SCPF

ANNUAL ALLOWANCE (AA) FACTSHEET

WHAT IS THE PURPOSE OF THIS FACTSHEET?

To provide information on how the Annual Allowance may affect you in relation to your Shell Contributory Pension Fund (SCPF) pension.

WHAT IS THE ANNUAL ALLOWANCE?

The Annual Allowance (AA) is an amount by which your pension can increase without incurring a tax charge and is set by HM Revenue & Customs (HMRC).

For most people, their AA is £40,000 a year. However, there is a reduction in this amount for some high earners, which is known as the Tapered Annual Allowance (TAA).

If you go over your AA/TAA you may have a tax charge. It's your responsibility to monitor your AA/TAA and to notify HMRC if a tax charge is due.

It is important to remember that the AA applies across all UK registered pension schemes. However, it does not apply to pension built up in the Shell Overseas Contributory Pension Fund (SOCPF) and the Shell Supplementary Pension Plan (SSPP).

For most SCPF members, the AA/TAA will not impact them. However, you could exceed your AA/TAA for a year if you:

- receive a significant increase in your Pensionable Salary
- make Additional Voluntary Contributions (AVCs) via the SCPF AVC Arrangement
- make contributions to the SCPF or any other registered pension arrangements like a personal pension
- are a 'higher earner'

JARGON

Annual Allowance (AA)
Annual Allowance is a limit to the total amount of benefits that you can build up in a defined benefit pension scheme in a year.

Pension Input Amount (PIA)
For Defined Benefit (DB) schemes, the Pension Input Amount is the value of benefits accrued over the Pension Input Period.

For Defined Contribution (DC) schemes, and AVCs, this is the total amount of contributions made during the Pension Input Period.

Pension Input Period (PIP)
This is the period used to measure benefits accrued or contributions paid for testing against the Annual Allowance within each tax year. The Pension Input Period is 6 April to 5 April – the same as UK tax year.

TAPERED ANNUAL ALLOWANCE (TAA)

From 6 April 2016, the UK Government introduced the TAA.

To assess if the TAA applies to you, you need to check if your Threshold Income is over the UK Government's limit. If your Threshold Income exceeds the UK Government's limit, then your AA tapers down from £40,000. The amount your AA tapers down is based on your Adjusted Income.

What is Threshold Income?

Broadly speaking, your Threshold Income is all your taxable income (from Shell and outside of Shell) in the tax year, including but not limited to, salary, bonus, performance share awards, any redundancy payment, and investment income. In addition to the above if you pay your SCPF contributions via Salary Sacrifice you will need to add the amount of contributions that the Company pays on your behalf to your Threshold Income (refer to your payslips/P60 for this amount). Personal contributions (i.e. non-Salary Sacrifice contributions) to the SCPF, including contributions made via AVCs, are not included in Threshold Income.

What is Adjusted Income?

If your Threshold Income is greater than the limit set by the UK Government (confirmed below), you need to add on your Pension Input Amount (PIA) to your Threshold Income. You can find your PIA on page 2 of your benefit statement, under the Pension Input Statement section. This will determine your Adjusted Income and if your Adjusted Income is over the UK Government limit (confirmed below), you will be subject to the TAA.

When does the TAA start to apply?

<u>TAA from 6 April 2016 to 5 April 2020 is as follows:</u>

If your Threshold Income exceeds £110,000 you will need to add your PIA to your Threshold Income to determine your Adjusted Income. If your Adjusted Income exceeds £150,000 your AA will be subject to the TAA.

The rate of reduction to your AA is £1 for every £2 that the Adjusted Income exceeds £150,000. This reduction is capped at Adjusted Incomes of £210,000 with the maximum reduction to the AA being £30,000. For example, if you have an Adjusted Income of £210,000 your AA would be £10,000 and this is calculated as follows:

£210,000 (Adjusted Income) – £150,000 (Adjusted Income limit) = £60,000/2 = £30,000 (AA reduction)
£40,000 (standard AA) – £30,000 (reduction to AA) = £10,000 (TAA amount)

The Threshold and Adjusted Income limits detailed above apply for tax years 2016/2017 to 2019/2020.

<u>The TAA from 6 April 2020 is as follows:</u>

In the 2020 Budget, the UK Government announced that it would increase the TAA limits. These limits will apply to the TAA from tax year 2020/2021.

If your Threshold Income exceeds £200,000 you will need to add your PIA to your Threshold Income to determine your Adjusted Income. If your Adjusted Income exceeds £240,000 your AA will be subject to the TAA.

