Annual Allowance and Lifetime Allowance

A guide to pension tax relief limits and your options

Pensions can be a tax-efficient way of saving for your retirement, but did you know that there are limits to the tax advantages? Tax is a personal issue and it is difficult for us to know exactly who might be impacted by the allowances, but we have prepared this guide to help you to determine whether or not you might need to consider taking action.

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1. The Annual Allowance – Does it impact you?

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

The **AA** is the maximum value of pension savings that can be built up in one tax year, without incurring a tax charge. The standard **AA** is currently £60,000 for the 2023/24 tax year, but there is a different level for higher earners.

Who is excluded?

If your **threshold income** is £200,000 or less, even if your **adjusted income** is over £260,000, you will still have an **AA** of £60,000.

What is the **AA** for higher earners?

If your **threshold income** is more than £200,000 and your **adjusted income** is more than £260,000, you will have an **AA** of less than £60,000.

What does '**threshold income**' include?

Threshold income includes all taxable income (including anything that isn't from Eaton, like rent or investment income) less your pension contributions other than those paid by salary sacrifice arrangements.

What does '**adjusted income**' include?

Adjusted income includes all taxable income (including anything that isn't from Eaton, like rent or investment income) plus the 'value' of your annual pension savings.

For members of a Defined Contribution (DC) pension plan, the 'value' of pension savings is the annual amount of contributions paid to your pension plan.

For members of a Defined Benefit (DB) pension plan, the 'value' is calculated as 16 times the increase in your pension over the year, after allowing for inflation.

What does 'taxable income' include?

All sources of income such as salary, bonus, taxable benefits, commission, rental income, dividends, and interest on savings, less certain reliefs such as charitable donations made through payroll. Please note that this list is not exhaustive.

Terms in **bold** are defined in the glossary on page 15.

Free App to help

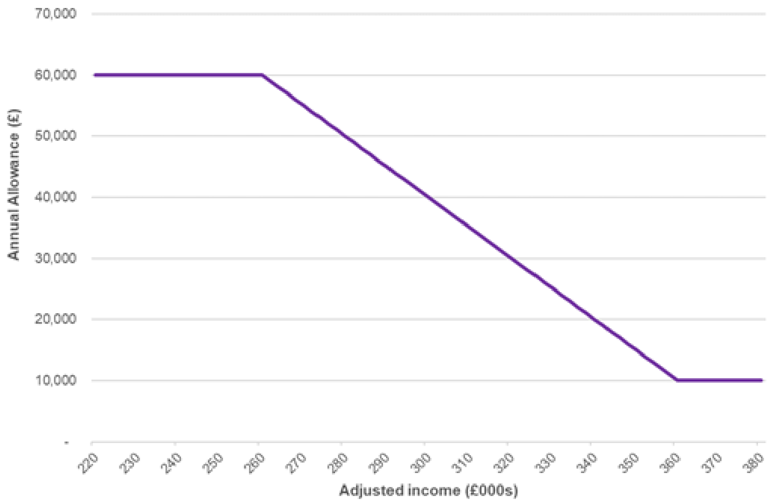
WTW, our advisors, have produced an App to help you estimate your Threshold and Adjusted Income. It's available for Apple or Android™ devices. Just visit the App Store or Google Play and search for ***AA IncomeCalc*** or use the QR codes below.

App Store

Google Play

How will the **AA** be tapered if you have an **adjusted income** of more than £260,000?

Since 6 April 2023, the £60,000 **AA** has been reduced by 50p for each £1 of **adjusted income** above £260,000, until it reaches £10,000 for an **adjusted income** of £360,000 and above.



Example: The **AA** will be £40,000 for someone with an **adjusted income** (including pension contributions) of £300,000. A £1,000 increase in **adjusted income** would reduce the **AA** to £39,500 and could trigger a 45% charge on any contributions over the reduced **AA**.

If I might be affected, what do I need to consider?

You should consider whether you need to take action to prevent or reduce any tax charges by reviewing your expected income and pension savings for the 2023/24 tax year.

