Focus on pension tax

Video transcript

Hello and welcome to this Focus on pensions tax webinar. My name is Rebecca Dodd and I'm a pensions consultant from Mercer. The aim of this presentation is to help give you a better understanding of pensions tax, so the different allowances and the limits that might affect you and how you can manage and mitigate any tax charges that you might face.

This session does not cover tax relief on contributions or how your pension is taxed as income in retirement. For more information on tax relief on contributions or how pensions are taxed in payment, do have a look at our webinar **Tax and your pension**.

Just to note that there's also a number of other webinars available that cover a range of topics such as saving the Investment Builder and taking retirement benefits. And as such, this presentation does not cover all the aspects of USS benefits; we'll just be focusing today on the pensions tax allowances and how you might manage them if affected by those allowances.

In this presentation, we're going to look at the different tax allowances that could affect you whilst you're paying in to USS and then when you start to receive your benefits and savings. Whilst USS will help you with the calculations for your USS benefits and savings, it's really important to understand how they're calculated so that you're clear on the possible impact of say, making additional contributions to either USS or any other pension arrangement. It’s also important to note that this is an exceptionally complicated area and we cannot cover absolutely every detail.

Here we're going to look at the Annual Allowance. Pensions can be a tax efficient way of saving. You get tax relief on your pension contributions and at retirement you can take 1/4 of the value of your benefits tax-free. You can pay in as much as you want into a pension scheme but tax relief is only available if your personal contributions does not exceed 100% of your taxable income. In addition, certain tax charges might arise if the total payment is not within certain allowances. Note that it is your responsibility to manage your tax situation. USS provides information and some options to consider, but it's you that decides what to do.

The first of the limits is Annual Allowance. The Annual Allowance is the maximum amount of pension savings you can build up each year before you incur a tax charge. But there are three types of Annual Allowance. The standard Annual Allowance applies to all members. The Tapered Annual Allowance applies if you earn over a certain amount. And the Money Purchase Annual Allowance applies if you have any defined contribution (DC) savings, including Investment Builder savings and you take some or all of them in certain ways. If you exceed one of these allowances, you may have to pay some pensions tax, but there is support available to help you do this and it does not mean you lose benefits if you go over your allowance.

But first a quick reminder of how benefits build up in USS. In USS you build up defined benefits (DB) in the Retirement Income Builder on salary up to your salary threshold. The salary threshold is currently £71,484. Your benefits at retirement from the Retirement Income Builder are based on a build up rate, the salaries that you earn and the length of time that you're in the scheme. You build up a block of pension each year equal to a 75th of your salary up to the salary threshold. Then, when you retire, all the blocks of pension are added together, with increases, to give you your annual pension. And you'll also be entitled to a tax-free cash lump sum of three times your pension.

If you earn above the salary threshold, then you'll also build up defined contribution (DC) savings in the Investment Builder. The equivalent of 20% of your earnings above the salary threshold will be put into your Investment Builder savings pot. And any additional contributions that you make will also go into your Investment Builder.

But the salary threshold of just over £70,000 as it is now on the build up rate of a 75th of salary only came in from 1 April 2024. The salary threshold was around £40,000 and the build up rate was 85ths of salary between April 2022 and April 2024.

But for now, going back to the Annual Allowance and in this section, we're going to look at the standard Annual Allowance. The standard Annual Allowance for the 2025/26 tax year is £60,000 and applies to the annual build up of your pension benefits over each tax year across all of your pension savings. For the previous two tax years, the standard Annual Allowance was also £60,000. But in 2022/23 it was £40,000.

The way it works is if the total build-up of your benefits over a tax year is below the Annual Allowance, you're not affected unless you're affected by the Tapered Annual Allowance, which is covered in a different section. As we're still in the 2025/26 tax year now, what we're interested in is working out whether the Annual Allowance has been exceeded over the 2024/25 tax year.

Your Annual Member Statement that you receive from USS each year will set out how much of your Annual Allowance you've used up from your USS benefits over the tax year so you do not have to worry about working it out yourself. However, if you also paid into any other pension arrangements during the year, these will not be included in the Annual Member Statement from USS in their calculated figure and you'll need to add these onto your USS figures. Just to note though, the Annual Allowance does not need to take into account any State Pension benefits.

Annual Member Statements showing benefits built up to 31 March 2025 and the Annual Allowance used up over the 2024/25 tax year will be available on My USS in the Autumn. My USS, just to remind you, is your online portal for your USS benefits.