The rate of reduction to your AA is £1 for every £2 that the Adjusted Income exceeds £240,000. The maximum reduction to the AA is £36,000 so that if you have an adjusted income of £312,000 or over your AA would be £4,000.

For further details on how to work out your TAA please refer to the HMRC guidance in the link below
https://www.gov.uk/guidance/pension-schemes-work-out-your-tapered-annual-allowance

WHERE CAN I FIND MY PENSION INPUT AMOUNT?

Every year you receive a SCPF benefit statement, which includes a SCPF Pension Input statement (on page 2). This statement will confirm your PIA for the year as well as for the preceding three tax years.

For all UK registered DB pension schemes, like the SCPF, the UK Government uses a factor of 16 to determine the value of pension growth. This means that, after allowing for inflation, for each increase of £1 per annum to your pension £16 of your AA is used. Put simply, if your AA limit is £40,000 the maximum increase to your SCPF pension, per annum, before you start incurring a tax charge is £2,500 (£40,000/16) after adjustment for inflation.

The Pension Input Period (PIP) that your PIA is calculated on is the UK Government tax year, which is 6 April to 5 April. Your PIA is your pension at the beginning of this period (adjusted for inflation), less your pension at the end of the period. Anything above your AA/TAA limit would be subject to a tax charge.

CALCULATING PENSION INPUT AMOUNT – Example

Marcus is a member of the SCPF (pre 2009 section). Shell is his only source of income and he's not subject to the TAA.

Start of PIP (06/04/2019) he has 25 years' service and a pensionable salary of £100,000 pa.
End of PIP (05/04/2020) he has 26 years' service and his pensionable salary increased to £110,000 pa.

Step 1	Calculate the opening pension: 25/54 x £100,000 = **£46,296**
Step 2	To allow for inflation, in the pension calculated in Step 1 is increased by Consumer Price Index (CPI). The CPI used is based on the September before the start of the relevant tax year. For example, for 2019/2020 the rate of CPI inflation to apply is 2.4%. 46,296 x 1.024 = **£47,407**
Step 3	Calculate the closing pension: 26/54 x £110,000 = **£52,962**
Step 4	Calculate the difference between Step 2 and 3 pensions: £52,962 – £47,407 = **£5,555**
Step 5	Multiply the difference calculated in Step 4 by the HMRC factor of 16 to get the PIA. £5,555 x 16 = **£88,880**

In the example above, Marcus' SCPF PIA is £88,880 for 2019/20 tax year, which is over the AA of £40,000. He will potentially have to pay a tax charge. His marginal rate of income tax is 40% so he has a tax liability of 40% x (£88,880 less £40,000) = £19,552 (assuming he has no Carry Forward – see below)

Note:

- If you are a member of the post 2009 section your pension is calculated using 1/60th not 1/54th
- This example doesn't tax into account any SCPF AVCs or contributions made to another pension arrangement in the tax year
- This example doesn't consider TAA

PENSION INPUT AMOUNT IF YOU LEAVE/RETIRE

If you leave company service part way through the year and defer or retire, you will be sent an AA statement automatically. The AA statement is sent around July for all members who deferred/retired in the previous tax year. For example, if you left company service between 06/04/2019 and 05/04/2020, you will receive your AA statement around July 2020. If you leave company service between 06/04/2020 and 05/04/2021, you will receive your AA statement around July 2021. Should you need your AA statement sooner, you can request this on an individual basis by contacting the Pension Administration team.

The PIA is calculated in the same as in the example on page 3, however, the pension used at the end of the PIP is as follows:

- If your pension is deferred - the pension used is your deferred pension at date of leaving.
- If you retired – the pension used is your full pension (ignoring any pension exchanged for a lump sum). Please note, if you have retired early the pension used to calculate your PIA is after the early retirement reduction has been applied.

Example

Zara is a member of the SCPF (pre 2009 section). Shell is her only source of income (not subject to the TAA).

On 28 February 2020 she left Company Service and retired early drawing her pension. At retirement date she was 58 years old, which is 2 years earlier than her Normal Retirement Date (NRD) of 60.

The early retirement reduction applied is 3.5% for every year the pension is taken early and for Zara this would mean a 7% reduction in her pension (2 x 3.5% = 7% reduction).