In a Defined Contribution (DC) scheme, the value of your pension savings for **AA** purposes will be equal to the contributions that you and Eaton pay over the tax year. For example, if your pensionable salary is £280,000 and you contribute at a rate of 5%, with an Eaton contribution of 8%, your estimated savings will be **£280,000 x (5% + 8%) = £36,400.**

In a Defined Benefit (DB) scheme, the value of your pension savings for **AA** purposes is calculated as 16 times the increase in your pension over the year (after allowing for inflation). So if your accrued pension at the start of the year was £10,000, inflation over the year was 1% and your accrued pension at the end of the year was £12,000, the value of your pension savings for **AA** purposes would be **(£12,000 – (£10,000 x 1.01)) x 16 = £30,400**

If you are likely to be affected by the reduced **AA** you may want to seek impartial financial advice to discuss your options.

What happens if I exceed my **AA**?

You are able to use any **unused AA** from the previous three tax years (known as carry forward) once this tax year's **AA** is used up. It's important to be aware that the standard AA, the minimum tapered AA and the Adjusted Income above which the standard AA started to reduce were all lower in previous tax years. For example, assume a member has the standard £40,000 limit in the previous tax years and the standard £60,000 in the 2023/24 tax year and the following pension savings amounts:

Tax year	Pension savings over year	**Unused AA**
2023/24	£68,000	N/A
2022/23	£39,000	£1,000
2021/22	£37,000	£3,000
2020/21	£34,000	£6,000

In this example, the member would have exceeded the **AA** by £8,000 in the 2023/24 tax year. However, the member has a total of £10,000 of **unused AA** that can be used to offset this.

Unused AA is taken from the oldest tax year first, so after exceeding the 2023/24 tax year, the member would have the following **unused AA** left:

Tax year	**Unused AA** used up	**Unused AA remaining**
2022/23	-	£1,000
2021/22	£2,000	£1,000
2020/21	£6,000	-

Please contact your Scheme Administrator to confirm details of pension savings made in previous years, to help identify any carry forward you may have.

What happens if I have made a flexible withdrawal from a defined contribution pension arrangement?

Since 6 April 2015, the **Money Purchase Annual Allowance (MPAA)** has applied to anyone who has started to take their benefits flexibly from any DC pension arrangement (e.g. a taxable income payment from a "flexi-access drawdown" arrangement, or taxable cash withdrawals). The **MPAA** for 2023/24 tax year is £10,000. This is considerably lower than the standard **AA** of £60,000 for tax year 2023/24. Once the **MPAA** applies, it is no longer possible to use any **unused AA** from previous tax years.

Please contact 80Twenty on eaton@80twentygroup.co.uk or 0800 542 8020 for more information on the **MPAA** if you think it might apply to you.

2. The Annual Allowance – What are your options?

2.1. Defined Contribution members

If you continue to build up pension benefits in the Eaton UK Retirement and Savings Plan (ERSP) and you think you will have a tax charge as a result of it, you can pay any **AA** tax charge due in one of two ways:

- Declare any pension saving over the **AA** on your tax return and pay tax on the excess at your marginal rate. If you choose this option then your Scheme Administrator will be able to provide you with a Pension Saving Statement after the end of the tax year to assist you in completing your tax return.

- You also have the option to pay the tax from your savings in the ERSP using an initiative called "Scheme Pays". If you use Scheme Pays, the value of your DC pension fund will be reduced by an amount equal to the tax charges that you have paid before retirement. Any tax charges paid using Scheme Pays will also need to be declared on your tax return.

Cash Allowance alternative

Eaton offers an alternative to give you more flexibility in saving for retirement in the most tax-efficient way for your personal circumstances.

If you have a basic salary over £200,000 a year, or you can demonstrate that you are expecting to exceed your **AA**, then you are eligible to limit the contributions Eaton pays towards your ERSP pension to £10,000 each year and receive a **Cash Allowance** from Eaton each month to 'top up' the amount payable to you to the maximum employer contribution available under your existing DC pension arrangement.

