposes and the alpha revaluation figure likely to create a permanent problem?**

If inflation remains steady or reduces between September 2022 and September 2023, the issue should not reoccur for the 2023-24 tax year. However, the adjustment to the opening value for Annual Allowance purposes will be 10.1%, and there will not be a problem so long as this is in line with or higher than alpha revaluation in April 2024.

As with most public service pension schemes, there are no plans to amend the Civil Service pension scheme rules because of the 2022-23 situation (the NHS and Local Government pension schemes are proposing to make changes because of circumstances in relation to their scheme and the workforce affected).

Furthermore, the increase in the Annual Allowance to £60,000 announced on 15 March 2023 for the 2023-24 tax year onwards is likely to reduce the number of members who breach the Annual Allowance simply due to their normal pension accrual.

## **What is the position for those impacted by the 2015 Remedy ('McCloud')?**

Members impacted by the 2015 Remedy who had some alpha service in the Remedy period (2015-22) and are active or deferred on 1 October 2023 will have this service 'rolled back' into the PCSPS. This means that their service will show as having been in their relevant legacy section of the PCSPS for the whole period, with alpha service only commencing from 1 April 2022. This does not preclude any future choice of alpha or PCSPS benefits for this period.

Once the rollback happens, the affected members will see changed Pension Input Amounts for the period and receive reissued Pension Savings Statements for the period, including for 2022-23, by 6 October 2024. This means affected members will not receive Pension Savings Statements in 2023. There will be more detail on this communicated nearer the time.