HMRC - PTM095350 - The Non-Residence Factor For Hybrid Arrangements

How to calculate the non-residence factor for a hybrid arrangement

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Section 223(5)-(7) Finance Act 2004

A hybrid arrangement is an arrangement that may, at any one time, provide one of two or three types of benefits in the form of cash balance benefits, other money purchase benefits, or defined benefits. There are effectively two or three potential outcomes but they are mutually exclusive so benefits are provided in only one of those ways. They should not be confused with schemes with multiple arrangements where benefits accrue separately under different types of arrangement within a single scheme.

An example of a hybrid arrangement is one which, on the member’s retirement, will provide benefits calculated by reference to a pot of money available to that member, but subject to an underlying defined benefit promise calculated by reference to the member’s final salary and length of service. Should the pot of money available provide less than the underlying defined benefit promise the benefits provided will be augmented up to the level promised. Alternatively, if the pot of money provides a greater level of benefits than the underlying defined benefit promise, the individual would receive the money purchase benefits up to the level that the pot of money will provide. So the benefits will be either money purchase benefits or defined benefits, but not both.

For each part of an active membership period (see PTM095310) during which the individual is a relevant overseas individual (see PTM095310), the hybrid arrangement non-residence factor is established as follows:

if the benefits that may ultimately be provided under the arrangement may be cash balance benefits, calculate what would be the cash balance arrangement non-residence factor as set out in PTM095320 if the registered pension scheme were a cash balance arrangement

if the benefits that may ultimately be provided under the arrangement may be other money purchase benefits, calculate what would be the other money purchase arrangement non-residence factor as set out in PTM095330 if the registered pension scheme were any other type of money purchase arrangement

if the benefits that may ultimately be provided under the arrangement may be defined benefits, calculate what would be the defined benefits arrangement non-residence factor as set out in PTM095340 if the registered pension scheme were a defined benefits arrangement

select the greater or greatest non-residence factor from whichever of 1, 2, or 3. above are relevant. The factor selected should go to two decimal places. This should be a rounded-up figure, so for example if the calculation produces a factor of 0.231 this becomes 0.24.

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Example of how to calculate the non-residence factor for a hybrid arrangement

Glenn’s hybrid arrangement can provide either cash balance benefits, other money purchase benefits or defined benefits:

Glenn’s potential cash balance arrangement non-residence factor is 0.1, his potential other money purchase non-residence factor is 0.05, and his potential defined benefits arrangement non-residence factor is 0.06.

Glenn’s hybrid arrangement non-residence factor is therefore 0.1.

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