The £10,000 pension contribution will be paid by Eaton as 12 monthly contributions of £833.33 into your DC fund. The **Cash Allowance** will be reduced to allow for the additional National Insurance contributions that Eaton will have to pay on this amount (note that employer National Insurance rate is 13.8% for the 2023/24 tax year). You will also be required to pay income tax and National Insurance Contributions on the **Cash Allowance**.

Eaton would like to encourage employees to use the **Cash Allowance** to pursue alternative savings options. The ERSP offers three alternative investment options which you may want to consider:

- Stocks & Shares ISA;
- Cash ISA;
- General Investment Account.

Regardless of what you decide to do with the **Cash Allowance**, you will no longer be required to pay any contributions into your DC pension.

We recommend that you speak to an Independent Financial Adviser before taking the decision to limit your pension contributions in the ERSP.

2. The Annual Allowance – What are your options?

2.2. Defined Benefit members

If you continue to build up pension benefits in the Eaton UK Pension Plan, the MTL Instruments Group Pension Scheme or the Moeller Electric Group Pension Scheme (known as a “DB Plan”) and you have a tax charge as a result, you can pay any **AA** tax charge by declaring the pension saving over the **AA** on your tax return and paying tax on the excess at your marginal rate. Your Scheme Administrator will be able to provide you with a Pension Saving Statement after the end of the tax year to assist you in completing your tax return.

You may also have the option of paying some or all of the **AA** tax charge from your savings in your DB plan using an initiative called “Scheme Pays”. If you meet the conditions within your DB Plan to be eligible to use Scheme Pays, the value of your pension benefits will be reduced to reflect the value of the tax charges that you have paid before retirement. Any tax charges paid using Scheme Pays will also need to be declared on your tax return.

Cash Allowance alternative

If you think your DB benefits are likely to exceed your **AA** and you would prefer not to incur an **AA** charge you would need to cease DB pension savings by opting out of your DB plan. You would then be enrolled in the ERSP, on the same basis as any new joiner, and would have all of the options for DC members set out on the previous page. In particular, any DC pension contributions or **Cash Allowance** would be based on maximum ERSP contributions from Eaton, currently 8% of your basic salary.

You would not be able to opt back in to your DB Plan in future and would be forfeiting any future DB pension accrual. The benefits you have accrued to date in the DB Plan would remain in the Plan. These would be based on your pensionable salary at the date you opt out of the Plan and would increase broadly in line with inflation until retirement.

We strongly recommend that you speak to an Independent Financial Adviser before taking the decision to opt out of your DB Plan.

If you need more information on your DB Plan pension, please contact your Scheme Administrator.

3. The Annual Allowance – member examples

3.1. Defined Contribution members

This section gives examples of the different options available to a member of the ERSP who has exceeded their **AA**. Please note that these examples are intended to provide an illustration of how the **AA** might apply in practice. However, they are not intended to cover all possible scenarios and you may wish to contact 80Twenty to discuss your situation in more detail.

Case study – Jane

Jane is a member of the ERSP and has a basic salary for the 2023/24 tax year of £250,000, which is above the **threshold income** limit so Jane needs to work out her **adjusted income**. Jane currently pays contributions into the ERSP at a rate of 5% pa via salary sacrifice. Therefore, Eaton would pay contributions of £12,500 for the 2023/24 tax year on her behalf.

Jane's pension savings over the year are estimated to amount to £32,500. This is equal to the contributions that she and Eaton pay over the tax year, £250,000 x (5% + 8%) = £32,500, with Jane's contributions payable through salary sacrifice.

Pulling all of this information on her salary and pension together, along with any other taxable income that she has, Jane does the following calculation to determine her estimated **adjusted income** for 2023/24:

Basic salary	£237,500	*P60 amount, after salary sacrifice*
Pension savings	£32,500	*Pension contributions, including salary sacrifice contributions*
Estimated bonus for 2023/24	£30,000	*This is estimated based on Jane's 2022/23 bonus amount*
Rental income	£25,000	*This information is unavailable to Eaton*
Total	**£325,000**	***This is Jane's estimated adjusted income for 2023/24****

* Please refer to page 15 for a full definition of **adjusted income**, as other income may need to be added to the information above.

