About the Lifetime Allowance

Pension savings come with incentives such as tax relief on contributions of up to £60,000 each year and no tax on investment growth or income. However, if the value of your total pension savings and benefits is more than the 'lifetime allowance' set by the government, you may have additional tax to pay.

IN THIS GUIDE WE COVER:

- **Who might be affected**
- **How to work out the value of your pension savings and benefits**
- **What steps those affected can take to minimise tax bills**

Following the Chancellor's announcement in the Spring Budget, changes to the rules around the pension lifetime allowance start to come into effect from 6 April 2023.

We've yet to receive final confirmation from HM Revenue & Customs (HMRC) on how these changes will be enacted and how they will affect our customers.

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What is the lifetime allowance?

Before explaining the lifetime allowance itself, it's helpful to give some context.

In the UK, the government gives tax relief on pension contributions, doesn't tax investment growth or income on pension savings, and allows you to take a tax-free lump sum. Tax is then paid on income or lump sums once you start to take money out of your pension.

The government places a limit on the total amount you can build up in pension savings and benefits over your lifetime called the lifetime allowance, above this, some of your benefits are restricted. The current lifetime allowance is £1,073,100. The lifetime allowance applies to both employer and personal pensions. It doesn't include the value of your state pension.

Will my pensions exceed the lifetime allowance?

An increasing number of people are on track to build up pension savings and benefits worth more than the lifetime allowance for different reasons:

- Over the last decade, the value of the lifetime allowance has reduced significantly in real terms
- Many people expect to work longer before retiring, meaning that they may build up more pension savings and benefits
- More people choose to leave some of their pension savings invested, meaning that they have more time to grow in value

It's worth checking the current value of all your pension savings and benefits against the lifetime allowance (LTA), if you have:

- a generous workplace pension, either savings-related or salary-related
- saved significant amounts into personal pensions
- ever belonged to a workplace salary-related pension

It's worth knowing that some types of pension can be more valuable than you might think. This is especially true of workplace salary-related pensions, which are also known as defined benefit or final salary pensions.

How do I work out what my pensions are worth?

You'll need to add up the value of **all** the pension savings and benefits you've built up, not just the ones you are paying into now. The method used to determine the value of your pensions depends upon the type of pension arrangements you have. In the following section we explain how to find out the value of the two main types of pension.

Savings related pensions are also often called defined contribution or money purchase pensions and are now the most common type of pension arrangement.

This type of pension is usually built up from personal and employer contributions that are invested over your lifetime to provide a pot of money for retirement. The money is invested and the value goes up and down in line with the value of investments. Your income in retirement will depend on how much the investments are worth.

You should receive an annual statement from your pension provider telling you the value of your pension savings or you may be able to get a current online valuation. If you have more than one savings-related pension you need to add these totals together to work out how much they are worth compared to the lifetime allowance (LTA).

Salary related and **defined benefit** pensions give a retirement income based on salary and the length of time you worked for your employer and may include other benefits such as a lump sum or spouse's pension. They are more common in the public sector than in the private sector, although if you are in the later part of your working life, you may have belonged to a private sector scheme in the past.

Rather than showing the value of your pension savings, annual statements for salary-related schemes show the pension you are on track to receive at retirement. To work out an accurate current value for LTA purposes, you should ask your provider to tell you the current value of your pension savings and benefits. Many salary-related schemes also pay a tax-free lump sum which should also be included. This kind of pension can be very valuable, especially if it includes other benefits, so even if the projected pension is small, it could use a significant part of your lifetime allowance.

If you have any non-UK pension savings you should check with your provider whether they need to be included in working out your lifetime allowance. You may also wish to consider taking financial advice from an appropriately qualified adviser.

Important information

The value of investments and the income from them can go down as well as up so you may get back less than you invest. Tax treatment depends on individual circumstances and all pension and tax rules may change in the future. The minimum age you can normally access your pension savings is currently 55, but this is due to rise to 57 on 6th April 2028.

If you started taking a pension before 2006, please note that different rules apply which are not covered in this guide.

Remember that If you don't have up to date information about the value of your past pension arrangements, you can call or write to your provider to ask for it. If you aren't sure whether you had a pension with a previous employer, or don't have contact details you can find out by using the Pension Tracing Service - **https://www.gov.uk/find-pension-contact-details**

Will anybody check my LTA?

