



TAYLOR PATTERSON

PART OF MATTIOLI WOODS PLC



THE LIFETIME ALLOWANCE & PROTECTION

The lifetime allowance (LTA) was introduced in 2006, and tests the value of all your pension arrangements whenever you take benefits. It includes the total of all the pensions you have, including the value of pensions promised through any final salary schemes you belong to, including any from which you may be paid a pension. It may also include any payment made from an employer in the event of your death in service. It does not include your state pension.

There is no limit on the value of pension savings that can be built up. However, if it exceeds the LTA when the pension benefits are taken, the amount in excess of the LTA will be subject to a tax charge known as the lifetime allowance charge.

The LTA is expressed as a capital value and is set at a particular level each tax year. The Treasury sets these limits and they can increase/decrease them each year. The standard LTA for the 2017/18 tax year is £1 million. This will be increased from 6 April 2018 by reference to the consumer price index.

The lifetime allowance applies to the value of your combined UK registered pension schemes and some overseas pension schemes. The value of your pension benefits can include any or all of the following:

- 1) The value of any money purchase pension pots.
- 2) The value of any defined benefit plans. This will be calculated by the scheme, but is usually 20 x the value of the pension
– though some schemes are different and it is important to check.
- 3) The value of any pension plans in payment before 6 April 2006 that have yet to be tested against the lifetime allowance. This is normally 25 x the pension in payment (certain conditions apply). This will only be applicable if you take other benefits after April 2006.
- 4) In the event of your death, any payment from a registered group life scheme.

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 in excess of the lifetime allowance

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

What does it mean to test against the lifetime allowance?

When a member draws benefits, they use up a proportion or percentage of their LTA. The circumstances where an LTA test occurs are called benefit crystallisation events (BCE). Each time a member takes new benefits, a capital value is given to the benefits that have been used. This capital value is converted into a percentage of the LTA for the tax year in which the BCE occurred in. That percentage is then measured or tested against your available LTA.

In the event of someone with pension benefits in payment prior to April 2006 taking benefits for the first time since 2006, the pension in payment is tested against the available LTA at the point of the first post-April 2006 BCE.

The percentage crystallised stays fixed, regardless of increases or decreases to the LTA.

Is the LTA the same for everyone?

In some circumstances an individual's LTA will actually be higher than the standard lifetime allowances (SLA) as set by the Treasury. For example, where the member holds a certain type of pension credit or they are entitled to 'protection'.

There are rare circumstances where an individual would have a lower LTA than the SLA.

If protection gives you a higher LTA, why doesn't everyone have it?

There are various forms of protection, including enhanced, primary, fixed and individual. However, there are certain restrictions that apply to having protection, and certain protections were only available for a limited time.

If you do have a protected LTA, then you need to ensure that the scheme is notified of your protected status to ensure that it is not inadvertently invalidated.

The most common criteria is a restriction on making pension contributions; however, there are some additional restrictions that cover membership of a registered group life scheme.

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Payments from a registered group life scheme

Payments from a registered group life scheme do not have a value unless a payment is made; however, for some clients, death benefits, if paid, can place a member over the lifetime allowance.

If you feel this may affect you, we recommend you speak to your financial adviser.

Please note, joining a new group life scheme or a change in benefit structure of an existing group life scheme could invalidate any lifetime allowance protection held.

Can I apply for protection now?

Protection became available for members when the LTA reduced to £1 million on 6 April 2016; however, there will be restrictions applicable and we recommend speaking with your financial adviser to determine if this may be suitable for you.

From 6 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. To apply for fixed protection 2016 contributions must cease pre 6 April 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.

Those individuals who have already elected protection previously, (enhanced, primary, fixed protection 2012, fixed protection 2014, or individual protection 2014) will be unaffected by this change and can retain their existing levels of protection. However, for those who have not yet elected for protection or may lose existing protection, consideration needs to be given to current pension fund values (to include all schemes), future contribution levels, and possible future investment growth, and whether to apply for the new protection.

Members will need to take further advice if they are:

Close to or over the proposed LTA of £1 million from April 2016

In receipt of pension that was in payment before April 2006 and has other benefits which have not been taken from 6 April 2006

Have large death-in-service benefits

For any member who wishes to apply for protection, or who feels that they may breach the lifetime allowance in the future, please be mindful of any contributions and contact either your financial adviser, or contact Taylor Patterson using the contact details below to discuss this further.