Therefore, Jane estimates that her **adjusted income** will be £325,000 in the tax year. Due to the tapered **AA** for members with **adjusted income** over £260,000, Jane's **AA** is estimated as follows:

£60,000 – (£325,000 - £260,000) / 2 = **£27,500**

Jane's pension savings over the year are estimated to be £5,000 higher than her **AA**. However, she has £3,000 of **unused AA** from the previous three tax years (known as 'carry forward'*). She will be able to offset part of her pension savings in excess of the **AA** against this carry forward.

This leaves Jane with £2,000 of pension savings that would be subject to an **AA** tax charge in tax year 2023/24.

Note: If Jane's carry forward was £5,000 or more, she would not be subject to any **AA** tax charge for the tax year 2023/24.

If you have sufficient carry forward of **unused AA** from the last three tax years you will not have a tax charge and will not need to consider any of the options set out in the remainder of this section.

*Please contact your Scheme Administrator to confirm your pension contributions in previous tax years.

As Jane expects to exceed her **AA**, even after allowing for the carry forward of **unused AA** from previous tax years, she is left with three options:

1) Declare her pension savings in excess of her **AA** on her tax return following the end of the 2023/24 tax year and pay tax on this amount at her marginal rate
2) Pay the tax from her pension fund in the ERSP through the "Scheme Pays" option
3) Limit her pension contributions to the ERSP to £10,000 and receive the **Cash Allowance** from Eaton

Option 1 – Declare excess pension savings on tax return

Year ending 5 April 2024	£	Notes
Total pension contributions	£32,500	Calculated as (8% + 5%) x £250,000
AA	£27,500	Using tapered **AA** – **adjusted income** of £325,000
Pension contributions above the AA	£5,000	
Carry forward	£3,000	From three previous tax years
Pension savings over AA after carry forward	£2,000	Needs to be declared on annual tax return
Tax charge	**£900**	Assumes a 45% marginal rate

This option means Jane's pension fund will continue to grow and will not be reduced to pay the tax charge. However, the tax charge of £900 will be payable in respect of the 2023/24 tax year via her self-assessment tax return.

Option 2 – Scheme Pays

Instead of paying the £900 tax charge herself, Jane could pay the tax charge using her DC fund in the ERSP.

Despite this deduction from her DC fund, Jane would remain a member of the ERSP so would continue to contribute to her DC fund in the ERSP. However, she would not have to pay the £900 tax charge directly out of post-tax income.

Jane would still need to declare her £2,000 excess pension savings on her annual tax return, and would need to indicate that the tax charge was being paid via Scheme Pays.

Option 3 – Limit her pension contributions

Jane has a base salary over £200,000 so she is eligible to limit the pension contributions paid into the ERSP to £10,000 a year and receive a **Cash Allowance**.

Year ending 5 April 2024	£	Notes
Eaton pension contributions	£10,000	Calculated as 8% of Jane's base salary of £250,000 – capped at £10,000
Cash Allowance before tax or adjustment for the employer's NI contributions	£10,000	Calculated as 8% of Jane's base salary of £250,000 – less £10,000 Eaton pension contributions
Cash Allowance before tax but after adjustment for the employer's NI contributions	£8,787	Eaton would have to pay NI contributions of 13.8% on the **Cash Allowance**, so this is reduced so that the allowance plus 13.8% NI contributions equal £10,000
Member tax and NI payable	£4,130	Assumes tax is payable at a rate of 45%, and NI contributions are 2%
Net Cash Allowance paid	**£4,657**	Amount payable to Jane via payroll, which can be directed into one of the ERSP savings options
Net employee contribution paid as cash	**£6,625**	Jane's employee salary sacrifice contribution no longer paid into pension, £12,500 less tax and NI contributions.

This option means there is no **AA** tax charge and Jane no longer pays pension contributions of £12,500 to the ERSP. However, Eaton's pension contributions to the ERSP will remain limited (unless she notifies Eaton that she would like to go back to unrestricted pension contributions), and tax and NI contributions will be payable on the **Cash Allowance**. This will mean a lower pension fund at retirement from the ERSP than if Jane opts not to restrict the contributions paid.

