This spotlight outlines the current Lifetime Allowance rules. The current Lifetime Allowance is £1,073,100 as of 6 April 2020.

The Pensions Advisory Service is unable to give individual specific advice and you should seek regulated financial advice.

What is the Lifetime Allowance?

There is no limit on the amount of pension savings you can build up. However, there is a restriction on the amount of pension savings, which a person may build up in a tax-favoured environment – this is known as the Lifetime Allowance (LTA). There is a tax charge if the total value of your pensions is more than the Lifetime Allowance. It is set at a high level, so it does not affect most people.

Whenever benefits are taken from a personal or workplace pension, you use up a percentage of the Lifetime Allowance. This is known as a Benefit Crystallisation Event (BCE). Your state pension is not classed as a BCE and does not use up your Lifetime Allowance. A BCE arises in the following circumstances:

- Entering drawdown (BCE1)
- Entering scheme pension (BCE2)
- Scheme pension in payment increasing beyond a permitted margin (BCE3)
- Buying a lifetime annuity (BCE4)
- Reaching age 75 before taking all benefits from a defined benefit pension (BCE5)
- Reaching age 75 with a drawdown fund (BCE5A)
- Reaching age 75 before taking all benefits from a defined contribution pension (BCE5B)
- Funds on death under age 75 being used to provide drawdown for dependant/nominee (BCE5C)
- Funds on death under age 75 being used to buy an annuity for dependant/nominee (BCE5D)
- Taking relevant lump sums (including Pension Commencement Lump Sums (PCLS) and Uncrystallised Funds Pension Lump Sums (UFPLS)) (BCE6)
- Fund on death under age 75 being paid as a lump sum (BCE7)
- Transferring to a Qualifying Recognised Overseas Pension Scheme (QROPS) (BCE8)
- Various one-off payments as prescribed in regulations (BCE9)

If you are unsure whether your current pension savings will exceed the Lifetime Allowance, you should speak to your pension provider, scheme administrator or seek financial advice.

For more detailed information of the individual BCEs you can visit: www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm088600
What if I have more than one pension arrangement?

If you have more than one pension arrangement, then you will use up a percentage of your Lifetime Allowance in the order which you take them. The Lifetime Allowance you will need to use in the calculation is the allowance in the tax year which you take the BCE. The Lifetime Allowance amounts for each year can be found at the end of this spotlight.

**Example:** If you use your DC pension pot of £125,000 to purchase an annuity on 1 June 2014 (when the LTA was £1,250,000) then you will have used up 10% of your Lifetime Allowance

\[
(\frac{125,000}{1,250,000}) \times 100 = 10%
\]

This will mean you have 90% of the Lifetime Allowance remaining.

If you also had a Defined Benefit pension of £5,000pa which came into payment on 1 June 2016 (when the LTA was £1,000,000) you will use up a further 10%

\[
(5,000 \times 20) = \frac{100,000}{1,000,000} \times 100 = 10%
\]

So, at this point you will have used 20% of the LTA and have 80% remaining. The monetary value of this 80% will depend on the Lifetime Allowance applying in the year which you start to take any further pension benefits.
What if I exceed the Lifetime Allowance?

Any pension savings above the Lifetime Allowance are subject to the Lifetime Allowance charge. This charge will be:

- 55% if the excess is taken as a lump sum
- 25% if the excess is taken as income, for example as a scheme pension, an annuity or drawdown. Income tax at your marginal rate will also be payable.

**Example:** If the value of your pension savings exceeds the LTA by £100,000, and you want to take this as a lump sum, then you will pay £55,000 tax and receive the remainder as a lump sum.

**Example:** If the value of your pension savings exceeds the LTA by £100,000, and you want to use the excess to purchase an income, then you will pay a £25,000 tax charge and have the remaining £75,000 available to receive as income (either to put into drawdown or to use to purchase an annuity). If your DB pension exceeds the LTA, then your pension will be reduced to consider any LTA tax charge. Once in payment, any income you receive will be subject to income tax at your marginal rate.
Can I protect myself against the lifetime allowance tax charge?

Protection is designed to shelter large pension funds, in part or in full, from the effects of the lifetime allowance charge.

**Protections currently available to apply for**

In April 2016 the lifetime allowance reduced from £1.25 million to £1 million and it became possible to apply for lifetime allowance protection to limit the effects of the 2016 reduction. Since April 2016 it has been possible to apply for one of or both of the following protections:

- **Fixed protection 2016 (FP2016)** is available for those that do not already have a previous version of fixed, enhanced or primary protection and do not contribute into or accrue benefits after 5th April 2016. The lifetime allowance will be £1.25 million or the lifetime allowance at the time, whichever is higher.
- **Individual protection 2016 (IP2016)** is available for those that have a total relevant amount of their pensions valued in excess of £1 million as at the 5th April 2016 and protects them to that amount up to a maximum of £1.25 million. Contributions and accruals can continue.

