

## Lifetime Allowance Factsheet

If your pension savings are worth more than £1 million you may need to protect your pension savings from the lifetime allowance tax charge.

### **What is the lifetime allowance?**

The lifetime allowance is the amount of savings you can take from your pension schemes without facing a tax charge.

The lifetime allowance is currently £1.25 million but is reducing to £1 million from 6 April 2016.

From 6 April 2016 if you take more than £1 million from your combined pension savings, you may face a tax charge

The Lifetime Allowance is a test against all your pension savings not just your Local Government Pension Scheme (LGPS) benefits.

### **How is the lifetime allowance calculated?**

For defined benefit schemes, such as the LGPS, it is the amount of your pension x 20 plus any automatic lump sum plus your AVC fund (if applicable)

#### Example

Mr Jones' latest Annual Benefit Statement shows a pension of £21,500 built up to 31st March 2015 and an automatic lump sum of £50,000.

The value of benefits to be tested against the Lifetime Allowance is:

$$(\text{£}21,500 \times 20) + (\text{£}50,000) = \text{£}480,000$$

If he had an AVC fund of £40,000 this would increase the value of his benefits to:

$$(\text{£}21,500 \times 20) + (\text{£}50,000) + (\text{£}40,000) = \text{£}520,000$$

For defined contribution schemes, such as personal pensions, it is the value of the fund.

### **How much is the lifetime allowance tax charge?**

The lifetime allowance tax charge is

- 55% of any amount you take from your pension savings as a lump sum that is over the lifetime allowance and



- 25% of any amount you take from your pension savings as pension income that is over the lifetime allowance.

### **Do you know the value of your combined pension funds?**

As the lifetime allowance applies to the value of your combined UK registered pension schemes, and some overseas schemes, you may need to contact the administrators of your pension scheme to help you to find out the total value of your combined pension savings.

This information will help you if you need to apply to protect your pension savings from the lifetime allowance tax charge.

### **Do I need to do anything now?**

You may need to act to protect yourself from a tax charge even if you are not yet nearing retirement.

If you have existing protection but know that you may lose this you may also need to consider whether to apply for the new protections.

### **What do I need to do to protect my pension savings?**

From April 2016 you will be able to apply to HMRC for one of two new protections when the lifetime allowance is reduced. These will be known as fixed protection 2016 and individual protection 2016.

You will be able to apply for these new protections by using a new on-line self-service system which will be available from July 2016. The new self-service system is still being developed and further information will be provided by HMRC in due course.

You can find more information about the reduction of the lifetime allowance in Pension Schemes Newsletters 72 and 73.

[Pension schemes newsletter 72 - September 2015 - GOV.UK](#)

[Pension schemes newsletter 73 – October 2015 - GOV.UK](#)

### **Your pension savings may already be protected**

The lifetime allowance was introduced in 2006 and was reduced in 2012 and again in 2014.



Each time the lifetime allowance reduced, people who had already planned their pension savings on the basis of the higher lifetime allowance could protect their pension savings by applying to HMRC and should have received a certificate to confirm their protection.

However you may still be subject to the lifetime allowance charge if you lose this protection.

You can still apply for protection from the 2014 reduction in lifetime allowance until 5 April 2017. You can find more information about how to do this along with other information about the existing protections and when these may be lost at [Tax on your private pension contributions - GOV.UK](#) .