Combined Nuclear Pension Plan (CNPP, the "Plan")

Scheme Pays

Notice for members considering asking the Plan to meet a tax charge via "Scheme Pays"

Introduction

If you are liable to a tax charge because you have exceeded the Annual Allowance (AA) in a tax year you may be able to request that the Plan pays the tax charge directly via "Scheme Pays".

A Scheme Pays facility was introduced by sections 237A to 237B of the Finance Act 2004. Scheme Pays allows members to require a pension scheme to meet the AA tax charge arising in certain circumstances.

This policy sets out the manner in which the Trustee will handle Scheme Pays requests.

1. When can I use the Scheme Pays facility?

You can require the Plan to meet your AA charge if:

a) your total AA tax charge for the tax year exceeds £2,000 from all your pension schemes; and,
b) The total amount of your pension savings in the CNPP (the pension input amount) for that same tax year **must** have exceeded the AA; and,
c) the maximum you are asking the Plan to meet is based on your pension input into the Plan in excess of the "Standard" AA.

In addition, you must not have become actually entitled to your benefits (i.e. you are at the point at which you can immediately start to draw them without making any further elections, providing any further information etc.) and you must be under age 75.

Subject to the conditions being met, you can require that all or part of your charge is paid on your behalf. When you use this facility there will be a reduction to your benefits under the Plan. The Plan has a prescribed priority method of reducing your benefits which is covered below at Q7. By asking the Plan to meet your AA charge you are accepting the prescribed method of reducing your benefits.

2. How do I know if I am subject to an AA charge?

The Plan is not aware of your full financial circumstances and is not able to provide advice. However, if, based on the information the Trustee holds about your benefits accrued under the CNPP during the year, it looks like you have exceeded the AA, you will receive an annual statement (known as a 'pensions saving statement').

Defined Benefit (DB) members
Pensions saving statements will be issued by 6 October, provided the Plan administrator, Equiniti, has received correct information from employers. In the event that correct data is not provided within the required timescales, the statements will be issued within three months of receiving the correct data.

New Joiners, Defined Contribution (DC) benefit structure members
If you exceed the AA, the Plan administrator, Aegon, will send you a notification by the end of September, advising you of your contributions paid in the previous tax year.

3. I am subject to the tapered AA, can I still use the Scheme Pays facility?

On 6 April 2016 the government introduced the Tapered AA for individuals with "threshold income" and "adjusted income" over certain amounts (these amounts are subject to change by the government). To aid your understanding an example calculation is appended to this notice, the example is not intended to be relied upon and if you are unclear on your position you should consider seeking independent financial advice.

The Plan does not offer Scheme Pays for the portion of your tax charge attributable to the difference between your tapered AA amount and the full AA amount. For the avoidance of doubt this means that only the AA charge due on the excess above the standard AA (i.e., the standard, untapered amount) is payable by the Plan. The remainder of the tax charge owed (for the amount between your tapered AA and the standard AA) must be funded by you from other resources. When requesting Scheme Pays you will be asked to confirm that you are not asking the Plan to pay any tax charge owing for the amount between your tapered AA and £40,000.

4. How do I tell the Plan I want to use Scheme Pays?

You need to complete a Scheme Pays notice which you must obtain from your Plan administrator at the address below. Your Plan administrator will acknowledge your Scheme Pays notice:

a) DB Plan administrator's contact details are Combined Nuclear Pension Plan, P.O. Box 5167, Lancing, BN99 9AY. Tel: 0333 207 6523 (overseas +44(0) 121 415 0906); email: CombinedNuclearPensionPlan@equiniti.com
b) DC Plan administrator's contact details are Aegon Workplace Investing, PO Box 17486, Edinburgh EH12 1NU. Tel: 01733 353 414; email: my.pension@aegon.co.uk.

The Trustee recommends that you consider obtaining independent financial advice to support you in accurately completing the Scheme Pays notice. The Plan is not responsible for any errors you make in completing the notice and is not responsible for the accurate completion of the notice or your tax return.

5. What is the deadline for submitting a Scheme Pays notice?

The Plan administrator must receive your application for Scheme Pays no later than 31 July in the year following the tax year to which the AA charge relates. Please see the table below:

Tax year to which the AA charge relates	Deadline for submitting a Scheme Pays notice
2019/20	31 July 2021
2020/21	31 July 2022
2021/22	31 July 2023

Once the Plan has received a notice requiring it to apply Scheme Pays and the necessary conditions have been met (see Q1 “When can I use Scheme Pays”), the notice cannot be withdrawn although it may be amended (see Q6 below).

