

The Lifetime Allowance

This spotlight outlines the current Lifetime Allowance rules. The current Lifetime Allowance is £1,073,100 as of 6 April 2021.

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

How is the Lifetime Allowance calculated?

Whenever benefits are taken from a personal or workplace pension, they use up a percentage of your Lifetime Allowance.

*(Value of benefits taken / Lifetime Allowance in that tax year) * 100 = % of LTA used.*

Defined Contribution (DC)

A Defined Contribution (DC) pension is a type of pension which you, and perhaps your employer, has paid into. These contributions, along with tax relief and any investment growth, will form a pot of money which you can use to fund your retirement.

When your DC pension is paid out, transferred to a Recognised Overseas Pension Scheme (ROPS), or moved to provide a retirement income, the value of your pot is tested against the Lifetime Allowance. This will use up a percentage of your LTA. If you exceed 100% of your LTA, then you will be subject to an LTA tax charge.

Example: If your DC pot is valued at £105,500 then this is the amount which is used when testing against the LTA.

Defined Benefit (DB)

A Defined Benefit (DB) pension, an example of which is a “final salary” pension, is a pension which provides you with a guaranteed income in retirement based on how long you were a member of the scheme and the salary you earned during this time. When you start to draw your DB pension you may automatically receive a tax-free lump sum, or you can commute (‘give up’) some of your pension for a tax-free lump sum (known as a pension commencement lump sum).

When you start to draw your benefits, your DB pension is multiplied by 20 to provide the value which is to be tested against the LTA.

Example: If your annual pension is £5,275 then, when multiplied by 20, this provides a value of £105,500 which is the amount which is used to test against the LTA.

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

$(£125,000 / £1,250,000) \times 100 = 10\%$

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%

$(£5,000 \times 20) = £100,000 / £1,000,000 \times 100 = 10\%$

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 took a pension benefit before 6 April 2006?

The Lifetime Allowance was introduced from 6 April 2006. If you took any of your pension benefits before this date, then your Lifetime Allowance will be reduced

At your first BCE after 6 April 2006, any pension you are receiving will be multiplied by 25 to work out how much your Lifetime Allowance should be reduced by.

Example: If you are in receipt of a pension of £20,000 pa on 1 June 2019 and your first BCE is on 1 June 2019 then you will have used up 47.39% of your Lifetime Allowance and will therefore have 52.61% left to use.

$$£20,000 \times 25 = £500,000 / £1,055,000 \times 100 = 47.39\%^*$$

If you were in a drawdown policy on 6 April 2006 and have remained in “Capped drawdown”, then, where your first BCE is after 5 April 2015, the value you use to work out the Lifetime Allowance reduction is the 80% of maximum you can currently take from your policy, based on the most recent review. Your provider will be able to advise you of this amount. The value to use is this amount x 25.

If you were in a drawdown policy on 6 April 2006 but have since converted it to a “Flexi-access drawdown” plan. This is a complicated area, and you should seek guidance from your provider as to what amount to use.

If your pre- April 2006 pension exceeds 100% of the Lifetime Allowance, then you will be deemed to have no Lifetime Allowance remaining for future BCEs.

*Note: The percentage expressed on the statement should go to two decimal places (i.e. 25.55%). This should be a rounded down figure, so 25.558% becomes 25.55%.

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

Tax year	Lifetime Allowance
2021/2022	£1,073,100
2020/2021	£1,073,100
2019/2020	£1,055,000
2018/2019	£1,030,000
2017/2018	£1,000,000
2016/2017	£1,000,000
2015/2016	£1,250,000
2014/2015	£1,250,000
2013/2014	£1,500,000
2012/2013	£1,500,000
2011/2012	£1,800,000
2010/2011	£1,800,000
2009/2010	£1,750,000
2008/2009	£1,650,000
2007/2006	£1,600,000
2006/2007	£1,500,000

About Us

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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.

The Pensions Advisory Service is provided by



Contacting us



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