It's important to know that neither the tax authorities, nor your pension providers, will check the value of your pensions against the LTA before you first take money out of your pension. Don't expect a warning letter as you approach this limit as it's your responsibility to check.

It's therefore a good idea to know how much your total pension savings and benefits are worth, even if you don't expect to take money or benefits for many years. You may also want to consider how much they are projected to be worth at points in the future, along with any further contributions you or others will be making to your pensions.

Your pension savings **will** be tested against the LTA at key dates:

- When you take a lump sum or income from your pension. Once you reach normal minimum pension age you are free to cash in or access part, or all of your pension. At this stage it's important to know that it is the **total** value of the pension that you **access** that is assessed against the LTA, not the total value of your pension savings. The amount of your pension you access may be more than the cash amount you take out. For example, if you want to take a tax-free lump sum of £25,000, you will access £100,000 of your pension which will use up 9.31% of your LTA based on the current LTA of £1,073,100.
- When you reach the age of 75, any pensions you haven't accessed are tested against the LTA. In addition, any growth in existing drawdown pensions will be re-tested against their original value.
- If you die before the age of 75 any pensions you haven't accessed will be tested against the LTA.
- If you transfer some, or all, of your pension into a Qualifying Recognised Overseas Pension Scheme before the age of 75.

My pension could exceed the LTA. What do I do next?

This is an apparently simple question with many different answers which will depend on personal circumstances such as your age, your household situation, your other savings or assets and your future retirement plans.

If you are in this position, you should consider taking financial advice from an appropriately qualified adviser that takes your personal circumstances into account and which considers your options for continued pension saving, other tax-efficient ways to save and your options for taking pension benefits. Pensions are a long-term investment and can be complex: the benefits of advice taken on a timely basis are therefore likely to be worth more than the costs of doing so.

Protection of lifetime allowances

When the government introduced the LTA and each time it has reduced the LTA, it has included provisions that preserve tax benefits for people who already held pension savings and benefits worth more than the new LTA. These are known as protection schemes.

There are a number of protection schemes in place, which in essence give savers their own personal LTA. The exact amount will depend on the value of their pensions when rules came into force and the protection they applied for.

Savers have to apply to get this protection which is currently only available to people who held pensions worth more than £1m at 5 April 2016. You need to look at the terms carefully as in some cases you may not be able to make further pension contributions or build up more benefits if you want to protect this higher LTA. This may require certain actions on the part of you, the individual, and once again you may wish to consider taking financial advice.

There are a number of earlier protection schemes which are not covered here as it is no longer possible to join them.

How do I apply for protection?

If you are eligible to apply, the application process is online at **https://www.gov.uk/guidance/pension-schemes-protect-your-lifetime-allowance**. If you are unable to use the online service you can contact the HMRC Pensions helpline for applications. There is no application deadline for these protections, however, to rely on the relevant protection, you must have applied and received a reference number from HMRC before your pension is tested against the LTA and must have met all conditions. This applies even when the benefits being taken are worth less than £1,073,100.

A guide on how to value your pensions for Individual Protection 2016 is also available from HMRC. **https://www.gov.uk/guidance/pension-schemes-value-your-pension-for-lifetime-allowance-protection**

When can I access pension savings and benefits?

This will depend on your personal circumstances and the rules of the pension schemes you belong to. The minimum age you can normally access your pension savings is currently 55, but this is due to rise to 57 on 6th April 2028. Though generally this is the earliest you can take your savings; in certain circumstances, like ill health, you may be able to take them earlier.

HOW CAN FIDELITY HELP?

Just call our

Workplace Investing Service Centre on **0800 368 6873**

The information in this guide is correct as at 6 April 2023.

Guidance from the government: Pension Wise

The government offers a free and impartial guidance service to help you understand your options at retirement. This is available via the web, telephone or face-to-face through the Pension Wise service which is now part of MoneyHelper; the easy way to get free help for all your pension and money choices. You can find out more by going to **moneyhelper.org.uk/pensionwise** or calling them on **0800 011 3797**

Pension wise
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