



## Local Government Pension Scheme (LGPS) factsheet

### Pensions Taxation - Lifetime Allowance

HM Revenue and Customs impose two controls on the amount of pension savings you can make without having to pay extra tax. These controls are known as the annual allowance and Lifetime Allowance. This is in addition to any income tax you pay on your pension once it is in payment.

This factsheet looks at the Lifetime Allowance (LTA) which the total value of all pension benefits you can have without triggering an excess benefits tax charge.

For information about the Annual Allowance please refer to the Annual Allowance factsheet.

#### What is the Lifetime Allowance?

The Lifetime Allowance is the total value of all pension benefits you can have without triggering an excess benefits tax charge. If the value of your pension benefits when you draw them (not including any state retirement pension, pension credit or any partner's or dependant's pension you may be entitled to) is more than the Lifetime Allowance, or more than any protections you may have, you will have to pay tax on the excess benefits.

The Lifetime Allowance covers any pension benefits you may have in all tax-registered pension arrangements - not just the LGPS.

The Lifetime Allowance was introduced in 2006 and was reduced in 2012 and again in 2014. Each time the Lifetime Allowance limit reduced, if you had already planned your pension savings on the basis of the higher Lifetime Allowance limit you could protect your pension savings by applying to HMRC for a protection certificate. These protections are covered in more detail later in this factsheet.

The Lifetime Allowance limit has been steadily reducing from 2012/13, as below:

<b>Tax Year</b>	<b>Lifetime Allowance</b>
2011/12	£1.8 million
2012/13	£1.5 million
2013/14	£1.5 million
2014/15	£1.25 million
2015/16	£1.25 million
2016/17	£1.00 million

The Lifetime Allowance limit will be increased in line with inflation from 2018 onwards.

#### How is the Lifetime Allowance calculated?

For pensions that start to be drawn on or after 6 April 2006, the capital value of those pension benefits is calculated by multiplying your annual pension by 20 and adding any lump sum you draw from the pension scheme.

For pensions already in payment before 6 April 2006, the capital value of these is calculated by multiplying the current annual rate, including any pensions increase, by 25. Any lump sum already paid is ignored in the valuation.

When any LGPS benefit, or any other pension arrangement you may have, is put into payment you use up some of your Lifetime Allowance - so even if your pensions are small and individually will not be more than the Lifetime Allowance you should keep a record of any pensions you receive. If you have a pension in payment before 6 April 2006, this will be treated as having used up part of your Lifetime Allowance.

If your LGPS benefits are more than your Lifetime Allowance limit you will have to pay tax on the excess. If your excess benefits are paid as a pension the charge will be 25%, with income tax deducted on the ongoing pension payments; if the excess benefits are taken as a lump sum they will be taxed once only at 55%.

You can choose to pay the tax charge immediately by a reduction to your lump sum or you can ask the scheme to pay the charge for you in return for a permanent reduction to your pension – this is called a Lifetime Allowance debit.

## Examples

### Sarah retires on 31 May 2016

LGPS annual pension	£20,000
LGPS lump sum	£45,000
AVC taken as lump sum	£200,500
<b>Capital Value of benefits</b>	<b>£645,500</b>

(£20,000 x 20 + £45,000 + £200,500)

Sarah has not drawn any pension benefits previously; the capital value of her benefits is less than the LTA limit for 2016/17 of £1million. She has used 64.55% of the available LTA.

### Patrick retires on 31 May 2016

LGPS annual pension	£45,000
LGPS lump sum	£150,000
AVC taken as lump sum	£20,000
<b>Capital Value of benefits</b>	<b>£1,070,000</b>

(£45,000 x 20 + £150,000 + £20,000)

Tax charge payable on benefits in excess of £1m (£70,000 x 55%) **£38,500 Tax charge**

£1m (£70,000 x 55%)

This example assumes Patrick has not applied for any Lifetime Allowance protection and that he has opted to be paid the benefits in excess of the LTA as lump sum. He has used 100% of the available LTA.

## Changes to the Lifetime Allowance

The Government has announced that the Lifetime Allowance limit will be reduced from £1.25 million to £1 million from 6 April 2016.

Two new protections will be introduced from 6 April 2016 and will be known as Fixed Protection 2016 and Individual Protection 2016. These protections will be the same in design as Fixed and Individual Protections 2014 which were introduced when the Lifetime Allowance reduced from £1.5 million to £1.25 million in 2014.

### Individual Protection 2016 (IP2016)

You can apply for Individual protection 2016 from 6 April 2016 if you have pension savings valued at over £1 million (including taking into account past benefits already in payment) on 5 April 2016. However, if you have primary protection or individual protection 2014 you can't apply for IP2016.

IP2016 gives a protected Lifetime Allowance equal to the value of your pension rights on 5 April 2016 - up to an overall maximum of £1.25 million. You will not lose IP2016 by making further savings in to your pension scheme but any pension savings in excess of your protected Lifetime Allowance will be subject to a Lifetime Allowance charge.

### Fixed Protection 2016 (FP2016)

You can apply for Fixed Protection 2016 from 6 April 2016 if you expect your pension savings to be more than £1 million (including taking into account past benefits already in payment) when you come to take them on or after 6 April 2016. FP2016 can be used to help reduce or mitigate the Lifetime Allowance charge.

