

# **BASF UK Group Pension Scheme**

Lifetime Allowance & Annual Allowance Information

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## The Lifetime Allowance

### What is the Lifetime Allowance?

The Lifetime Allowance (LTA) was introduced in 2006 and is a limit on the amount of pension benefit that can be drawn from pension schemes (either in lump sums or retirement income) without triggering an extra tax charge. **The LTA is applied to all pension sources (except the State Pension).**

### What is the limit?

The LTA for the tax year **2021/22** is **£1,073,100** and it is likely to increase in line with inflation at the end of the current tax year.

### How do I calculate my standard LTA consumption?

Depending on the type of your various pension arrangements, calculating your lifetime allowance consumption can be confusing and rely on variables such as crystallisation dates.

If you are not sure if you have exceeded (or are close to exceeding) the LTA, you should contact a financial adviser.

Broadly speaking, if you are a Defined Contribution member, your fund value is measured against the LTA. If you are Defined Benefit member, your annual pension at crystallisation is multiplied by 20. However, there are exceptions to these broad rules, so you should always check with your administrator and financial adviser.

### I don't have a financial adviser, where can I find an approved one?

BASF and the Trustee of the Scheme are not able to provide you with financial advice. However, if you do wish to speak to an approved Independent Financial Adviser (IFA), you can find one local to you on [www.unbiased.co.uk](http://www.unbiased.co.uk).

The Scheme assists with financial advice for members at retirement. Please contact the Scheme administrator for more information.

### What if I exceed the limit?

If you have already exceeded the LTA (or are likely to in the future), you may be able to apply for a level of protection from HMRC, or you may have already done so. You should seek financial advice from an approved financial adviser.

### What protections are available from HMRC?

There are several protections allowed under UK legislation. Some of these can no longer be awarded and some can be lost in certain circumstances. The protections are listed below.

#### Primary Protection

Members whose pension benefits already exceeded £1.5m (the LTA at April 2006) could apply for Primary Protection. This method of protection granted each member an individual Lifetime Allowance Enhancement Factor (LAEF). The LAEF is calculated by dividing the member's pension value (at April 2006) by £1.5m.

**If you do not already hold Primary Protection, you can no longer apply for this level of protection.**

### Enhanced Protection

This level of protection effectively removed the LTA for members. However, if any contributions are made to a pension arrangement for or by the member (or the member accrues any relevant benefit), the protection is lost. Should this occur, the member must inform HMRC within 90 days to avoid a financial penalty.

**If you do not already hold Enhanced Protection, you can no longer apply for this level of protection.**

### Fixed Protection

The LTA has not always risen in value each year. There have been three occasions where the LTA has been reduced. To help members affected by the fall in the LTA, three versions of Fixed Protection have been created.

#### Fixed Protection 2012

The LTA fell from £1.8m to £1.5m. Members were able to apply to maintain the LTA at £1.8m but are not allowed to contribute or receive relevant benefit accrual from 6 April 2012.

#### Fixed Protection 2014

The LTA fell from £1.5m to £1.25m. Members were able to apply to maintain the LTA at £1.5m but are not allowed to contribute or receive relevant benefit accrual from 6 April 2014.

**It is no longer possible to register for the earlier versions of fixed protection. The deadlines for these were 5 April 2012 & 5 April 2014.**

#### Fixed Protection 2016

The LTA fell from £1.25m to £1m. Members were able to apply to maintain the LTA at £1.25m but are not allowed to contribute or receive relevant benefit accrual from 6 April 2016.

If you (or any employer on your behalf) have not added to your pension savings since 5 April 2016, **you can still apply for Fixed Protection 2016**, online at [www.gov.uk](http://www.gov.uk). If you are considering this, you may also wish to seek advice from a financial adviser.

### Individual Protection

#### Individual Protection 2014

This gives you a personalised lifetime allowance that is equal to the value of all your pension savings on 5 April 2014. To be eligible, your pensions will need to have been worth £1.25m or more. Your protection amount will be capped at £1.5m. You can still make contributions to your pension, but any pension savings above your personalised lifetime allowance (your pension savings on 5 April 2014) will be subject to an LTA tax charge.

#### Individual Protection 2016

This gives you a personalised lifetime allowance that is equal to the value of all your pension savings on the **5<sup>th</sup> April 2016**. To be eligible, your pensions will need to have been worth **£1m** or more. Your protection amount is capped at **£1.25m**. You can still make contributions to your pension, but any pension savings above your personalised lifetime allowance will be subject to an LTA tax charge.