3. The Annual Allowance – member examples

3.2. Defined Benefit members

This section gives examples of the different options available to a member of the Eaton UK Pension Plan, the MTL Instruments Group Pension Scheme or the Moeller Electric Group Pension Scheme (known as a "DB Plan") who has exceeded their **AA**. Please note that these examples are intended to provide illustrations of how the **AA** might apply in practice. However, they are not intended to cover all possible scenarios and you may wish to contact 80Twenty to discuss your situation in more detail.

Case study – Mike

Mike is a member of a DB Plan and has a basic salary for the 2023/24 tax year of £205,000, which is above the **threshold income** limit so Mike needs to work out his **adjusted income.** Mike currently pays contributions into the DB Plan at a rate of 5% each year and has an estimated pensionable salary for 2023/24 tax year of £245,000. Therefore, he expects to pay contributions of £12,250 for the 2023/24 tax year.

Mike estimates that his DB pension will increase by £3,500 over the year (after allowing for inflation), and therefore estimates that his pension savings over the year will amount to £56,000. This is calculated as the increase in his accrued pension over the year (after allowing for inflation) multiplied by 16.

Pulling all of this information on his salary and pension together, along with any other taxable income that he has, Mike does the following calculation to determine his estimated **adjusted income** for the 2023/24 tax year:

Basic salary	£192,750	*P60 amount, after salary sacrifice*
Pension savings	£56,000	*Calculated as the £56,000 total DB pension savings*
Estimated bonus for 2023/24	£35,000	*This is estimated based on Mike's 2022/23 bonus amount.*
Rental income	£7,250	*This information is unavailable to Eaton.*
Total	**£291,000**	***This is Mike's estimated adjusted income for 2023/24****

* Please refer to page 15 for a full definition of **adjusted income**, as other things may need to be added to the information above.

Therefore, Mike estimates his **adjusted income** will be £291,000 in the tax year.

Due to the tapered **AA** for members with **adjusted income** over £260,000, Mike's **AA** is estimated as follows:

£60,000 – (£291,000 - £260,000) / 2 = **£44,500**

Mike's pension savings over the year are estimated to be £11,500 higher than his estimated **AA**. However, he has £10,000 of **unused AA** from the previous three tax years (known as 'carry forward'*). He will be able to offset part of his pension savings in excess of the **AA** against this carry forward.

This would leave Mike with £1,500 of pension savings that would be subject to an **AA** tax charge for the tax year 2023/24.

Note: If Mike's carry forward was £11,500 or more, he would not be subject to any **AA** tax charge in tax year 2023/24.

If you have sufficient carry forward of **unused AA** from the last three tax years you will not have a tax charge and will not need to consider any of the options set out in the remainder of this section.

*Please contact your Scheme Administrator to confirm your pension contributions in previous years.

As Mike expects to exceed his **AA**, even after allowing for the carry forward of **unused AA** from previous tax years, he is left with three options:

1) Declare his remaining pension savings in excess of his **AA** on his tax return following the end of the 2023/24 tax year and pay tax on this amount at his marginal rate
2) Pay the tax from his pension savings in the DB Plan through the "Scheme Pays" option, if available
3) Opt out of the DB Plan, join the ERSP and receive a **Cash Allowance**

Option 1 – Declare excess pension savings on tax return

Year ending 5 April 2024	£	Notes
Total Pension Savings	£56,000	Calculated as £3,500 x 16
AA	£44,500	Using tapered **AA** – **adjusted income** of £291,000
Pension Savings above the AA	£11,500	
Carry forward	£10,000	From three previous tax years
Pension savings over AA after carry forward	£1,500	Needs to be declared on annual tax return
Tax charge	**£675**	Assumes a 45% marginal rate

This option means Mike's pension benefits will continue to build up and will not be reduced to pay the tax charge. However, the tax charge of £675 will be payable in respect of the 2023/24 tax year via his self-assessment tax return.

