

Pension tax changes: The Standard Lifetime Allowance (LTA) is Reducing

In the Finance Act 2011, the Government confirmed that the standard lifetime allowance (LTA) would be reduced from its current value of £1.8m to £1.5m, effective from the 6 April 2012.

For the purposes of the LTA benefits crystallise on the date the member had an actual right to receive their benefits. This date is the later of:

- the payable date; or
- the date benefits are actually authorised by NHS Pensions.

The reduced LTA will therefore apply to members who become entitled to receive their benefits when they:

- retire on or after 6 April 2012 – and the date the benefits are authorised is before that date; or
- retire before 6 April 2012 – and the date the benefits are authorised is on or after 6 April 2012.

For member's who are affected by the reduced allowance, the percentage of LTA used will be based on £1.5m. In addition, for high earning scheme members any LTA charges that may apply to their benefits will also be based on the reduced LTA. Any delay in claiming your benefits may therefore result in:

- a bigger percentage of the LTA being used up – LTA charges may then apply to a later benefit crystallisation because there is insufficient LTA remaining.
- high earning scheme members - may become subject to LTA charges or see those charges increase.

The following examples illustrate when the change would apply:

Member A: Benefits are payable from 01 April 2012. The application form to retire is received 3 months before retirement, benefits are calculated and authorised on 19 March 2012. Benefits are tested against a LTA of £1.8m because they crystallise on the payable date of 01 April 2012.

Member B: Benefits are also payable from 01 April 2012. The application form to retire is completed 3 months before retirement but there is a delay before NHS Pensions receives the form and benefits cannot be authorised until 09 April 2012. Because of the delay benefits do not crystallise until 09 April 2012 and must therefore be tested against the lower LTA of £1.5m.

Member C: Benefits are payable from 08 April 2012. The application form to retire is received prior to the last day of service, benefits are calculated and

authorised on 16 March 2012. The benefits are tested against a LTA of £1.5m because they crystallise on the payable date of 08 April 2012.

It is **important** to note that NHS Pensions has no discretion on the date benefits crystallise and the calculation of the LTA used.

Important action for members

If you wish to have your benefits assessed against the LTA of £1.8m you must retire before 6 April 2012 and allow sufficient time before that date for the benefits to be authorised. Your completed retirement application form must therefore be sent to NHS Pensions at least three months before the intended retirement date. NHS Pensions cannot accept responsibility for any delay in authorising benefits if the application is delayed or incomplete.

Any revision to your benefits (substitute awards) that is authorised on or after 6 April 2012 will be a separate crystallisation of benefits and based on the lower standard LTA of £1.5m.

Protection against the reduction to the LTA

Members may protect their pension benefits from the reduction to the LTA by applying for "Fixed Protection". Further information about Fixed Protection can be found at (NHS web note) & (HMRC webpage(s)).

Members who have either Enhanced or Primary Protection will continue to have a level of protection from LTA charges.