October 2024

ARE YOU EXCEEDING THE ANNUAL ALLOWANCE?

It's your responsibility to check and to take any action.

This leaflet gives you more information on an important area of pensions saving - the "Annual Allowance".

In our role as Trustee of the Essar Oil (UK) Pension Scheme ('the Scheme'), we're only able to provide you with the information relating to the Scheme and not any other pension benefits that you might have. We want to make sure members are aware of this important issue. Please note we aren't aware of any separate communication issued by the Company on this matter.

The Trustee is not able to provide you with financial or tax advice, but we do want to make sure you have the information you need to find out if you might have exceeded the Annual Allowance, and know what to do next.

If your pension arrangements are complex, you might want to talk to a financial adviser.

Please note that the figures and information in this leaflet relate to the 2023/2024 tax year.

ESSAR OIL (UK)
PENSION SCHEME

Pension schemes provide a tax-efficient way of building up money to use later in life, as you don't pay income tax on the amount paid in and you can currently take some of your pension as tax-free cash when you retire. The Government sets a limit on the amount you can build up in pension arrangements each year, while still benefiting from tax relief – this is called the Annual Allowance.

Any increase in the value of benefits built up in defined benefit final salary pension schemes (like the Scheme), and contributions paid into defined contribution pension schemes (like the Essar Oil Group Personal Pension Plan) would count towards your Annual Allowance.

While the Annual Allowance is set high enough not to affect most people, the level of contributions paid towards the Essar Oil Group Personal Pension Plan ('the EGPPP') along with the increases applied to the pensions of employed deferred members of the Scheme, could take you close to or over this limit.

If you exceed the Annual Allowance, you'll be responsible for paying extra tax. However, you have options if you want to reduce any future tax bill that may result from exceeding the Annual Allowance.

This leaflet explains how you could be affected, given you have benefits in both the Scheme and the EGPPP, and outlines some possible options if you are likely to exceed the Annual Allowance. We've included some examples towards the end of this leaflet to help to show how this might impact you. We've also included an update on the removal of the Lifetime Allowance and how the new allowances might affect you.

It is your responsibility to check whether you have exceeded the Annual Allowance and to pay any tax due as a result.

What's the Annual Allowance?

The Government sets limits on the pension contributions and benefits you can build up tax-free in the UK, and one of these limits is called the Annual Allowance.

This is a cap on the amount of tax-efficient pension benefits which you can build up each tax year in all your Registered Pension Schemes. The Government also decides how to calculate the value of the benefits you've built up in any tax year.

For defined contribution schemes like the EGPPP, the amount is the TOTAL amount contributed, by you and an employer, in the relevant tax year. For defined benefit arrangements like the Scheme, the calculation is more complex, reflecting the increase in value in your Scheme pension over the relevant tax year rather than the contributions paid in. We've given examples of how these calculations have been made on page 5.

How much is the Annual Allowance?

The standard Annual Allowance for the 2023/2024 tax year is £60,000. However, if your annual income is less than £60,000, you'll only be entitled to tax relief up to the amount you earn.

Changes to the Annual Allowance from the 2023/2024 Tax Year

Increases have been made to the Annual Allowance, the Tapered Annual Allowance and the point at which the Tapered Annual Allowance would be applied.

These changes took effect from 6 April 2023 so will apply when working out whether you have breached the Annual Allowance in the 2023/2024 tax year. You may also wish to consider these allowances when thinking about your pension (in particular in relation to your membership of the Essar EGPPP or any other arrangements you are contributing to, this tax year). Specifically:

- The Annual Allowance increased from £40,000 to £60,000;
- The adjusted income limit (annual income plus certain other amounts you can receive before your Annual Allowance is tapered) has increased to £260,000;
- The minimum Tapered Annual Allowance has increased from £4,000 to £10,000.

The ‘threshold income’ and ‘adjusted income’ limits which are used to work out whether you will be subject to a Tapered Annual Allowance are complicated and, if you are a higher earner with earnings in excess of £200,000, you may wish to speak to a financial adviser.

If you’ve started taking a pension or drawing an income from another pension arrangement, then your Annual Allowance may also be reduced.

To check the Annual Allowance for the current or previous tax years, or work out your ‘Tapered Annual Allowance’, go to www.gov.uk/government/publications/rates-and-allowances-pension-schemes/pension-schemes-rates

How do my Essar Oil (UK) Pension Scheme benefits count towards my Annual Allowance?

Your Scheme benefit will only contribute towards your Annual Allowance while you’re an employed deferred member. The value of any annual increase in your benefits is always likely to count towards your Annual Allowance.

As an employed deferred member of the Scheme, you were still earning Scheme benefits until 31 December 2021.