Option 2 - Scheme Pays

Instead of paying the £675 tax charge himself, Mike may be able to give up some of his pension savings to pay some or all of the **AA** tax charge through his DB Plan via 'Scheme Pays'. There are a number of conditions that need to be met to be eligible to use Scheme Pays, so Mike would need to contact his Scheme Administrator to see if this option is available to him in his circumstances if he is interested in paying the **AA** tax charge via the DB Plan.

If Mike is eligible to use Scheme Pays, he would continue to be a member of his DB Plan. He would not have to pay the tax charge directly out of post-tax income, but his benefits would be reduced to reflect the fact that the DB Plan has paid the tax on his behalf. He would still need to declare his excess pension savings on his annual tax return, and would need to indicate that the tax charge was being paid via Scheme Pays.

Option 3 - Opt out and join the ERSP

Mike can opt out of the DB Plan and join the ERSP instead. This will give him the same options as the ERSP example member, Jane, shown on pages 7-9. In particular, he would be entitled to 8% of basic salary from Eaton, i.e. the same as a new member of the ERSP.

This option means there is no **AA** tax charge. However, opting out of the DB Plan will mean no further accrual of pension savings in his DB Plan and he would not be able to opt back into the DB Plan in future. This will mean a lower pension at retirement from his DB Plan than if Mike stayed in the DB Plan.

Mike should carefully consider the short-term and long-term advantages and disadvantages of opting out of the DB Plan to receive the Cash Allowance before making this decision.

4. Removal of the Lifetime Allowance (LTA)

What was the **LTA**?

The **LTA** was the maximum total value of pension benefits you could build up over your life without incurring an additional tax charge.

The Government has announced the intention to remove the Lifetime Allowance for pensions from 6 April 2024 and has confirmed there will be no Lifetime Allowance tax charge during the 2023/24 tax year. Please note legislation to remove the Lifetime Allowance is not yet finalised.

The **LTA** for tax year 2023/24 is £1,073,100. However, no Lifetime Allowance charge will apply to benefits taken after 6 April 2023.

As a result of the changes to the LTA, the maximum amount which can be taken as a pension commencement lump sum (PCLS) will be frozen at £268,275 (25% of the LTA for the 2023/24 tax year of £1,073,100). Members with a protected right to a higher PCLS will continue to be able to access this right.

5. Next steps

If you expect to exceed your **AA** and would like to pursue any of the options set out above please follow the process set out in the diagram below.

If you have any questions or are interested in discussing any of the options included in this guide further, please contact 80Twenty on:

eaton@80twentygroup.co.uk or 0800 542 8020

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In order to evaluate your options, we strongly recommend that you get impartial financial advice. 80Twenty are able to provide this advice for a fee or other advisers are available. For more details on how to find an adviser, visit www.unbiased.co.uk

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If you think you are impacted by the AA and would like to receive the **Cash Allowance**, then you can submit the application form (see page 16 onwards) to 80Twenty.

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80Twenty will review your application and provided they are satisfied of your eligibility will pass on your application to the Compensation & Benefits Manager.

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The Compensation & Benefits Manager will send you a Confirmation Letter setting out the new arrangement.

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Any changes will be processed by payroll and the pension scheme administrators in the payroll month following your application's approval:

- any Cash Allowance or ERSP investment options will be reflected in your payslip
- any Scheme Pays deductions will be made by your Scheme Administrators

Please note that you may require information from your Scheme Administrator in order to determine whether or not you expect an **AA** tax charge or whether you are eligible for the **Cash Allowance**. 80Twenty will be able to advise you of the questions you need to ask your Scheme Administrator and provide relevant contact details.

Important Note: This guide is based on information released to date and may be subject to change. This information is not and should not be taken as financial advice. If you are unsure please seek impartial financial advice. 80Twenty may be able to provide you with advice or you can find a list of FCA approved advisers at www.unbiased.co.uk.

6. Annual Allowance – Q&A

How do I find out what my pension savings over the year will be?