There is no time limit for applying for either of the 2016 protections. Until 6 April 2020 your scheme administrator was required to provide you with a valuation of your benefits as at 5 April 2016. From 6 April 2020 they are no longer required to do so but may still provide you with the valuation if you request it.

**Protections no longer available to apply for**

The main protections before April 2016 were:

- **Enhanced protection** - available when choosing not to pay into pension funds after 5 April 2006. Funds are not subject to the lifetime allowance.
- **Primary protection** - available when pension funds were valued in excess of £1.5 million at 5 April 2006. The personal lifetime allowance is £1.8 million increased by a factor related to the excess amount and stated on the holder's HMRC certificate. Contributions and accruals can continue.
- **Fixed protection 2012** – available when choosing not to pay into pension funds after 5 April 2012. The lifetime allowance remains at £1.8 million.
- **Fixed protection 2014** available when choosing not to pay into pension funds after 5 April 2014. The lifetime allowance remains at £1.5 million.
- **Individual protection 2014** – available when pension funds are valued in excess of £1.25 million as at 5 April 2014. The lifetime allowance remains at this value, subject to a maximum of £1.5 million. Contributions and accruals can continue.
How do I apply for lifetime allowance protection?

1. Members who want to apply for either of the 2016 lifetime allowance protections will have to do so online at https://www.gov.uk/guidance/pension-schemes-protect-your-lifetime-allowance

2. To apply, members will need an HMRC Online Services Account. To create an account, or to login to an existing one, they should go to https://www.gov.uk/log-in-register-hmrc-online-services

3. As this is an online service, members will no longer receive paper certificates with their LTA protection details. Instead, they will be able to view their protection details online and they will be able to print their protection details as necessary.

4. Alongside the new service, HMRC have published more guidance on GOV.UK to help members who want to apply for protection, including a guide for members on valuing their pensions for either of the 2016 protections at https://www.gov.uk/guidance/pension-schemes-value-your-pension-for-lifetime-allowance-protection.

5. Members who are unable to use the online service can contact the HMRC Pensions helpline for help with applying for protection https://www.gov.uk/government/organisations/hm-revenue-customs/contact/pension-scheme-enquiries

What else might I need to know?

Lifetime allowance statements

When you take benefits from your pension scheme, they will provide you with a statement which will tell you how much lifetime allowance you have used when you crystallised benefits within that scheme. This statement will be useful if you need to work out if you are likely to exceed the lifetime allowance and if you have other pension arrangements which need to know how much of your lifetime allowance you have used up.

Divorce or Dissolution

If you have received a share of your ex-spouse’s or ex-civil partner’s pension (known as pension credit) following a divorce or dissolution this counts towards your lifetime allowance. If the value of your pension pots exceeds the lifetime allowance due to receiving a pension credit, then it may be possible to apply for protection against this tax charge. For more information you can visit: www.gov.uk/guidance/pension-schemes-value-your-pension-for-lifetime-allowance-protection

If your pension has been shared with your ex-spouse or ex-civil partner (known as pension debit) then the lifetime allowance is not affected as it is only the benefits which have been retained which are tested against the lifetime allowance.

You can find more information about divorce or dissolution and the impact on pensions in our spotlight which can be found here: https://www.pensionsadvisoryservice.org.uk/publications/category/spotlights

Transferring benefits from overseas

If you decide to transfer your benefits from an overseas pension scheme, then providing the transferring arrangement meets the HMRC definition of a Recognised Overseas Pension Scheme (ROPS) then you can apply to HMRC for an enhancement to your lifetime allowance.

For more information you can visit the following websites https://www.gov.uk/guidance/check-the-recognised-overseas-pension-schemes-notification-list

https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm095410
## Lifetime Allowance amounts

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About Us

The Pensions Advisory Service (TPAS) works to make pensions accessible and understandable for everyone. We provide independent and impartial information and guidance about pensions, free of charge, to members of the public.

We help with all pension matters covering workplace, personal and stakeholder schemes and also the State Pension. We answer general questions, help with specific queries and offer guidance for people with complaints about their private pension scheme.

Contacting us

Pensions Helpline 0800 011 3797
Monday-Friday 9am-5pm

Online enquiry form www.pensionsadvisoryservice.org.uk/online-enquiry

Web chat live www.pensionsadvisoryservice.org.uk
8am-6.20pm Monday/Wednesday/Friday
9am-6.20pm Tuesday/Thursday
9am-1pm Saturday

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