To work out the amount of Annual Allowance you've used up, you need to consider any defined benefits (DB) and then defined contribution (DC) savings you have separately or in the case of USS, Retirement Income Builder (DB) benefits and Investment Builder (DC) savings.

For the Retirement Income Builder, for USS, the measure is based on the pension block you've built up over the year, you times that by 16, plus you take account of any lump sum you've built up over the year. For the Investment Builder, the measure is based on the amounts that you and your employer have actually paid into your pot, it does not include any investment returns. If you've paid additional contributions into your Investment Builder or contribute to any other defined contribution (DC) pension with another pension provider, these are going to be measured in the same way.

Now just to note that if you transfer a pension in to USS, this does not need to be taken into account in the calculation of the Annual Allowance. Adding together all of your savings in the tax year across all your pension arrangements, these elements give you your pension value for the year, so your Annual Allowance that you've used.

The amount of Annual Allowance you used up is then compared to the standard Annual Allowance for the relevant tax year. Now, as I mentioned, at the moment we're interested in working out whether the Annual Allowance has been exceeded in the 2024/25 tax year which is the last full tax year.

We're going to have a look at an example now of how this works. Here, I've got someone who had a salary of £125,000 and they paid £37,000 in additional contributions to the Investment Builder over the 2024/25 tax year. I'm going to assume for the purpose of this example that they only have benefits in USS and no other benefits or earnings from elsewhere.

To work out how much of the Annual Allowance they used up, we'll look at the Retirement Income Builder and the Investment Builder separately. Starting with the Retirement Income Builder. All members build up a 75th of their salary up to the salary threshold as an annual pension block during the last scheme year and the salary threshold for the 2024/25 year was £70,296. Note the salary threshold did change from April 2025. The salary threshold is now £71,484 and this will be used to calculate the pension built up over the year to the end of March 2026, so the 2025/26 tax year.

You multiply the pension built up over the year by 16, so that's a 75th of the salary threshold times 16. A lump sum of three times this pension amount is also built up, so we add on a 75th of the salary threshold times 3 to get the total Annual Allowance built up from the Retirement Income Builder. And this, for this member, amounts to £17,808.

Then we look at the Investment Builder contributions paid in from normal contributions going into the Investment Builder from earning above the salary threshold and any additional contributions. In this case, 20% of earnings above the threshold have gone into the Investment Builder from earning above the threshold, and then there's this £37,000 additional contribution. For this member, this gives total contributions into the Investment Builder of £47,941.

So you add these together, together with the Retirement Income Builder allowance used up, and this member's used a total of £65,749 of their Annual Allowance. As the standard Annual Allowance for the 2024/25 tax year was £60,000, this person has exceeded the Annual Allowance.

If your pension value has exceeded the Annual Allowance, it does not automatically mean that there's a problem. If you did not exceed the Annual Allowance in the three previous tax years, you can use any unused allowances to offset excesses over the Annual Allowance in the year that you're looking at and that's called carry forward. USS provide details of how much of the Annual Allowance you've used up for the three previous tax years on your Annual Member Statement if you've gone over the standard Annual Allowance in a particular year.

Let's take a look at our example member and to look at what they could carry forward from unused allowances. Looking back over the last three tax years, they used up an Annual Allowance of £21,800 in the 2021/22 tax year, £22,500 in the 2022/23 tax year and £24,000 in the 2023/24 tax year. So they were under the standard Annual Allowance, which was £60,000 in the 2023/24 tax year, but £40,000 in the other two years. And they'll have some unused allowances, therefore for all of the previous three tax years.

Therefore this member can carry forward these unused allowances to the current tax year that we're looking at, so to the 2024/25 tax year.

Any unused allowance is carried forward and utilised from the earliest year first. The Annual Allowance for the 2021/22 tax year was £40,000, so this member has an unused allowance of £18,200 from that year. We can then use this amount to increase the standard £60,000 Annual Allowance for the 2024/25 tax year by a further £18,200. So if we add that on there that takes us to £78,200 for the 2024/25 tax year.

As that member's pension value for the year was £65,749, the carry forward allowance covers the pension value over the standard Annual Allowance and that means for this member there's no tax charge and no further action. Note that you can only look back over the last three tax years for unused allowances. So in this case, even though there's still around £15,000 of unused allowance from the 2021/22 tax year that will be lost going forwards, the member will still be able to use the unused allowances from the tax years 2022/23 and 2023/24 in the Annual Allowance calculation for next year.