Since 31 December 2021, the Scheme pension you have built up will increase until your retirement by the greater of:

- increases in your salary; and
- increases in the Retail Prices Index (RPI), capped at either 5% or 7% per annum

Any increase over and above the statutory minimum increase to deferred pensions (which is the increase in the Consumer Price Index (CPI) to the September preceding the relevant tax year) will count towards your Annual Allowance. This means that if either your salary increase, or the increases in RPI if higher, are more than the CPI from September of the previous year, this increase to your Scheme benefits will count towards your Annual Allowance. For the 2023/24 tax year, the CPI rate used in the test is the September 2022 CPI increase of 10.1%.

Few members had a 2024 salary increase exceeding this rate and so for most members the 2023/24 Annual Allowance impact from their Scheme benefits is nil.

If you become a deferred member of the Scheme, any inflationary increase to your benefits (reflecting increases in the RPI since you became a deferred member) will be calculated when you are ready to start taking your pension and will not count towards your Annual Allowance.

How do I work out if I have exceeded the Annual Allowance?

If the increase to your benefits in this Scheme alone in the 2023/24 tax year has caused you to exceed the Annual Allowance in the 2023/24 tax year, this will be shown on the summary, included with this leaflet. The summary gives details of the figures you need to know in relation to your membership of the Scheme.

The Trustee has asked the Scheme Administrator to give employed deferred members this information on an annual basis. There is no legal requirement for the Trustee to do this, but we want to make sure you understand this issue as clearly as possible.

However, please be aware that it is your responsibility to compare the total of increases to all your pensions with the Annual Allowance. This means you will need to add up:

- The value of the increase to your Scheme benefits in the 2023/2024 tax year
- The value of ALL (employee and employer) contributions paid to the EGPPP in the same tax year
- Contributions paid into any other pension arrangement on your behalf in the same tax year

to see if you have exceeded the Annual Allowance. The Administrators of the schemes you belong to (including the EGPPP), should be able to provide you with details of the contributions paid into their schemes.

What happens if I exceed the Annual Allowance?

You can go over the Annual Allowance. There's no automatic restriction on your retirement savings, and there's no need to opt out of the Scheme and become a deferred member, losing the enhanced benefits provided to employed deferred members.

The amount over and above the Annual Allowance will be added to your taxable income for the tax year and will be subject to Income Tax at the rate(s) that apply to you.

If you have exceeded the Annual Allowance, the first thing you should do is check whether you have any unused Annual Allowance from the previous three tax years. We've included a statement with this leaflet that contains the information you will need to help you do this, as it contains details of the benefits built up and any allowance used over the last three years from this Scheme. Please note the statement does not include any additional voluntary contributions you may have paid before the Scheme closed on 31 December 2021. If you haven't used your full Annual Allowance in these previous three tax years, you can carry forward any unused allowance to the current tax year and increase the amount of pension you can build up before you need to pay tax. Please note that this information relates to your Scheme benefits only – your unused Annual Allowance will be lower if you were saving to any other pension arrangements during the previous three tax years.

If you have made use of any unused allowance and have still exceeded the Annual Allowance, then **you will need to pay the additional tax through your tax return**. You can make the disclosures on the appropriate self-assessment tax return. You have until 31 January 2025 to submit a tax return for the 2023/2024 tax year.

Enhancements to benefits for employed deferred members:

As an employed deferred member, the pension you have built up will continue to increase each year in line with increases in your salary (as it did before the Scheme closed) or by the capped increase in RPI applied to the pensions of deferred members, if higher. You will also remain eligible for death-in-service and discretionary ill-health benefits through the Scheme, which are typically more generous than those offered to deferred members who are no longer employed by the Company or who have opted out of the Scheme.

We've given some examples of how the Annual Allowance is calculated on the following pages. We hope this will help you understand how benefits are brought together so that you can assess your situation against the Annual Allowance.

If you think you might be at risk of exceeding the Annual Allowance in future tax years you might wish to consider reducing your contributions to the EGPPP and/or taking pension contributions as cash. Although the EGPPP is separate to the Scheme, and not something the Trustee has any involvement with, we have been informed that members of that scheme have been able to receive a cash payment instead of pension contributions. If you are likely to breach the Annual Allowance and would be interested in this option, please get in touch with your Company contact for further information. Any cash payment would be subject to tax in the same way as your other employment earnings.

If you think you have exceeded the Annual Allowance, we strongly recommend that you seek financial advice to discuss the best course of action for you.

Scheme members who have exceeded the Annual Allowance for 2023/2024 tax year based on their Scheme benefits only have already received a statement and therefore will not be issued with another statement with this leaflet.

Scenario 1: Here is an example in respect of the 2023/2024 tax year. This example results in no Annual Allowance breach or tax charge being payable.

