

Warwickshire Fire Pension Scheme (FPS) 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 is 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 on our website - <https://www.warwickshirepensionfund.org.uk/firefighters-pension>.

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 Fire Pension Scheme.

The lifetime allowance was introduced in 2006 and was reduced in 2012, 2014 and again in 2016. Each time the lifetime allowance reduced, if you had already planned your pension savings on the basis of the higher lifetime allowance, you have been able to protect your pension savings by applying to HMRC for a lifetime allowance protection. These protections are covered in more detail later in this factsheet.

The lifetime allowance has been steadily reducing from 2012/13, as below:

Tax Year	Lifetime Allowance
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
2017/18	£1.00 million

The lifetime allowance 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 Fire Pension 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 Fire Pension benefits are more than your lifetime allowance 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

Fire annual pension	£20,000
Fire lump sum	£45,000
Capital Value of benefits	£445,000
($£20,000 \times 20 + £45,000$)	

Sarah has not drawn any pension benefits previously; the capital value of her benefits is less than the LTA for 2016/17 of £1million. She has used 44.50% of the available LTA.

Patrick retires on 31 May 2016

Fire annual pension	£45,000
Fire lump sum	£150,000
Capital Value of benefits	£1,050,000
($£45,000 \times 20 + £150,000$)	
Excess over the LTA	£50,000

Tax charge payable on benefits in excess of £1m ($£70,000 \times 55\%$)

This example assumes Patrick has not applied for any lifetime allowance protection. He has used 100% of the available LTA.

Changes to the lifetime allowance

The lifetime allowance reduced from £1.25 million to £1 million with effect from 6 April 2016.

Two new protections have been introduced from 6 April 2016 and are known as Fixed Protection 2016 and Individual Protection 2016. These protections are 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.

Fixed protection 2016 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 was zero, any pension build up, however small, will lead to your pension increasing by more than zero. Therefore, if you applied for and wish to keep, fixed protection 2016 you would have needed to have opted out of the FPS with effect from 6 April 2016.

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.

If you lose fixed protection 2016 you must electronically notify HMRC within 90 days of the day on which you could first reasonably be expected to have known that an event had occurred causing you to have lost this protection. Failure to do so could result in a fine of £300 and a penalty of up to £60 per day after the initial fine has been issued until you supply them with the required notification.

Applying for Fixed and Individual Protection 2016

HMRC have introduced a new [online self-service](#) for pension scheme members to apply for individual protection 2016 (IP2016) or fixed protection 2016 (FP2016). There is no application deadline for IP2016 or FP2016, however, you must apply before you take your retirement benefits as you will need to provide the HMRC reference number to your pension fund administrator if you want to rely on the protection.

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.

Your pension savings may already be protected

As mentioned, the lifetime allowance was introduced in 2006 and was reduced in 2012, 2014 and again more recently in 2016. 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 about these protections and when they may be lost at [Tax on your private pension contributions](#).

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 the [money advice website](#).

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

- Converting annual pension for lump sum at retirement can either increase or reduce the capital value of your pension benefits depending on the commutation factor.
- Before opting out of the Fire Pension Scheme, you will need to understand what you will be giving up by doing so (for example, when you may draw your benefits).

More information

If you have any questions about your FPS membership or benefits, please contact:

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Disclaimer

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If you are unsure how to proceed you are advised to obtain independent financial advice.

This factsheet provides an overview of the LTA rules at April 2017. 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.