6. What if I get the Scheme Pays amount wrong?

After you have asked the Plan to pay an amount of your AA charge you are able to change the amount that you have asked the Plan to pay. This could happen because your AA charge liability for the tax year concerned was more, or less, than you realised when you gave your original notice.

There is a time limit for you to ask the Plan to change the amount of the AA charge that you want it to pay. The Plan administrator must receive your request no later than the 31 July that follows the end of the period of 4 years from the end of the tax year to which the liability relates.

Your amended notice may mean that the amount of the AA charge now due is £2,000 or less. The Plan will not then have to accept the amended notice and it will no longer be required to pay your AA charge. The liability for the tax due will then revert to you.

7. <u>How will my benefits be reduced?</u>

Where the Plan has paid all or part of your AA charge there must be a corresponding reduction in your benefits. The Plan has a strict policy in place of how this reduction is made and the Plan Actuary has confirmed that this policy is just and reasonable having regard to normal actuarial practice. The Plan's policies are as follows:

DB members
Your benefits will be reduced to cover the AA charge paid by the Plan in strictly the following order, these would include part payment utilising the different stages if there is not enough at a stage to cover the full payment;

a) From your Additional Voluntary Contributions (AVCs)
b) From your Shift Pay Pension Plan (SPPP) pot
    - Please note for both (a) and (b) above, where you are invested in multiple asset classes the charge will be deducted proportionately across all the funds in which your SPPP and/or AVC fund is invested from contributions paid by your employer and where applicable yourself unless you instruct the Plan administrator differently.
c) Where the charge has arisen on your retirement - and provided you have been advised of the amount of the charge before the entitlement to benefits arose - from your Pension Commencement Lump sum (PCLS).
d) If the charge cannot be satisfied by your AVCs and/or your SPPP and where the charge arises where you are still in Pensionable Service a "pension debit" will be applied. An amount will be deducted from your main Plan benefits by applying such factor as the Trustee determines, having consulted the Plan Actuary. Each pension debit will be revalued to your retirement date and will be deducted from your main Plan benefits at retirement before any actuarial reduction for early payment.

It should be noted that any reductions may not reduce your benefits below your entitlement to Guaranteed Minimum Pension benefits, if applicable.

New Joiners, DC benefit structure members
For members in the DC New Joiners Structure, your fund is reduced by the amount of the charge. Where you are invested in multiple asset classes within the DC account the charge will be deducted proportionately across all the funds in which your Account is invested from contributions paid by your employer and where applicable yourself unless you instruct the Plan administrator differently.

Note that if you have DB and DC membership the AA charge will be deducted from the section the AA charge relates to. For example if the AA charge arose from membership of the DC New Joiners Structure the corresponding benefit reduction would be in line with the explanation under DC members.

8. <u>What is the effective date of the Scheme Pays charge?</u>

DB members
a) Where the charge is being deducted from AVCs and/or SPPP benefits not immediately coming into payment, the effective date will be the date of disinvestment.
b) Where the charge is being deducted from your PCLS and retirement benefits are coming into payment immediately, the effective date shall be the date of retirement.
c) The pension debit calculation is undertaken based on age-related actuarial advice as at the date of the AA charge.

New Joiners, DC benefit structure members
Where an AA charge is being paid the Scheme Pays effective date will be the date of disinvestment.

The AA charge will be paid to Her Majesty's Revenue & Customs (HMRC) via the on-line Accounting for Tax facility in accordance with HMRC's requirements and will be reported to the Commissioners of HMRC by the date required by legislation.

9. What if there is an outstanding Scheme Pays amount on my death?

Should there be outstanding Scheme Pays amounts on death these will be deducted before any dependant's benefits are calculated.

10. If I successfully apply for Scheme Pays how is the AA Charge paid?

The AA charge will be paid by the Plan administrators via the on-line Accounting for Tax (AFT) facility by the end of the month preceding the cut-off date required by HMRC. Any AA Charge paid will be reported by the Plan administrators to HMRC by the date required by legislation.

11. What if I transfer my benefits out of the Plan?

If, in accordance with the conditions stated above, you could have given a Scheme Pays notice to the Plan but before doing so you transfer your benefits to another arrangement, you can no longer provide a Scheme pays notice to the Plan. However, you may instead provide a Scheme Pays notice to the administrator of your new arrangement.

