

## CONFIDENTIAL

### Severance payment to UK employed lifeboat crew – can it be paid into the RNLI Group Personal Pension Plan?

#### Background

Employed lifeboat crew ('employed crew') who joined the RNLI before 1 January 2007 are entitled to a severance payment if they leave the RNLI between the ages of 55 and 60. This was arranged when the retirement age was lowered and fixed at age 55. The payment was to compensate for loss of earnings.

The severance payment is **not** a redundancy payment and is therefore subject to tax and national insurance deductions when paid as a lump sum. Based on average salaries and tax thresholds, it is likely that the majority of a severance payment taken at age 55 will be subject to higher rate tax deductions (40%) although the tax thresholds are reviewed each April.

Employed crew can now work beyond 55. If employed crew continue in their role beyond age 55 will receive a 1/60 reduction to their severance payment for each month that they work beyond 55 as they continue to get salary and pension contributions. If employed crew work beyond age 60, there will be no severance payment.

### Can severance pay be paid into the RNLI Group Personal Pension Plan ('the Pension Plan') either by the RNLI or by the individual?

Some, or all, of the severance payment **can** be paid into the Pension Plan. While there is a Salary Exchange element to the Pension Plan, salary exchange members can elect to exchange some or all of their severance payment in return for the RNLI providing an additional employer pension contribution of the same value. If you decide to exchange part of your severance payment, (say £30,000 for the purpose of this illustration), you will not receive the £30,000 so it would not be assessed for tax or National Insurance deductions. However, the RNLI would pay £30,000 to your Pension Plan.

The RNLI cannot give employees pensions advice, tax advice or advice on what % of your severance pay you could pay into your pension.

We want to draw your attention to several matters in this document because there are some HMRC rules which you need to be aware of. This is a complex area and the RNLI strongly recommends that you seek advice from a Financial Adviser – not least because tax and pension rules often change and an adviser ought to assess your full situation and explain the pro's and con's of making an additional payment to your pension.

If you do not already have a Financial Adviser, the Financial Conduct Authority (FCA) website has information about finding a financial adviser at:

[www.fca.org.uk/consumers/finding-adviser](http://www.fca.org.uk/consumers/finding-adviser)

#### Points to be aware of:

If you take (or plan to take) any **tax-free cash** from your RNLI 1983 Contributory Pension Scheme pension, HMRC place restrictions on how much you can increase your contributions to any pension scheme, for two years prior to the tax year that you draw the pension, in the tax year that you draw your pension and in the two tax years after you draw your pension. This is known as '**recycling tax free cash**'.

<https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm133810>

<https://www.pensionwise.gov.uk/en/pension-recycling>

The **Annual Allowance (AA)** is set by HMRC. It applies to all contributions, from you or any employer, paid into all pension arrangements in any given tax year. The tax year runs from 6<sup>th</sup> April to 5<sup>th</sup> April each year.

**To check how much the RNLI has paid across to your Pension Plan**, in each tax year, check your March payslip (the last payslip in the tax year). Just above the 'net pay' box in the right-hand corner, it confirms the amount of pension paid to the pension provider in the year to date.

If you are not drawing your old/RNLI 1983 pension yet, the value of your annual pension you are entitled to from the Scheme increases when you get a pay increase. **This increase in your pension benefits also uses up part of your Annual Allowance** – as well as contributions paid to the Pension Plan administered by Aviva. There is an HMRC calculation that you or your Financial Adviser need to use to calculate the value of your Defined Benefit pension savings. To find out the value of your benefits at the start and end of each tax year, contact [Pensions@rnli.org.uk](mailto:Pensions@rnli.org.uk).

The calculation is then as follows:

- The value of your pension at the start of the tax year x 16 = A
- A x percentage increase in Consumer Price Index (CPI) applicable at September prior to start of the tax year = B
- The value of your pension at end of the tax year x 16 = C
- C – B + Pension Saving in tax year

Benefits in excess of the AA can be accrued although any excess over the AA could be subject to a tax charge. This can be offset by using any unused Allowance from the previous 3 tax years, however if the benefits accrued are still in excess of this amount you may need to pay a tax charge at a rate equivalent to your highest rate of income tax. **It is your responsibility to declare this excess via HMRCs self-assessment process and pay the charge due.**

<http://www.hmrc.gov.uk/tools/pension-allowance/>

<https://www.pensionsadvisoryservice.org.uk/about-pensions/saving-into-a-pension/pensions-and-tax/the-annual-allowance>

## How to work out your likely severance payment

1. If you will be leaving the RNLI at 55:

Your basic salary x 2.

2. If you aim to leave the RNLI between 55 and 60, work out how many months beyond your 55<sup>th</sup> birthday you will be leaving the RNLI:

There are 60 months between your 55<sup>th</sup> and 60<sup>th</sup> birthdays. If you are working for 24 months beyond your 55<sup>th</sup> birthday, you will receive  $60 - 24 = 36 / 60$  severance.

For example, if your salary is £36,000, you joined the RNLI between 1987 and 2006 and you are leaving the RNLI in the month of your 57<sup>th</sup> birthday (24 months after you were 55):

£36,000 x 2 years = £72,000.

£72,000 divided by 60 months = £1200.00 a month.

As you are leaving on your 57<sup>th</sup> birthday, you have worked 24 months.

60 months – 24 months worked = 36 months.

£1200 x 36 months = £43,200 subject to tax and NI deductions.

## Alternative to exchanging your severance payment for an additional pension contribution

If you leave before 60 and are entitled to a severance payment and you do not ask the RNLI to pay it directly into your pension plan, please note that the payment cannot be paid over 2 tax years. You will receive the net payment on the 28<sup>th</sup> of the month that you leave the RNLI and tax and National Insurance will have already been deducted.

If you decide to receive the severance payment after tax and NI deductions, you can still make a lump sum payment into your pension plan if you wish. Aviva apply basic rate tax relief to your pension pot and then claim it back from HMRC. If you are a higher rate taxpayer in the year that you receive your severance payment, you can reclaim any higher rate tax back from HMRC by completion of a self-assessment tax return.

## What you need to do, if you want to exchange some or all of your severance pay into your RNLI Group Personal Pension Plan:

1. Decide exactly how much of your severance pay you want the RNLI to pay directly into your Pension Plan.
2. Email your line manager and 'cc' People\_Admin@rnli.org.uk to confirm your **exact leaving date** – at least **4 months in advance** if you wish to draw your RNLI 1983 pension the day after you leave and/or if you wish to exchange some/all of your severance payment for an additional pension contribution.
3. In the email, **confirm:**
  - **if you wish to draw your RNLI 1983 pension the day after you leave the RNLI** or if you do not intend to draw your RNLI 1983 pension immediately (you wish to delay drawing it).
  - **confirm the exact amount of your severance pay that you want to exchange in return for an additional pension contribution.**
4. People Admin will send you a document to sign if you want to exchange some or all of your severance pay. You need to return this to People Admin at least 1 month before you leave the RNLI.
5. Once you have signed this document, you cannot reverse this decision.