

The Government is reducing the Lifetime Allowance for pension savings from £1.25 million to £1 million from April 2016. From 2018-19, the Lifetime Allowance will be increased by inflation (the Consumer Prices Index). This factsheet will help you understand if this change might affect you.

1. The Lifetime Allowance

The Lifetime Allowance is the maximum amount of pension savings that you can make tax-free over your lifetime. This is currently £1.25 million. The Government has announced that the Lifetime Allowance will reduce to £1 million from 6 April 2016. The Lifetime Allowance will increase by CPI from 2018-19 onwards.

When you come to take your pension savings, anything over your tax-free lump sum will normally be taxed at your marginal rate of income tax. If your pension savings are higher than the Lifetime Allowance, then any pension savings above this level will be subject to an additional tax charge.

2. How to tell if you are affected

You can check if you are likely to be affected by the Lifetime Allowance by asking your pension provider how much your unused pot is worth and how much of your Lifetime Allowance you've already used up.

You can also get this information from your most recent pension statement.

If you're in more than one pension scheme, you will need to add up your pension savings and how much you have across all your schemes. The total amount is the amount that will count towards the Lifetime Allowance if you took your pension today.

3. What counts towards your Lifetime Allowance

This will depend on the type of pension scheme your savings are in.

If you are in a defined contribution scheme, it will be the value of your pension pot that will count towards your Lifetime Allowance.

If you are in a defined benefit scheme, for example a final salary scheme, the calculation depends on how much your provider promises to give you per year when you retire. This amount, multiplied by 20, plus the amount of any lump sum is the amount that will count towards your Lifetime Allowance.

Therefore if you receive a pension of £5,000 per year plus a lump sum of £15,000, this would have a value of $20 \times £5,000$ plus £15,000 = £115,000.

Your pension provider will be able to tell you what kind of scheme you are in if you do not know.

4. What to do if you think you may be affected

For those who think they may be affected by the reduction in the Lifetime Allowance, the Government has announced that transitional protection will be available.

Where this protection applies, any pension savings you have on the 5 April 2016 up to the value of the current Lifetime Allowance of £1.25 million, will be protected from the Lifetime Allowance charge.

If you think you may be affected, you do not need to do anything now but you can prepare for April 2016 by checking the value of your existing savings.

Some individuals will already have transitional protection, either from when the Lifetime Allowance was first introduced, or from previous reductions. If you hold one of these protections, then as long as you continue to hold this, you will not be affected by the reduction of the Lifetime Allowance to £1 million.

5. What happens next

The reduction in the Lifetime Allowance was announced at Budget 2015. Legislation will follow, subject to the will of Parliament.

Individuals will be given sufficient time after the legislation is finalised, to gather any necessary information about their pension savings on 5 April 2016 so that they can opt for transitional protection.

When the Lifetime Allowance was reduced to £1.25 million from 6 April 2014, two transitional protection regimes were introduced, fixed and individual protection. The transitional protection that will be provided this time is expected to be similar to these previous protection regimes. Broadly:

- A protection that will protect the value of pension savings at 6 April 2016 but future contributions and investments will be taxed at 55%
- A protection that will protect existing savings at 6 April 2016 and any future investment growth up to £1.25m, but further contributions will not be allowed

For more information about existing protections, see:

<http://www.hmrc.gov.uk/manuals/rpsmmanual/RPSM11100000.htm>