For the 2023/2024 tax year, the statutory increase to benefits that you will need to compare the increase in your overall benefits to was 10.1%. This is the increase in CPI in the year to September 2022. This is set in legislation and is the figure used for the 2023/2024 tax year calculations.

Let's assume the following about **Tom who is an employed deferred member of the Scheme**:

- At 6 April 2023, Tom had accrued a pension of £10,000 p.a., with a pensionable salary of £50,000.
- At 5 April 2024, Tom's pensionable salary had increased to £54,000 and his pension had increased to £10,800 p.a. due to his increase in salary.
- Between Tom and his employer, he has also contributed £25,000 into the EGPPP in the period between 6 April 2023 and 5 April 2024.

The next stage of the calculation is to compare the value of Tom's increase in Scheme benefits over the year with what his pension would have been if it had increased with CPI (the statutory allowance):

Step 1: Increase in value of Scheme benefits allowing for statutory CPI increase

For Tom's scenario this is as follows:

£10,000 x 1.101 (CPI in the year to September 2022) = £11,010.

Step 2: Increase in value of Scheme benefits above CPI allowance:

The statutory calculations used to determine the actual increase in Scheme benefits uses a factor of 16.

For Tom's scenario this is as follows:

Increase in value of Scheme benefits above CPI, the value is
16 x (£10,800 - £11,010) = £-3,360.

Please note that when the value is 0, or a negative number like in the example above, this amount can't be used to offset other years.

Step 3: Assess and account for any other savings:

The increase in value of Tom's Scheme benefits is less than the £60,000 Annual Allowance. However, Tom needs to add the value of the contributions paid (both employee and employer) to this.

For Tom's scenario, he had contributed £25,000. The only impact on Tom's Annual Allowance came from his DC contributions. The impact on his Annual Allowance from his DB benefits is £0 as his salary increase was less than the inflation allowance of 10.1%. This means that the total contributed is £25,000.

Tom is not contributing to any other pension scheme, so Tom's total amount of pension for assessment against the Annual Allowance is £25,000 and no tax charge is payable.

This gives Tom £60,000 - £25,000 = £35,000 to carry forward to the next tax years to offset amounts above the Annual Allowance in future years.

Scenario 2: Here is an example where there has been a breach of the Annual Allowance for the 2023/2024 tax year.

Let's assume the following about **Sarah who is an employed deferred member of the Scheme**:

- Sarah had a higher salary and Scheme pension accrued at 6 April 2023 than Tom, with a pension of £17,000 p.a. and a salary of £85,000.
- At 5 April 2024, Sarah's pensionable salary had increased to £97,750 and her pension had increased to £19,550 p.a. due to her increase in salary.
- Contributions to Sarah's EGPPP Scheme totalled £47,500 in the period between 6 April 2023 and 5 April 2024.

Step 1: Increase in value of Scheme benefits allowing for statutory CPI increase

For Sarah's scenario this is as follows:
£17,000 x 1.101 (CPI in the year to September 2022) = £18,717 p.a.

Step 2: Increase in value of Scheme benefits above CPI allowance:

For Sarah's scenario this is as follows:
Increase in value of Scheme benefits above CPI, the value is
16 x (£19,550 - £18,717) = £13,328

Helping you calculate the numbers

We've included a summary on the back of the enclosed letter, which gives details of the relevant Scheme benefits for the current tax year and the three years preceding it. Please note we have only included the benefits accrued from the Essar Oil (UK) Pension Scheme in the figures in this statement. You will need to personally adjust these figures to take into account any other pension arrangements you have.

Step 3: Assess and account for any other savings:

The increase in value of Sarah's Scheme benefits is less than the £60,000 Annual Allowance. However, Sarah needs to add the value of the contributions paid (both employee and employer) to the EGPPP to this.

For Sarah's scenario, she had contributed £47,500. So, the total used is £13,328 + £47,500 = £60,828

Step 4: Calculating the tax charge payable:

The tax charge due would be based on the amount above the Annual Allowance. For Sarah's scenario this is £828 and she will be taxed at her marginal rate of tax. Based on Sarah's salary, she would be a higher income tax-payer so the tax charge due would be £828 at 40% marginal rate = £331. There is no tax charge due if Sarah has enough unused Annual Allowance to carry forward from the previous three tax years.

This is greater than the Annual Allowance limit of £60,000. If Sarah has at least £828 of unused carry-forward from the previous three tax years, she can use this to offset the Annual Allowance breach and there would be no tax charge payable. However, if Sarah has less than £828 of unused carry-forward from the previous three tax years, she will have to pay tax on the excess.

Scenario 3:

Here is an example where there has been a breach of the Annual Allowance for the 2024/2025 tax year (based on illustrative amounts to 5 April 2025).