Start of PIP (06/04/2019) he has 25 years' service and a pensionable salary of £100,000 pa.
End of PIP (28/02/2020) he has 25 years' and 10 months service and pensionable salary is £110,000 pa

Step 1	Calculate the opening pension: 25/54 x £100,000 = **£46,296**
Step 2	To allow for inflation, in the pension calculated in Step 1 is increased by Consumer Price Index (CPI). The CPI used is based on the September before the start of the relevant tax year. For example, for 2019/2020 the rate of CPI inflation to apply is 2.4%. 46,296 x 1.024 = **£47,407**
Step 3	Calculate the closing pension: (26/54 x £110,000) £52,962 x 0.93 = **£49,255**
Step 4	Calculate the difference between Step 2 and 3 pensions: £49,255 – £47,407 = **£1,848**
Step 5	Multiply the difference calculated in Step 4 by the HMRC factor of 16 to get the PIA. £1,848 x 16 = **£29,568**

Zara's SCPF PIA is £29,568 for 2019/20 tax year, which is under the AA of £40,000.

Note:

- If you are a member of the post 2009 section your pension is calculated using 1/60th not 1/54th
- This example doesn't take into account any SCPF AVCs or contributions made to another pension arrangement in the tax year
- This example doesn't consider TAA

CARRY FORWARD

Should your PIA exceed your AA you may carry forward any 'unused' AA from the three preceding tax years and offset it against the amount you have exceeded by. This information is included in the annual allowance statement on your SCPF benefit statement. You must use up the AA in the current PIP first, then go back to the earliest of the three carry forward years available.

EXAMPLE

Following on from the first example of how to calculate AA, Marcus has a PIA of £88,880 in the 2019/20 PIP. His PIA in the three previous PIPs were (as confirmed in his SCPF benefit statement):

Pension Input Period	Annual Allowance	Total Pension Input Amount
2016/17	£40,000	£20,000
2017/18	£40,000	£15,000
2018/19	£40,000	£35,000

Step 1	Unused AA in 2016/2017 is £20,000 [£40,000 - £20,000]
Step 2	Unused AA in 2017/2018 is £25,000 [£40,000 - £15,000]
Step 3	Unused AA in 2018/2019 is £5,000 [£40,000 - £35,000]
Step 4	Total unused AA in the last 3 tax years is £50,000 [£20,000 + £25,000 + £5,000]

Marcus has a PIA of £48,880 in excess of the AA [£88,880 - £40,000] but he also has £50,000 of unused AA from the three previous PIP. Marcus can use carry forward to reduce the PIA that is subject to a tax charge.

Marcus will still have unused AA (he will need to keep his own record of this), as follows:

2016/2017: £48,880 - £20,000 (£0.00 carry forward left)
2017/2018: £28,880 - £25,000 (£0.00 carry forward left)
2018/2019: £ 3,880 - £5,000 (£1,120 carry forward left)
Marcus' carry forward covers his excess PIA and he has no tax charge payable.

IF YOU EXCEED YOUR ANNUAL ALLOWANCE, WHAT SHOULD YOU DO?

1. Check to see if you have exceeded the AA by using HMRC's pension savings AA calculators at www.tax.service.gov.uk/paac
2. If you are paying AVCs you may want to reduce or stop contributions, if you think they may take you over the AA in future years.
3. If you do not have enough carry forward to offset the amount you have exceeded and you have a tax charge this can be paid, by you, directly to HMRC via your self-assessment.
4. If you did not want to pay the charge directly to HMRC, you can consider the option of the SCPF Trustee paying all or part of the charge on your behalf and reducing your pension by a corresponding value. This is known as 'Scheme Pays' and you can refer to our Scheme Pays factsheet for further information on this option.

FINANCIAL EDUCATION / ADVICE

You can find out more about the Annual Allowance (and much more) via the Company's Financial Education Hub (hosted by Close Brothers). There are webinars on managing your pension tax allowances and you can also contact their free helpline with questions on +44800 917 8377 or shellhelpline@closebrothers.com .

It is strongly recommended that you take independent financial advice if you think that you have exceeded, or are going to exceed, the AA. The Trustee, Shell companies and their employees cannot give you financial advice regarding your pension decisions; this includes recommending financial advisers.

You can find a list of independent financial advisers in your area at www.unbiased.co.uk

The Financial Conduct Authority (www.fca.org.uk) also provides information for consumers about all aspects of financial planning, including how to find an adviser and what questions to ask.

CONTACT DETAILS

If you have queries regarding the AA and your SCPF benefits, please email the Pensions Administration Team at UK-PensionsAdmin@shell.com or call the team on +44 (0)20 7934 1190

This factsheet provides a summary of the benefits available from the SCPF. Benefits can only be paid in accordance with the Trust Deed and Regulations and relevant law at that time.