You can't have FP2016 if you already have primary, enhanced, fixed protection 2012 or fixed protection 2014.

With FP2016 your Lifetime Allowance is fixed at £1.25 million rather than the standard Lifetime Allowance. The maximum tax free lump sum you can take on retirement is the lesser of:

- 25% of the capital value of your LGPS benefits, or
- 25% of the Lifetime Allowance which, for those with fixed protection, is £312,500 (i.e. 25% of your Lifetime Allowance of £1.25million) less the value of any other pension rights you have in payment.

**Please note, you will lose FP2016 if you are an active member of the LGPS on or after 6 April 2016.** FP2016 is lost if your benefits increase by more than the cost of living increase. As the cost of living increase for the year 2016/17 is zero, any pension build up, however small, will lead to your pension increasing by more than zero. Therefore, members wishing to apply for, and keep, FP2016 will need to opt out of the LGPS with effect from 6 April 2016. You may wish to take independent financial advice to understand your own situation before making your decision.

FP2016 will also be lost if you start a new pension arrangement, other than to accept a transfer of existing pension rights, or if you pay contributions into a money purchase pension arrangement, other than to a life assurance policy providing death benefits that

started before 6 April 2006. You will also be subject to restrictions on where and how you can transfer benefits.

### **Applying for Fixed and Individual Protection 2016**

HMRC are introducing a new online self-service for pension scheme members to apply for individual protection 2016 (IP2016) or fixed protection 2016 (FP2016). You will no longer receive a Lifetime Allowance protection certificate, instead once you have successfully applied for protection the online service will provide you with a reference number which you will need to keep.

However, this service will not be available until July 2016 so an interim process will be available for the period 6 April 2016 until July 2016. Please note, it is not possible to apply for the protections before 6 April 2016 because, as part of the application, you must provide certain values or make declarations relating to your pension savings as at 5 April 2016.

### **Interim process**

If you are planning to retire between 6 April 2016 and July 2016 will need to write to HMRC so that they can check the details of your protection and provide you with a temporary reference number to give to your pension fund. Once the new online system goes live in July 2016 you will need to make a full online application so that your pension savings can continue to be protected against the Lifetime Allowance tax charge.

HMRC have produced template letters to assist you with this process and these are available at. <https://www.gov.uk/government/publications/pension-schemes-newsletter-76-february-2016/pension-schemes-newsletter-76-february-2016#appendix-1--fp2016-interim-process-application>

Members who are not planning to take benefits between 6 April 2016 and July 2016 should wait and apply for protection using the online digital service which will be available in July 2016.

### **Individual Protection 2014 (IP2014)**

You can still apply for protection from the 2014 reduction in Lifetime Allowance by applying for Individual Protection 2014 if your pension savings at 5 April 2014 are valued at over £1.25 million.

IP2014 gives a protected Lifetime Allowance equal to the value of your pension rights on 5 April 2014 - up to an overall maximum of £1.5 million. You will not lose IP2014 by making further savings in to your pension scheme but any pension savings in excess of your protected Lifetime Allowance will be subject to a Lifetime Allowance charge.

Your application for IP2014 must be received by HMRC no later than 5 April 2017. Applications can be made at:

<https://online.hmrc.gov.uk/shortforms/form/IP2014?dept-name=&sub-dept-name=&location=36&origin=http://www.hmrc.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, if you had already planned your pension savings on the basis of the higher Lifetime Allowance you could protect your pension savings by applying to HMRC. If you have applied for a previous protection i.e. enhanced protection, primary protection, fixed protection 2012, individual protection 2014 or fixed protection 2014 you should have received a certificate to confirm your protection.

However you may still be subject to the Lifetime Allowance charge if you lose this protection.

You can find more information these protections and when they may be lost at: <https://www.gov.uk/tax-on-your-private-pension/lifetime-allowance>

### **I think I might be affected – what should I do?**

Before considering any action to reduce your tax liabilities you should always seek independent financial advice from an FCA registered adviser. For help in choosing an independent financial adviser visit:

<https://www.moneyadvice.service.org.uk/en/articles/choosing-a-financial-adviser>

There are certain considerations that you may wish to take into account:

- Converting annual pension for lump sum at retirement can reduce the capital value of your pension benefits
- If you wish to slow down your pension build up the 50/50 section of the LGPS allows you to pay half your normal contributions and build up half your normal pension whilst still retaining full life and ill health cover
- If you opt out of the LGPS with the right to a deferred benefit you will not be able to aggregate your benefits should you re-join the LGPS at a later date

If you have any questions about your LGPS membership or benefits, please contact your LGPS Pension Fund:

<b>Address:</b> Enfield Council, Pensions Team, Civic Centre, Silver Street, Enfield EN1 3XF
<b>Email:</b> <a href="mailto:zpensions@enfield.gov.uk">zpensions@enfield.gov.uk</a>

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This factsheet provides an overview of the LTA rules at March 2016. It should not be treated as a complete and authoritative statement of the law. The rules governing LTA can be complex and are subject to change; if you are unsure how to proceed you are advised to obtain independent financial advice.