However, now let's assume that this member had been paying additional contributions over the last three years and they'd actually used up all their allowances in previous years. That means the member has exceeded the Annual Allowance because there's no carry forward to use and in this case there would be a tax charge to pay. This member’s exceeded the Annual Allowance by £5,749 and that means there'll be a tax charge at the member's marginal rate of tax. Now assuming this member’s paying tax at the 40% rate, that means there would be a tax charge of £2,300.

The member will be able to meet this cost directly through their self-assessment form or may be able to ask USS to pay this cost for them directly from their benefits and that's known as Scheme Pays.

In this section, we'll have a look at the Tapered Annual Allowance. If you earn over a certain amount, the standard Annual Allowance of £60,000 might be reduced for you, lowering the amount of pension benefits you can build up over the year that benefit from tax relief and this is called the Tapered Annual Allowance.

You'll have a Tapered Annual Allowance in the 2024/25 tax year if both your threshold income is over £200,000 and your adjusted income is over £260,000. Your threshold income is broadly your taxable income from all sources but excluding any of your pension contributions and excluding any additional contributions that you're paying. Your adjusted income is your taxable income excluding any of your pension contributions but plus the amount of your Annual Allowance that you've used up over the tax year, and that's the amount that is shown on your Annual Member Statement.

If the answer is no to one or both of these questions, then you're not affected by the Taper and your Annual Allowance stays at the standard amount of £60,000 for the 2024/25 tax year. However, if in the 2024/25 tax year you exceeded both the threshold income and adjusted income limits, you will be affected by the Tapered Annual Allowance and you will need to work out what your Tapered Annual Allowance is.

The way it works is that for every £2 your adjusted income goes over £260,000, your Annual Allowance for the 2024/25 tax year reduces by £1. And the minimum Tapered Annual Allowance that you can have in that tax year though is £10,000. As an example, if your adjusted income is £280,000 a year, your Tapered Annual Allowance will be £50,000 instead of £60,000. For anyone with an adjusted income of £360,000 or more each year, your Tapered Annual Allowance will be £10,000.

Now, I've simplified the explanations here, and the calculation is slightly different if you pay your contributions via salary sacrifice with your employer, but USS does support you in calculating your Tapered Annual Allowance on their website.

One of those areas where you can get help with your Tapered Annual Allowance is using the Contribution & Tax Calculator on My USS. And there's also a worksheet on the USS website to help you with these calculations. But it is your responsibility to do this, and you might want to take some financial or tax advice to help you.

But here's an example now of how the Contributions & Tax Calculator can help you understand if you're impacted by the Tapered Annual Allowance. We'll go in and we'll have a look at an example member. This member has got a salary of £125,000 and also pays additional contributions of £37,000 a year, or £3,083 a month.

First of all, we press Calculate here. We can have a look at what this is actually costing the member; that's the first thing the Contributions & Tax Calculator will show you. The gross contribution for this member of all their pension contributions to USS is £3,718 a month. But the actual cost to the member with that tax relief is only £1,814.00 a month.

But then we can go on to click this button here to go into the Tax modelling section. Once we go in here, we can use the calculator to see if the member's affected by the Tapered Annual Allowance. For this member, we're going to assume that they are also earning £150,000 in additional income. We can type that in here and then press calculate again here.

The calculator provides an estimate of how much Annual Allowance the member’s used and if they might be impacted by the Tapered Annual Allowance. For our member, here you can see the member's got a Tapered Annual Allowance of £41,907 but they've used up £65,808 of their Annual Allowance. So this member's exceeded their Tapered Annual Allowance and might have a tax charge to pay unless they have some unused allowances from any of the three previous tax years.

Now, as with the standard Annual Allowance, if you do not have enough carry forward and you've got a tax charge to pay, and if you've exceeded your Tapered Annual Allowance and it's over £1,000, you can ask USS to pay it for you and reduce your benefits accordingly through Scheme Pays.

Just to note though, if you are affected by the Tapered Annual Allowance, it will not set that out in your Annual Member Statement from USS because USS do not hold all the information available to work out whether you were affected by the Tapered Annual Allowance. Also, your previous Annual Allowances will not be given in your statement unless your benefits exceeded the standard Annual Allowance of £60,000 for the 24/25 tax year.

If you are affected by the Taper but have not got your previous years' allowances shown on your statement, just go into your previous statements on My USS to view the allowances on your previous statements or contact USS and they'll be able to give you the information.

