

## **Scheme members**

If your pension savings are worth more than £1 million you may need to protect your pension savings from the lifetime allowance tax charge.

### **What is the lifetime allowance?**

The lifetime allowance is the amount of savings you can take from your pension schemes without facing a tax charge.

The lifetime allowance is currently £1.25 million but is reducing to £1 million from 6 April 2016.

From 6 April 2016 if you take more than £1 million from your combined pension savings, you may face a tax charge.

### **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 over the lifetime allowance and
- 25% of any amount you take from your pension savings as pension income that is over the lifetime allowance.

### **Do you know the value of your combined pension funds?**

The lifetime allowance applies to the value of your combined UK registered pension schemes and some overseas schemes. Your pension scheme administrator(s) may already send you information that will help you to find out the value of your combined pension savings. If not you should contact your pension scheme administrator(s) for more information.

This information will help you if you need to apply to protect your pension savings from the lifetime allowance tax charge.

### **Do I need to do anything now?**

If you are agreeing salary and pension contribution levels with your employer for next year, increases in contributions to your pension schemes based on higher earnings may mean you exceed the lifetime allowance.

You may need to act to protect yourself from a tax charge even if you are not yet nearing retirement.

If you have existing protection but know that you may lose this you may also need to consider whether to apply for the new protections.

### **What do I need to do to protect my pension savings?**

From 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.

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. The new self-service system is still being developed and we will provide you with more information on this in due course.

You can find more information about the reduction of the lifetime allowance in Pension Schemes Newsletters 72 and 73.

[Pension schemes newsletter 72 - September 2015 - GOV.UK](#)

[Pension schemes newsletter 73 – October 2015 - 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, people who had already planned their pension savings on the basis of the higher lifetime allowance could protect their pension savings by applying to HMRC and should have received a certificate to confirm their protection.

However you may still be subject to the lifetime allowance charge if you lose this protection.

You can still apply for protection from the 2014 reduction in lifetime allowance until 5 April 2017. You can find more information about how to do this along with other information about the existing protections and when these may be lost at [Tax on your private pension contributions - GOV.UK](#) .

## **Scheme Administrators**

The lifetime allowance for pension savings will be reduced from £1.25 million to £1 million from 6 April 2016. As you know members of a registered pension scheme have a single lifetime allowance in relation to the value of tax-privileged benefits they can draw from their pension schemes over a lifetime. Any benefits paid out from registered pension schemes in excess of a member's lifetime allowance are subject to a tax charge known as the lifetime allowance charge. The tax charge is 55% of any amount over the lifetime allowance taken as a lump sum and 25% of any amount taken as pension income that is over the lifetime allowance.

The pension tax rules set out when a pension scheme administrator must check whether the pension benefits arising exceed the member's available lifetime allowance, usually when the member starts to draw a pension. However members need to be aware that decisions they make now may mean that they exceed their lifetime allowance and be subject to a tax charge in future.

Feedback from the pensions industry indicates that affected members are making decisions now and agreeing salaries and the level of pension savings for both their own and their employer contributions for 2016 to 2017. These decisions, may result in a lifetime allowance tax charge if members are not aware of the lifetime allowance reduction so we are asking you to make your members aware of the change.

Please let your members know that lifetime allowance protection regimes will be available to protect their pension savings when the lifetime allowance reduces to £1 million from 6 April 2016. There will be two new protection regimes, known as fixed protection 2016 and individual protection 2016 and these will have similar conditions to fixed protection 2014 and individual protection 2014.

Your members will be able to apply for fixed protection 2016 and individual protection 2016 by using a new on-line self-service system which will be available from July 2016. The new self-service system is still being developed and we will provide you with more information on this in due course. We are also introducing an online service for scheme administrators to check the protection status of their scheme members and again we will provide more information on this in due course.

## **Independent Financial Advisers**

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Feedback from the pensions industry indicates that affected members are making decisions now and agreeing salaries and the level of pension savings for both their own and their employer contributions for 2016 to 2017. These decisions, may result in a lifetime allowance tax charge if members are not aware of the lifetime allowance reduction and we are asking you to remind your clients of the change.

Please let your clients know that lifetime allowance protection regimes will be available to protect their pension savings when the lifetime allowance reduces to £1 million from 6 April 2016. There will be two new protection regimes, known as fixed protection 2016 and individual protection 2016 and these will have similar conditions to fixed protection 2014 and individual protection 2014.

Your clients will be able to apply for fixed protection 2016 and individual protection 2016 by using a new on-line self-service system which will be available from July 2016. The new self-service system is still being developed and we will provide you with more information on this in due course.