**It is no longer possible to register for Individual Protection the deadline was 5 April 2017.**

### If my benefits already exceed the LTA, can I still join the BASF UK Group Pension Scheme?

Yes, you can still join the Scheme. If you wish to discuss joining the Scheme at any time, please contact the BASF in-house team via email at [basfpensions@basf.com](mailto:basfpensions@basf.com).

### Due to the LTA, I do not want to join the Scheme, who do I need to notify?

Although your employer must comply with its obligations under automatic enrolment legislation, you will be able to opt out of the Scheme once you have become a member. If you want to opt-out because you already have a form of LTA protection that would be lost or your retirement savings have already exceeded the standard LTA, please contact the BASF in-house team via email at [basfpensions@basf.com](mailto:basfpensions@basf.com).

### Due to the LTA, I need to leave the Scheme, who do I need to notify?

Depending on your circumstances, you may wish to opt-out of the Scheme. If you want to opt-out because you have an LTA protection that would be invalidated or your retirement savings have already exceeded the standard LTA, please contact the BASF in-house team via email at [basfpensions@basf.com](mailto:basfpensions@basf.com).

## The Annual Allowance

### What is the Annual Allowance (AA)?

The **AA** is a limit on the amount that can be contributed to your pension each year, while still receiving tax relief. The standard AA is currently **£40,000** but if you are a high earner, your AA may be reduced.

### What counts towards the allowance?

For **DC (defined contribution)** pension arrangements, all contributions that are made by you and the Company on your behalf count towards the AA. For **DB (defined benefit)** pension arrangements, the amount of pension built up in each year is converted to an amount which counts towards the AA.

The AA applies across all schemes you belong to, it's not a 'per scheme' limit and includes all contributions that are paid by you or on your behalf and all benefits you build up.

### What happens if I exceed the standard annual allowance?

If you exceed the allowance in a year, you won't receive tax relief on any contributions or benefit accrual over the limit and you will be faced with an **Annual Allowance Charge**.

The charge will be added to the rest of your taxable income for the tax year in question when determining your tax liability. Alternatively, if the charge is more than **£2,000**, you can ask the Scheme to pay the charge from your benefits. This means your pension scheme benefits would be reduced. If you would like more information on this process, please contact the Scheme administrator.

Unless you have a **Money Purchase Annual Allowance (MPAA)**, you may be able to carry forward any unused annual allowances from the previous three tax years, to either reduce your annual allowance charge to a lower amount or remove the annual allowance charge completely.

The Scheme administration team can confirm your **Pension Input Amount (PIA)**. This refers to the amount of contributions or value of accrued benefits during the pension input period, which is aligned with the tax year. If you think that you may be getting close to your annual allowance, or may have exceeded it, you may wish to consider taking advice from a regulated financial adviser. You may also want to contact any other scheme providers you have, for example, where you contribute to a personal pension plan to establish what your PIA is for that scheme.

### What is the Money Purchase Annual Allowance (MPAA)?

The MPAA applies if you have taken some pension benefits already and are still making pension contributions. If this applies to you, you will have the MPAA instead of the standard AA. Introduced on 6<sup>th</sup> April 2015, the Government reduced the MPAA from **£10,000** to **£4,000** gross per annum from 6<sup>th</sup> April 2017.

If you have taken flexible benefits from a pension scheme, such as an '**Uncrystallised Funds Pension Lump Sum (UFPLS)**' or flexi-access drawdown with income, and you want to continue paying contributions to a defined contribution pension scheme, you will have the MPAA of **£4,000** per annum.

The MPAA applies if you have DC benefits and have started to 'flexibility access' those benefits from any pension arrangement. You will flexibility access your benefits if you receive a payment from a flexi-access or capped drawdown fund, receive payment from a flexible annuity, take an uncrystallised funds pension lump sum or receive a pension payment from a DC arrangement with less than 12 people. In relation to the Scheme you will have flexibility accessed your DC benefits if you take an uncrystallised funds pension lump sum, essentially any lump sum that is not the 25% tax-free pension commencement lump sum.

The **MPAA** includes both your own contribution and any other contribution paid on your behalf, such as an employer or a third party. You cannot carry forward any unused standard annual allowances from the previous three tax years to increase your MPAA. The **MPAA** will only start to apply from the day after you have taken flexible benefits and so any previous savings are not affected.

### What is the Tapered Annual Allowance (TAA)?

The Government introduced the **TAA** on 6<sup>th</sup> April 2016 for high earners. This included the introduction of '**threshold income**' and '**adjusted income**', which are key components in calculation and eligibility.

The TAA will apply where you have a 'threshold income' of £200,000 or more and an adjusted income of £240,000 or more per year.