It can be difficult to estimate what your pension savings over the year will be, particularly for DB members. You can use your previous annual benefit statement (or request a pension savings statements after the end of the tax year) to give you an indication of how much you have saved in previous years, or you may be able to calculate an estimate based on any expected salary increases and the rate at which you are currently building up benefits. Please contact your Scheme Administrator if you need help with this.

What if I don't know how much I will earn in the 2023/24 tax year?

While it may be difficult for you to anticipate your income (particularly if you are expecting a bonus towards the end of the tax year), you may need to make an estimate in order to understand how much you may be able continue to save tax efficiently. You may want to use your previous year's P60 as a starting point.

I'm already drawing benefits from a DC pension scheme so what about the Money Purchase AA (MPAA)?

Since 6 April 2015, an **MPAA** applies if you are already drawing benefits flexibly (e.g. you have taken taxable income from a "flexi-access drawdown" arrangement or taxable cash withdrawals) from any DC scheme. The **MPAA** for 2023/24 tax year is £10,000. If the MPAA applies, it is not possible to carry forward **unused AA** from previous tax years.

What happens if I exceed the AA?

If you exceed the **AA** and you have insufficient **unused AA** available, then the excess will be subject to a tax charge at your marginal rate. You may be able to pay this tax charge through your pension plan – ask your Scheme Administrator for further details.

Should I consider alternative saving vehicles?

It depends on your personal circumstances and we are unable to provide individual financial advice. If in future you wish to save more than your **AA**, you may wish to consider other savings vehicles in addition to pension. Please seek impartial financial advice if you are unsure.

7. Glossary

Adjusted income	**Adjusted income** includes: • All UK taxable earnings from employment e.g. including salary, bonus, benefits in kind, P11D benefits, the taxable element of a redundancy payment, etc. • All UK taxable income from other sources e.g. rental income, investment income • Plus all contributions to any DC pension arrangements and the **AA** benefit value of your DB pension accrual.
Annual Allowance (AA)	The **AA** is the maximum value of pension savings you can build up over a year without incurring a tax charge. Since 6 April 2023 the standard **AA** for tax relief on pension savings in a registered pension scheme is £60,000 (although transitional arrangements applied in 2015/16 when the tapering of the **AA** was announced). This includes contributions made by anyone else into your pension such as your employer. The rules allow you to carry forward any **unused AA** from the 3 previous tax years to offset any excess. Since 6 April 2023, the **AA** will taper to a minimum of £10,000 if you are a high earner. For further information on the **AA** rules please visit https://www.gov.uk/tax-on-your-private-pension/annual-allowance
Cash Allowance	If you limit your pension contributions due to the **AA** limit, this is the amount Eaton will pay to 'top-up' the amount payable to you above the £10,000 ERSP pension contribution. For DC members, the **Cash Allowance** amount will be based on the maximum employer contribution available under your existing DC pension arrangement. For DB members, the **Cash Allowance** amount will be based on the maximum employer contributions available for a new ERSP member, i.e. currently 8% of basic pay. The **Cash Allowance** will be reduced to allow for the additional NI contributions payable by Eaton on this amount, and you will need to pay income tax and NI in addition. Eaton would like to encourage employees to use the **Cash Allowance** to pursue alternative savings options. The ERSP offers three alternative investment options: • Stocks & Shares ISA; • Cash ISA; • General Investment Account.
Lifetime Allowance (LTA)	The **LTA** was the maximum value of total pension benefits you could previously build up over your life without incurring an additional tax charge. For further information on the **LTA** rules please visit https://www.gov.uk/tax-on-your-private-pension/lifetime-allowance
Money Purchase Annual Allowance (MPAA)	Since 6 April 2015, the **MPAA** will apply once benefits have been taken flexibly from a defined contribution pension arrangement (e.g. "flexi-access drawdown" or cash withdrawals). The **MPAA** for 2023/24 is £10,000. Once the MPAA applies, it is not possible to carry forward **unused AA** from previous tax years.
Threshold income	Individuals with **threshold income** of no more than £200,000 in total will not have a reduction in the **AA** irrespective of their **adjusted income**. **Threshold income** includes: • All UK taxable earnings from employment – so including P11D benefits – net of employee pension contributions other than those paid by salary sacrifice; plus • All UK taxable income from other sources, such as rental income
Unused AA	The **AA** available in the current year must be used before any carry forward from the previous years. Therefore in the 2023/24 tax year, your entire **AA** must be 'used up' before you are able to apply any unused **AA** from the three previous tax years.