Let's continue with Sarah and set some assumptions for 2024/2025 tax year:

- We saw from the previous scenario that Sarah's scheme pension at 5 April 2024 was £19,550 p.a.
- As at 5 April 2025 Sarah's Pensionable Salary had increased by 7% from £97,750 to £104,600
- Sarah's Scheme pension at 5 April 2025 (allowing for the higher Pensionable Salary) is therefore £20,920 p.a.
- Contributions into Sarah's EGPPP Scheme totalled £49,000 in the period between 6 April 2024 and 5 April 2025.

Step 1: Increase in value of Scheme benefits allowing for statutory CPI increase

The statutory permitted CPI increase (based on the September 2023 figure) is 6.7%.

For Sarah's scenario this is as follows:
£19,550 x 1.067 (CPI in the year to September 2023) = £20,860.

Step 2: Increase in value of Scheme benefits above CPI allowance:

For Sarah's scenario this is as follows:

Increase in value of Scheme benefits above CPI, the value is 16 x (£20,920 - £20,860) = £962

Changes to the Annual Allowance for 2024/25

There weren't any changes to the Annual Allowance for this tax year, so the figures remain:

- Annual Allowance - £60,000
- Tapered Annual Allowance - £10,000

These could change from 2025/26 onwards.

Step 3: Assess and account for any other savings:

The increase in value of Sarah's Scheme benefits is less than the £60,000 Annual Allowance. However, Sarah needs to add the value of the contributions paid to the EGPPP to this.

Sarah's total (employee and company) contributions to the EGPPP have been £49,000.

So, the total used is £962 + £49,000 = £49,962

Sarah is not breaching the Annual Allowance for the 2024/25 tax year, which means she can carry the remaining Annual Allowance of £10,038 forward and use it to offset any Annual Allowance breaches in future tax years.

If Sarah had breached the Annual Allowance, she would have been able to use any carry forward amounts from the previous three tax years to offset the amount over the Allowance.

New allowances

On 6 April 2024, the Government abolished the lifetime allowance (LTA), which was a limit on the total amount of pension savings you could build up over your entire working lifetime. Two new allowances were introduced: the lump sum allowance (LSA) and the lump sum death benefit allowance (LSDBA). They act in much the same way as the previous LTA:

Lump Sum Allowance (LSA)

The LSA places a limit on the amount of pension savings you can take as a tax-free lump sum. This is usually 25% of your total pension savings or £268,275, whichever is lower. This limit is applied in total across all your pension savings and not just those in the Scheme.

Lump Sum Death Benefit Allowance (LSDBA)

The LSDBA acts in much the same way as the LSA, but also includes the amount of lump sum death benefits and serious ill health lump sums, as well as any lump sums that can be free of income tax. Any benefits payable on your death will be tested against your remaining allowance, which is based on the overall LSDBA, minus any lump sums that have already been paid from your benefits. Any amount above the LSDBA will be taxed at the marginal rate of income tax of whoever receives the benefits. For the 2024/25 tax year, the LSDBA is £1,073,100.

You may have a higher Lifetime Allowance because you have applied to HMRC for protections (for example fixed protection or individual protection). If you have applied to HMRC for one of these protections, you must be careful to comply with HMRC's requirements, otherwise you will lose this protection and may be subject to a lower LSA or LSDBA. If you apply for Fixed Protection 2016 on or after 15 March 2023, you may also be entitled to a higher level of tax-free cash. Your accountant or financial adviser can tell you more about this.

What if I have any more questions about my Annual Allowance?

If you have any questions about your Annual Allowance or your pension in the Essar Oil (UK) Pension Scheme, please contact the Scheme Administrator:

Essar Oil (UK) Pension Scheme
Administration, PO Box 27170,
Glasgow G2 9NF

0121 212 8102

essaroil@hymans.co.uk

Useful links:

MoneyHelper:

www.moneyhelper.org.uk set up by the Government, has some simple explanations and calculations explaining both the annual allowance, the tapered annual allowance and the lifetime allowance, with links to gov.uk

Gov.uk:

www.gov.uk/tax-on-your-private-pension confirms full details of the pension tax allowances by and has calculators to help you check if you will have exceeded the annual allowance, which includes 'tapering' and 'carrying forward' of unused allowances.

Please note:

Neither the Company, nor the Trustee, nor the Administrator are liable for any decision you make that results in you going over the Annual Allowance, LSA or LSDBA.

Nothing in this document should be treated as an authoritative statement of the law on any particular aspect or in any specific case. It should not be taken as financial advice and action should not be taken as a result of this document alone. Individuals are recommended to seek independent financial advice in respect of their own personal circumstances. This document is based on our understanding of the pension tax rules as at April 2024 but pension tax rules could change at any time.

You can find out more information about the tax allowances in this leaflet by visiting **www.gov.uk/tax-on-your-private-pension**