In this section, we'll look at the Money Purchase Annual Allowance. The Money Purchase Annual Allowance is the maximum amount that can be paid by you and your employer in total to any defined contribution (DC) arrangement, like the Investment Builder, before getting a tax charge if you've already taken some of your defined contribution (DC) savings in certain ways. And the allowance is currently £10,000 a year.

Now if you've taken some savings from the Investment Builder, Prudential or any other defined contribution arrangement as cash payments or drawdown payments, the Money Purchase Annual Allowance will be triggered. So what do we mean by accessing certain defined contribution (DC) savings? Or in other words, when will the Money Purchase Annual Allowance start to apply and when will it not?

Well, it will apply if you take one or more cash payments known as Uncrystallised Funds Pension Lump Sums, or UFPLS short, from your Investment Builder savings. UFPLS cash payments mean the cash payments where 25% is tax-free and 75% of the payment then is taxed. It will also apply if you transfer your Investment Builder savings to an alternative arrangement and start drawdown income payments. And it's the same for any defined contribution savings, whether that's from Prudential or outside of USS. If you take UFPLS cash payments or drawdown income payments, the Money Purchase Annual Allowance will apply for you.

Now where the Money Purchase Annual Allowance does not apply though, is if you use your Investment Builder to provide your tax-free cash when taking your Retirement Income Builder benefits. If you and your employer make contributions to a defined contribution (DC) arrangement like the Investment Builder that go over the limit, which is currently £10,000, you'll need to pay additional income tax on the amount you've gone over by and this can cancel out the tax relief which you'd received automatically. Unlike the Annual Allowance though, you can't carry forward unused Money Purchase Annual Allowance from previous years.

This is a summary of the different types of Annual Allowance. The Annual Allowance looks at the benefits you build up in each tax year and if you exceed the Annual Allowance, you may have a tax charge to pay. The standard Annual Allowance was £60,000 for the 2024/25 tax year and it's £60,000 again for this current 2025/26 tax year. The Tapered Annual Allowance applies if you earn above a certain amount, so your Annual Allowance will be less. And you can use carry forward of unused allowances from the three previous tax years to offset any potential tax charges resulting from exceeding the Annual Allowance or the Tapered Annual Allowance.

And if your tax bill from your USS benefit build-up is over £1,000, you can ask USS to pay the bill for you and reduce your benefits accordingly through Scheme Pays. If you don't use Scheme Pays though, you will need to pay the tax bill yourself through your self-assessment tax return.

If you do use Scheme Pays you will still need to let HMRC know though and it is your responsibility to meet any deadlines and inform HMRC. And finally, the Money Purchase Annual Allowance applies if you've accessed your defined contribution (DC) savings by taking an UFPLS cash payment or drawdown payment.

Here we look at the Lump Sum Allowance which is the maximum level of tax-free cash lump sum payable when you take your pension savings. The Lump Sum Allowance was introduced with effect from 6 April 2024 and it's the maximum tax-free lump sum you can take from your pension savings.

The former Lifetime Allowance, which was the maximum value of benefits that could be taken from a registered pension scheme without being subject to the Lifetime Allowance charge, was removed from the 6 April 2024. Before 6 April 2023, the Lifetime Allowance was £1,073,100. Of this Lifetime Allowance, 1/4 of it, or 25% of it, could be taken as tax-free cash. So that meant £268,275 could be taken as tax-free cash.

If you had benefits in value more than the Lifetime Allowance, there was an additional tax charge of 25% in addition to income tax if these benefits were taken as income, or a 55% charge if the excess was taken as cash. From 6 April 2023, the Lifetime Allowance was still in place and you could still take £268,275 tax-free cash, but the additional tax charge if the value of your benefits was more than the Lifetime Allowance was removed.

Then from the 6 April 2024, the Lifetime Allowance was removed altogether, but the maximum tax-free cash amount is being kept, and it's being kept at £268,275. It's now called the Lump Sum Allowance.

Now where the Lifetime Allowance looked at the total value of all benefits, the Lump Sum Allowance is the limit on the total amount of certain tax-free cash lump sums that you'll be able to receive before marginal rate taxation applies. The calculation for the maximum lump sum you can take depends on the value of benefits that you're taking from any of the pension schemes that you have.

If taking all your benefits from USS, for example, it will be calculated using the value of your Retirement Income Builder (DB) plus any Investment Builder (DC) savings that you have. You can use the Benefit Calculator to estimate what the maximum lump sum will be for you based on the value of your benefits from USS only though. The Benefit Calculator won't take into account benefits you might have with other schemes. You'll find the Benefit Calculator on My USS.