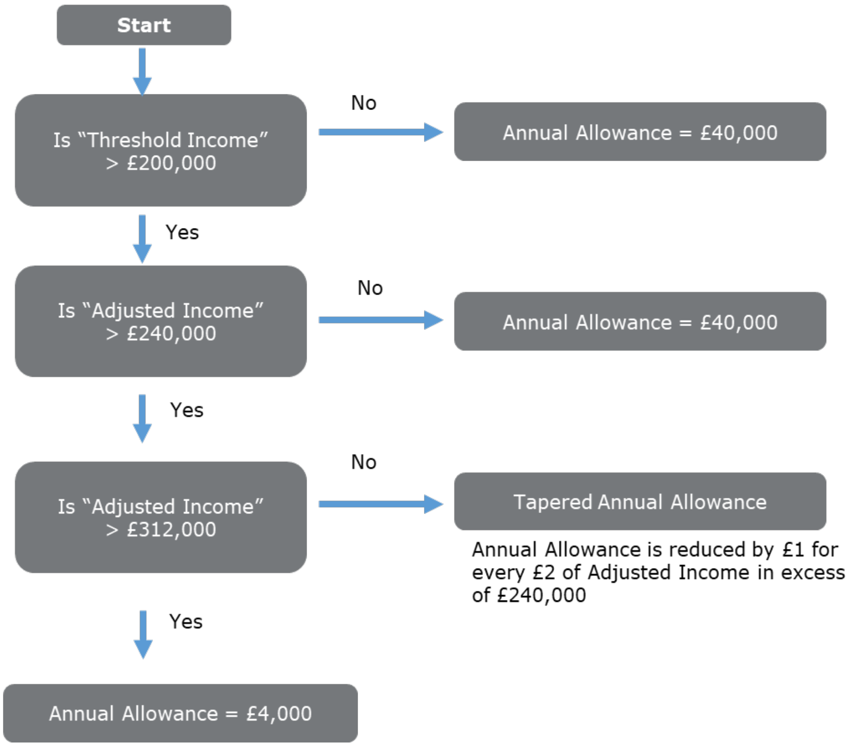
Trustee
Combined Nuclear Pension Plan
21 May 2020

Appendix 1: Tapered Annual Allowance

With effect from the 2020/21 tax year, the tapered Annual Allowance ("AA") was updated for high earners. The Tapered AA applies to individuals with **Threshold income** of over £200,000 p.a. AND **Adjusted income** of over £240,000 p.a.

For every £2 of Adjusted Income above £240,000 per annum, the annual allowance will be reduced by £1. The maximum reduction will be £36,000 meaning that anyone earning over £312,000 will have their annual allowance capped at £4,000.

How do members know if they are affected?



<u>Definitions:</u>
Threshold Income
All income subject to income tax in the tax year i.e. Gross Income from the Company (P60 + P11D)
Plus Other Income subject to income tax*(* e.g. bank interest, shares, dividends, rental property income)
Less member pension contributions

Adjusted Income
All income subject to income tax in the tax year (P60, P11D + Other, as above)
Plus the Pension Input Amount in respect of that member

Worked example
Below is a worked example of how the Tapered Annual Allowance works in practice for the 2020/21 tax year. Please note this is a high-level example and individuals are encouraged to seek appropriate advice in respect of their own positions.

Member A is currently aged 50, has gross earnings of £200,000 p.a. and has received £20,000 of other taxable income over the year (from for example, personal savings, investments or rental income). The Pensionable Earnings for benefits in the Plan is capped at £170,400 for the 2020/21 tax year.

Step 1: Checking against the Threshold Income
To determine if Member A's Annual Allowance will be tapered, their Threshold Income is compared against HMRC's £200,000 limit:

Pensionable Earnings	£170,400
Shift pay	-
Other taxable income	£49,600
Total income	**£220,000**
Less the following deductions	
Pension contributions	£8,520 (5% of £170,400)
Threshold income	**£211,480**

As the Threshold Income is greater than £200,000 the member may be subject to the Tapered Annual Allowance.

Step 2: Checking against the Adjusted Income
To determine whether Member A's Adjusted income is greater than HMRC's £240,000 limit the Threshold income and Pension Input Amount are added together. Member A's pension savings statement for 2020/21 tax year confirmed a Pension Input Amount of £70,000.