If you are affected by the **TAA**, you will still be able to carry forward unused AA from previous tax-years and if your income in any tax year drops below the threshold you will have the normal AA for that tax-year.

### Tapered Annual Allowance: What is Threshold Income?

Where an individual has a 'Threshold income' of **£200,000** or more, you must calculate adjusted income to work out the amount of any tapered annual allowance.

Threshold income is broadly your annual taxable income, including any salary sacrifice amount, minus some pension contributions made by an individual (those that receive tax relief at source).

### Tapered Annual Allowance: What is Adjusted Income?

Adjusted income adds in the value of all employer pension contributions, to prevent individuals from avoiding the restriction by exchanging salary for employer contributions.

Adjusted income is broadly your taxable income, including any salary sacrifice amount, plus the value of pension contributions made by yourself and your employer.

### Tapered Annual Allowance: How does the Taper work?

Where a member has adjusted income over £240,000 then the annual allowance is reduced by **£1** for every **£2** that the adjusted income exceeds **£240,000**, up to a maximum reduction of **£36,000**, down to a minimum tapered annual allowance of **£4,000**.

This results in an Annual Allowance of **£40,000** for those with an adjusted income of less than **£240,000**; a reducing Annual Allowance for those with adjusted incomes between **£240,000** and **£312,000** and an Annual Allowance of **£4,000** for those with an adjusted income over **£312,000**.

## BASF LTA & AA Supplement Policy

### LTA Salary Supplement Amount

If an individual opts out of the Scheme and provides evidence to the **BASF in-house team** that they have reached or exceeded the standard **LTA**, they may be eligible to receive a salary supplement equal to the amount of employer contributions that would otherwise have been paid to the Scheme on their behalf (assuming there was no salary sacrifice arrangement in place).

This will be based on the contribution rate in force at the date a member opts-out due to the **LTA**. If the individual's contribution rate has changed within the last 12 months, the previous rate will be applied.

As an example, a member receiving a **10%** employer pension contribution at the point of opting-out due to the **LTA** will be paid an **8%** salary supplement (**2%** will be deducted to cover the increased National Insurance contributions from the employer).

### AA Salary Supplement Amount

An individual who has a **TAA** may elect to opt-out of the Scheme and may be eligible to receive a salary supplement equal to the amount of employer contributions that would otherwise have been paid to the Scheme on their behalf (assuming there was no salary sacrifice arrangement in place), less the minimum amount of annual allowance (**currently £4,000**).

This will be based on the contribution rate in force at the date a member opts-out due to the **LTA**. If the individual's contribution rate has changed within the last 12 months, the previous rate will be applied.

The employer will pay **£4,000** to the Scheme as an employer contribution in respect of the individual and the remaining amount will be paid to the individual in equal monthly instalments with your regular pay throughout the year as a non-pensionable allowance.

For the avoidance of doubt, the Company does not offer a salary supplement for employees affected by the **MPAA**.

### Tax Implications

An individual will pay income tax and NI on the salary supplement, and the Company will not reimburse or pay any further amounts to compensate for this. The salary supplement will not be pensionable (for benefits where a notional Pensionable Salary is still used, such as Life Insurance).

### Life Assurance and Income Protection

Members in receipt of an LTA or AA Salary Supplement will be eligible to receive a death in service lump sum of 4x Pensionable Salary.

Individuals **must** complete and return a new Nomination Form to be covered under the policy. The form can be found on the pension website.

### Other Benefits

Other benefits outside of this policy are not affected unless communicated in writing.

### Re-Joining the BASF UK Group Pension Scheme

Upon re-joining the Scheme, any salary supplements in force will cease to be payable. Any supplements will also cease if 'auto-enrolled' into the Scheme.

### Company Participation

BASF plc reserves the right to remove the salary supplement at any time and will notify affected members in writing.

## Contact Details

### BASF In-House Team (UK & Ireland)

All generic scheme related queries should be referred to the Scheme administrator (Buck).

Queries relating to the Lifetime Allowance & Annual Allowance should be emailed to the BASF In-House Team via [basfpensions@basf.com](mailto:basfpensions@basf.com).

Supporting documentation and policies can be found on [ukpensions.basf.co.uk](http://ukpensions.basf.co.uk).

### BASF UK Group Pension Scheme – Administration Team (Buck)

Once you've joined the Scheme, you can speak to the administration team about your benefits.

☎: BASF  
Buck (Bristol)  
PO Box 319  
Mitcheldean  
GL14 9BF

✉: [basf@buck.com](mailto:basf@buck.com)  
☎: 0330 123 0647  
(helpline open 9am-5pm, Monday to Friday)