The limit is £268,275 which is 25%, or 1/4, of the Lifetime Allowance of £1,073,100 that was in place as at 5 April 2024. But the Lump Sum Allowance might be higher if you have a former Lifetime Allowance protection. There are no longer any specific Lifetime Allowance checks; just consideration of the tax-free lump sum amounts. And just to note, the Lump Sum Allowance for the current tax year 2025/26 is still £268,275.

Now, each time you take a tax-free lump sum from your benefits or savings, you'll use up some of your Lump Sum Allowance. If you have not yet taken any benefits from any pension schemes yet, then the limit for you will be £268,275. However, if you've already accessed benefits, then depending on whether you accessed them before or after April 2024, there's different information that you'll need to gather to work out how close you are to the Lump Sum Allowance.

We'll have a look now at how to work out how close you are to the Lump Sum Allowance. First you need to look at if you've taken any benefits prior to 6 April 2024. If you have, you take a quarter of the amount of the Lifetime Allowance that you've used for any benefits taken prior to 6 April 2024, as noted in the relevant paperwork from the scheme where you took the benefits.

Then, work out 25% of the amount of any benefits transferred overseas to a Qualifying Recognised Overseas Pension Scheme (QROPS) before 6 April 2024, if applicable. Also, if you turn 75 before 6 April 2024, even if you did not access any benefits at the time, you need to include in any Lump Sum Allowance calculation a 1/4, or 25%, of the value of any unclaimed pension benefits at your 75th birthday.

You then need to look at the value of any benefits paid as a tax-free cash lump sum from 6 April 2024. For example, a Pension Commencement Lump Sum, this is a one-off tax-free lump sum you may have opted for when you retired or flexibly retired or when buying an annuity. Or the tax-free element of an Uncrystallised Funds Pension Lump Sums or UFPLS. An UFPLS is where you've taken a cash sum from your Investment Builder savings or any other defined contribution (DC) savings. And the tax-free element of any drawdown payments, including flexi-access drawdown, would need to be looked at as well.

If all these figures come to a total higher than the Lump Sum Allowance of £268,275, you might be subject to a tax charge and any lump sum benefits in excess of your available allowance. And this will then be taxed at your marginal rate and deducted at source from any taxable lump sum benefits that USS pay to you. For example, if you're a 40% taxpayer and your lump sum exceeds your available Lump Sum Allowance, you'll pay 40% tax on the amount in excess of the limit.

Let's look at a member who has taken benefits in a few different ways. So a member had a pension that they started taking before April 2024 and used 40% of the Lifetime Allowance, or LTA. Assuming that 1/4 of their Lifetime Allowance usage was taken as tax-free cash, that means that they took 10% of the Lifetime Allowance as tax-free cash. The Lifetime Allowance at 5 April 2024 was £1,073,100 meaning that the member's used up £107,310 of the Lump Sum Allowance, which is 10% of that £1,073,000.

Then they took a cash lump sum, known as an UFPLS, in May 2024. The UFPLS was £60,000 and a quarter of this was tax-free, £15,000, so they've used up another £15,000 of the Lump Sum Allowance. This leaves our member with the remaining £145,965 of the available Lump Sum Allowance. Now each time they take a tax-free cash lump sum from their pension benefits or savings, they'll use up some of their Lump Sum Allowance. And if they go over the Lump Sum Allowance, they may need to pay tax on any lump sum benefits in excess of their available allowances.

Here we'll look at the Lump Sum and Death Benefit Allowance (LSDBA). The Lump Sum and Death Benefit Allowance is the limit on the total amount of tax-free lump sum that can be paid in the event of an individual's death before marginal rate taxation arises. The allowance includes any tax-free lump sums used up under the Lump Sum Allowance, any benefits paid to you as a serious ill health lump sum before age 75, or any other tax-free lump sum death benefits payable in the event of your death before age 75. For example, if a death benefit is paid from another pension arrangement that you have.

The limit for the 2025/26 2025tax year continues to be £1,073,100, but might be higher if you have Lifetime Allowance protection.

Each time you take a tax-free lump sum from your benefits or savings, or if a serious ill health benefit or tax-free death benefit lump sum is paid before age 75, you'll use up some of your Lump Sum and Death Benefit Allowance. In the event of your death, any lump sum death benefit paid in excess of your remaining allowance will be taxed at your beneficiaries' marginal rate. And your legal personal representative will be responsible for reporting this information to HMRC, who will then calculate the tax to be deducted and collect this directly from your beneficiaries.