Threshold income	£211,480
Plus Pension Input Amount	£70,000
Adjusted income	**£281,480**

Step 3: Tapered Annual Allowance
As Member A's Adjusted Income is greater than £240,000, Member A will have a Tapered Annual Allowance. The standard Annual Allowance (£40,000) is tapered by £1 for every £2 that the Adjusted Income exceeds £240,000.

Member A's Adjusted Income is £41,480 more that HMRC's £240,000 limit (£281,480 - £240,000) and their Tapered Annual Allowance is **£19,260** (£40,000 - (£41,480 ÷ 2)).

Step 4: Calculating the Annual Allowance charge
Member A is potentially liable for an Annual Allowance charge on **£50,740, which is the Pension Input Amount less the Tapered Annual Allowance** (£70,000 - £19,260), unless they have any unused Annual Allowance to carry forward.

However, Member A can carry forward any unused Annual Allowance from the three previous tax years and add this to their Tapered Annual Allowance to offset against an Annual Allowance charge.

Member A has the following unused Annual Allowance to carry forward:

Carry forward from 2019/2020	£7,000
Carry forward from 2018/2019	-
Carry forward from 2017/2018	£6,000

Therefore, Member A has a total of £13,000 of unused Annual Allowance to carry forward.

2020/2021 Tapered Annual Allowance	£19,260
Plus Carry Forward	£13,000
Total Annual Allowance available	**£32,260**
Pension Input Amount	£70,000
Amount in excess of the available Annual Allowance (i.e. Pension Input Amount less Total Annual Allowance available)	**£37,740**

Member A's marginal rate of income tax for 2020/2021 is 45% therefore his tax charge is £16,980 (i.e. £37,740 x 45%).

As mentioned earlier in the policy, the Plan only offers the Scheme Pays facility for the portion of the tax charge above the standard Annual Allowance (£40,000 in this case). Member A must fund the remaining tax charge due on the amount between the standard Annual Allowance and the tapered Annual Allowance (plus any carry forward).

The maximum tax charge that Member A can ask the Plan to meet is £13,500 (45% x (£70,000 - £40,000).

The remaining tax charge of £3,480 must be settled directly by Member A.

Alternative example with carry forward of £25,000

If Member A had £25,000 of unused Annual Allowance to carry forward, the charge would be;

2020/2021 Tapered Annual Allowance	£19,260
Plus Carry Forward	£25,000
Total Annual Allowance available	**£44,260**
Pension Input Amount	£70,000
Amount in excess of the available Annual Allowance (i.e. Pension Input Amount less Total Annual Allowance available)	**£25,740**

In this example, the tax charge due is £11,583 (i.e. £25,740 x 45%). Member A can request that the Plan meets all of the tax charge as the amount owed is less than maximum Scheme Pays amount, which remains based on the difference between the Pension Input Amount and the standard Annual Allowance (i.e. £13,500 as stated above).

Step 5: Method of payment
If a member is subject to an Annual Allowance tax charge and this is to be recovered through the Scheme Pays facility, the charge is recovered from;

1. DC or AVC fund first; then
2. SPPP fund;
3. DB AVC fund;
4. Tax free cash at retirement
5. If none of the above are applicable then charge is taken by a pension debit (i.e. the remaining tax charge divided by a CETV factor* at the member's age) which will be deducted from the member's annual pension on retirement.

*The Cash Equivalent Transfer Value ("CETV") factors are calculated by the Scheme Actuary and are generally used to calculate the value of a transfer value. These factors are also used to determine the pension debit applicable for Scheme Pays cases. The factors vary by age, sex and financial market conditions.

In this example, Member A has:

- No DC or AVC fund;
- No SPPP fund;
- £5,000 of DB AVCs;
- Member A is aged 50 so has not yet reached retirement;
- Therefore, the remaining tax charge will be converted into a pension debit.

Annual Allowance tax charge payable using the Scheme Pays facility	£13,500
Less DB AVCs	£5,000
Tax charge to be settled via pension debit	£8,500
CETV factor at age 50 for a male member	36.9
Pension debit	£230 p.a.

Member A will have a pension debit of £230 p.a. and have an attaching lump sum debit of 3 times the pension debit, i.e. £690. Both the lump sum and pension debits will revalue in line with RPI inflation from the effective date of the tax charge. At retirement, the revalued lump sum and pension debits will be deducted from Member A's main benefits.