Appendix

CASH ALLOWANCE IN LIEU OF PENSION CONTRIBUTIONS ELECTION FORM

This form is to be used if you want to formally request a Cash Allowance in Lieu of Pension Contributions. You are potentially eligible for this cash allowance if you are impacted by the limits on pension savings imposed by the Annual Allowance.

Please note, should you decide at a later date to re-commence pension contributions, these will only be available at the prevailing rate available to new employees, and not on any legacy contribution structure that you may currently be entitled to.

You should ensure that you have read the Annual Allowance guide we have provided. In addition, it is strongly recommended that you seek impartial financial advice before making any decision.

Eaton would like to encourage employees to use the cash allowance to pursue alternative savings options. The ERSP offers three alternative investment options which you may want to consider:

- Stocks & Shares ISA;
- Cash ISA;
- General Investment Account.

If you would like to take advantage of any of these three products please contact 80Twenty for more information.

PERSONAL DETAILS

Name:		**E-Number:**	
NI Number:		**Work Location:**	
Contact Number:		**E-mail Address:**	

CASH ALLOWANCE REQUIRED DUE TO THE ANNUAL ALLOWANCE

Eligibility for this allowance is that you have a basic salary of £200,000 pa. If you have a basic salary of less than £200,000, then you can still apply for this allowance, but you must provide evidence of your income from all sources that shows your contributions will exceed your Annual Allowance.

Equally, if you do have a basic salary of over £200,000, you will not necessarily require this allowance, it is simply the threshold we have decided to set for eligibility. You should refer to the Annual Allowance guide provided and take impartial financial advice to satisfy yourself that you do require the cash allowance.

☐ I am eligible for this allowance as my basic salary with Eaton exceeds £200,000 pa. I have satisfied myself that due to my overall level of income, my pension contributions will exceed my available Annual Allowance. As such I would like to cease my employee contributions and have my employer contributions reduced to a maximum of £10,000 per annum. Any employer contributions that would be due over £10,000 will then be paid as a taxable cash allowance

Or

☐ Whilst my basic salary is not in excess of £200,000 pa, I require this allowance as my overall level of income from all sources means that my pension contributions would exceed my Annual Allowance*. As such I would like to cease my employee contributions and have my employer contributions reduced to a maximum of £10,000 per annum. Any employer contributions that would be due over £10,000 will then be paid as a taxable cash allowance

Please provide evidence of additional income in the form of payslips, P60's, Self-Assessment returns etc.

EMPLOYEE DECLARATION

I confirm I accept the changes to my pension arrangements as outlined and understand the need to take suitable impartial financial advice before opting for a cash allowance in lieu of pension contributions.

I understand that the cash allowance will be subject to Income Tax and National Insurance, including a reduction to cover the increased employer National Insurance contributions that will be incurred by Eaton.

Signed ____

Date ____

This form and any supporting evidence should be provided to 80Twenty using the following details:

80Twenty Consultancy Limited
The Coach House
Lockington Hall
Lockington
DE74 2RH
eaton@80twentygroup.co.uk

Any supporting evidence submitted will be returned to the employee by 80Twenty upon completion of the eligibility assessment.

FOR 80TWENTY PURPOSES

Name of adviser:

Cash Allowance requested:

Basis of eligibility:

Brief details of evidence of eligibility provided:

Signed ______________________________

Date ______________________________

If eligible, a soft and hard copy of the completed form should be forwarded by 80Twenty to:

Isla West
Compensation & Benefits Manager
Onyx
215 Bothwell Street
Glasgow
G2 7EZ
islawest@eaton.com

Eaton will then issue a letter of confirmation to the employee and make the required changes in the next available pay run. Should the employee not pass the eligibility assessment 80Twenty should notify the employee directly.