Here we'll look at the Transitional tax-free amount certificate, or TTFAC for short. If you've taken benefits from a registered pension arrangement prior to 6 April 2024, but taken less than 25% of those benefits as a tax-free cash lump sum, you might benefit applying for a Transitional tax-free amount certificate from USS. The certificate will detail the amount of Lump Sum Allowance (LSA) and Lump Sum Death Benefit Allowance (LSDBA) that you had remaining at 6 April 2024. You will need to apply for this before the first time you take your benefits after 6 April 2024. There's more information available about the certification on the HMRC and the USS websites.

If you do exceed one of the allowances, you may have to pay some pension tax, but there is support available to help you do this. So carrying forward unused allowances from previous tax years is one option, but there are other options too. Paying pension tax though, does not mean you lose your benefits. You're still building up benefits in the Retirement Income Builder (DB) up to the salary threshold, and you're still getting a contribution from your employer into the Investment Builder (DC) pot on your earnings above the salary threshold.

But if you're concerned about pension tax charges, you may want to stop or limit the amount that you're building up. In general though, the value of your benefits that you're building up in USS, given the contribution from your employer, is greater than the additional pension tax you may have to pay. But that of course depends on your own personal circumstances, so how you view cash now versus in the future and how long you might live. And you do need to weigh up the pros and cons or consider taking financial advice before making a decision.

You are not forced though to stay in USS, and you could opt out completely of contributing further to USS if you want to. If you opt out of USS though, your employer might not be allowed to contribute on your behalf to any other pension arrangement.

If you do opt out though, you won't pay contributions to USS anymore, but you also will not build up any more benefits going forwards. And crucially, your beneficiaries will not receive the death in service lump sum of three times your salary, nor an enhanced pension and you will not be entitled to the enhanced ill health benefits if you were to qualify for total ill health.

USS offers two alternative ways of limiting how your benefits build up to reduce the impact of pension taxes. These are called Enhanced Opt Out (EOO) and the Voluntary Salary Cap (VSC). Remember though that in general the value of your benefits you're building up in USS, given the contribution from your employer, is greater than the additional pensions tax you may have to pay.

But looking at these in more detail now and first looking at the Enhanced Opt Out. In USS it's possible to stop building up further pension benefits but keep the death in service ill health enhanced benefits as if you were still an active member, if you pay a contribution of 2.5% of your salary. In Enhanced Opt Out, as there's no build-up of future benefits, this helps to protect against incurring a pension tax charge.

There are some rules around this option though. You do need to give your employer at least 28 days' notice, and then it will start from the 1st of the month following your election. The Enhanced Opt Out must last at least one year and you can only make the election once. So if you cancel Enhanced Opt Out in the future, you cannot opt for it again in the future.

Looking at the Voluntary Salary Cap. This is another option that can be beneficial for members with pension tax issues who are looking to limit the amount of benefit that they build-up year on year. Under a Voluntary Salary Cap, you would set your own level of salary on which to pay contributions. So your Voluntary Salary Cap can be set anywhere at or above the salary threshold, as long as it's a minimum of the salary threshold, which since April 2025 is £71,484.

This is effectively opting out of some or all of the Investment Builder section because the minimum value of the Voluntary Salary Cap is the salary threshold. When considering what level you want to set your Voluntary Salary Cap at, remember that your employer contributes to your Investment Builder pot over that salary threshold too.

But if you decide to go for the Voluntary Salary Cap, you'll still pay your standard contributions below the Voluntary Salary Cap, which are currently 6.1%. And if you choose to limit the benefits that you build up using your Voluntary Salary Cap, you can still choose to be covered for death in service and ill health benefits based on your full salary. And to do this, you continue to pay contributions of 2.5% above your Voluntary Salary Cap.

You can only elect for the Voluntary Salary Cap once a year and you have until 3 March each year to make this election, then it will start from the 1 April. Setting a higher Voluntary Salary Cap will use up more of your Annual Allowance, but you'll also build up a bigger Investment Builder pot. And if you breach the Annual Allowance, you do have the option of using your Investment Builder pot to pay some or all of your tax to HMRC via Scheme Pays.

These are the options available to you other than opting out of the scheme completely. Remember it might be worth still contributing even though you incur a tax charge. And if you're not sure, speak with an adviser before taking action.