

## The Lifetime Allowance

This factsheet outlines the current lifetime allowance rules. The government intends to reduce the lifetime allowance to £1 million with effect from 6 April 2016.

**The Pensions Advisory Service is unable to give individual specific advice and you should seek alternative tax or independent financial advice.**



### What is the lifetime allowance?

There is no limit on the total amount of benefits a registered pension scheme can provide to its members. However, you will have a **lifetime allowance** in relation to the maximum amount of tax-relieved benefits you can build up over your lifetime. It is set by government and reviewed regularly. It is set at a high level, so it is unlikely that many people will be affected by it. It applies to all types of registered pension schemes equally.

Whenever benefits are taken from a pension, you use up a percentage of the lifetime allowance. This is known as a Benefit Crystallisation Event (BCE). If the pension savings being tested exceed your available lifetime allowance at that point, a lifetime allowance charge will be due on the excess. There is a wide range of events which can trigger a BCE and a test against the lifetime allowance and these include the following:

- taking your pension from a defined benefit scheme
- entering drawdown
- buying a lifetime annuity
- taking lump sums
- reaching age 75
- death
- transferring to qualifying recognized overseas pension schemes.

Each type of event is given a different reference name by HMRC and you can find out more details of the different events which lead to a test against the lifetime allowance via the following link.

[www.hmrc.gov.uk/manuals/ptmanual/ptm088100.htm#IDAX15K](http://www.hmrc.gov.uk/manuals/ptmanual/ptm088100.htm#IDAX15K)

The value of a BCE is normally the amount paid out or moved to provide retirement income. For defined benefit pensions, the value is normally treated as 20 times the initial amount of pension.

If you are unsure whether or not your current pension savings will exceed the lifetime allowance, you should speak to your pension provider, scheme administrator or seek financial advice.

## Changes to the lifetime allowance

When it was introduced in 2006 the lifetime allowance was £1.5 million. It has increased and decreased since then. The lifetime allowance for the 2015/16 tax year is £1.25 million and the government will reduce this to £1 million for the 2016/17 tax year.

Additionally, from April 2018, the lifetime allowance will be indexed year on year in line with the Consumer Price Index.

## How do I protect my pension against the lifetime allowance?

Protection is designed to shelter large pension funds, in part or in full, from the effects of the lifetime allowance charge. It was possible to register for protection when it was introduced in April 2006 and when it decreased in 2012 and 2014. Some of the protections allow you to continue to pay pension contributions as set out below.

The main protections are:

- 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. *Payments into the funds 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 minimum of £1.5 million. *Payments into the funds can continue.*

If you have any of the existing lifetime allowance protections (such as primary or enhanced protection, fixed protection 2012, fixed protection 2014 or individual protection 2014), you will automatically keep this protection when the lifetime allowance is reduced. You do not have to take any further action.

It is expected that, later in 2015, a new form of transitional protection will be introduced for those who have been saving with the current £1.25million threshold in mind. These protections will have the same effect as those introduced for previous changes to the lifetime allowance. The Government will work with the industry to ensure that they are implemented in the simplest way possible.

## What does this mean for me?

Any pension savings above the lifetime allowance are subject to the lifetime allowance charge. This charge will continue to 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.

If a charge arises this can either be paid directly to HMRC, or some schemes will allow you to deduct the charge from your scheme benefits. The scheme administrator will be able to tell you how the charge can be met.

## What individuals need to do

Your pension administrator will calculate the percentage of the standard lifetime allowance being used up at any BCE and will advise you of this. However, to calculate whether you have enough available lifetime allowance to cover the amount crystallising at that BCE (and whether or not a lifetime allowance charge is due) the scheme administrator may well require details from you of how much lifetime allowance has already been used by previous BCEs and what benefits you may be taking at the same time. You are responsible for providing this information to the administrator if they ask you for this. Your administrator will also pass details of certain events to HMRC.

## 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

