

The Lifetime Allowance (LTA)

The lifetime allowance is the limit, set by the Treasury, on the capital value of benefits an individual can take without incurring a tax charge. The LTA is normally tested at the point at which you take your benefits, and this is called 'crystallisation' of your benefits.

To find out whether the capital value of your benefits is likely to be over the LTA, you will need to add together the capital value of your NHS and any other pension benefits you may have. If the TOTAL of the capital values of your pension benefits from all registered pension schemes is over the LTA when you retire there may be some tax to pay.

The basic value of the LTA is £1.8 million for the tax year 2010/11 and 2011/12.

Are my NHS benefits likely to be over the LTA?

There are rules for calculating the capital value of your benefits. The important thing to remember is that the LTA applies to the total amount of your pension savings - whether in pension schemes such as the NHS Pension Scheme or personal pensions and stakeholder pensions. It does not however apply to your old age pension payable from the State.

Money purchase pensions such as personal pensions, stakeholder pensions and the NHS Money Purchase Additional Voluntary Contribution Scheme have a fund value associated with them. The capital value of these pensions is simply the fund value.

The NHS Pension Scheme is a salary-related scheme and the capital value of its benefits is valued differently. This is explained below.

Members with long service and high earnings may be at risk of exceeding the LTA.

Current members and members with deferred pensions

Both current and deferred members who have a pension entitlement can check the current likely capital value of their NHS Pension Scheme benefits by multiplying their gross annual pension amount by 20 and then adding their lump sum to this amount.

$$(\text{Annual pension} \times 20) + \text{lump sum} = \text{capital value}$$

Example

A member has an entitlement to a NHS Pension Scheme pension of £52,000 and a lump sum of £156,000, which is paid in the tax-year 2010/11.

The member also has a NHS Money Purchase AVC fund value of £32,000 and a separate personal pension plan with a fund value of £15,500, which are both not yet in payment.

The capital value of their NHS Pension Scheme benefits is:

$$(\text{£52,000 per year pension} \times 20) + \text{£156,000 lump sum} = \text{£1,196,000}$$

The LTA for 2010/11 is £1,800,000. The member has used up £1,196,000 of their LTA leaving an amount of £604,000 remaining. If the member then takes their NHS Money Purchase AVC and Personal Pension Plan benefits valued at a total of £47,500 in the same tax year then they will have a remaining LTA of £556,500.

NHS Pension Scheme benefits brought into payment before 6 April 2006

If all of your pension savings were already in payment before 6 April 2006 (the day the tax rules were introduced), and you do not start a new pension, the LTA will not apply to you.

The capital value is calculated differently for NHS Pension Scheme benefits brought into payment before 6 April 2006.

If you have outstanding benefits with another pension provider, you can check the likely capital value of any NHS benefits already in payment **before** 6 April 2006 by multiplying your current gross annual pension amount by 25.

$$\text{Annual pension} \times 25 = \text{capital value}$$

Example

A NHS Pension Scheme member who retired **before** 6 April 2006 currently has a pension in payment of £70,000 a year. The member has a deferred pension of £12,500 a year from another job, which becomes payable on their 65th birthday in the tax-year 2010/11:

Pension benefits are valued, for LTA tax purposes, as follows:

<i>Pension in payment:</i>	£70,000 x 25	= £1,750,000
<i>Deferred Pension:</i>	£12,500 x 20	= £250,000
<i>Total:</i>		= £2,000,000

The lifetime allowance is £1,800,000 in 2010/11. The amount payable is therefore above the LTA. Without transitional protection there will be a LTA charge (see lifetime allowance charge factsheet) applied to the payment of the deferred pension. Lump sums are not taken into account for valuation purposes for benefits brought into payment pre 6 April 2006.

Flexible retirement – 2008 Section

If you are a member of the 2008 Section and you reduce your pensionable pay for at least 12 months and by at least 10% after having reached the minimum retirement age of 55, you may partially retire and take some of your benefits. You can take a minimum of 20% and a maximum of 80% of your own pension. You can do this up to two times before you retire fully.

Below is an example of a member who takes their benefits in two stages.

Flexible retirement example

A member was aged 57 on the 6 April 2010 and the total capital value of their benefits was £2 million. Assuming that they take their benefits in two stages – on 6 April 2010 and 6 April 2014, the lifetime allowance charge that would apply to their excess benefits value would be as follows:

The member decided to take some of their benefits which had a capital value of £500,000.

Benefits value at 1st crystallisation event (6 April 2010)	£2,000,000
LTA 2010/11	£1,800,000
Capital value of benefits taken (crystallised)	£ 500,000
Lifetime allowance charge	£ NIL

This member has used up a capital value of £500,000 of their benefits.

The amount of £500,000, is then increased in line with any increases to the lifetime allowance between the first and second crystallisation events i.e. the first award and final retirement. In this example we assume that the lifetime allowance remains unchanged between 2010/11 and 2014/15.

The amount of £500,000 is deducted from the lifetime allowance at the second crystallisation event on 6 April 2014 before calculating any excess benefits value that the lifetime allowance charge would apply to. This process is repeated each time benefits are taken until all the benefits have been paid.

As the member has decided to take their remaining benefits on the 6 April 2014 having already used up £500,000 of the LTA, the excess amount subject to the lifetime allowance charge is as follows:

The unpaid benefits value has increased from £1,500,000 to £1,600,000 as at 6 April 2014	£1,600,000
Available LTA	£1,800,000
Less capital value of benefits paid	£ 500,000
Amount of LTA remaining	£1,300,000
Capital value of benefits to be paid	£1,600,000
Excess benefits value subject to LTA Charge	£ 300,000

In this example the member has a capital value of £300,000 in excess of the LTA which will be subject to a LTA tax charge.

Dependants pensions

Pensions payable to dependants following the death of a member do not count towards the Lifetime Allowance of the member or the dependant.

What happens if I exceed the LTA?

If the capital value of your pension benefits is more than the LTA when you draw your benefits, a LTA charge will be due. For more information on this, see the factsheet entitled 'The lifetime allowance charge'.

What do I need to do?

We must check your pension benefits against the Lifetime Allowance when you have a "benefit crystallisation event". This is normally when your pension payments start.

At this time we will ask you to provide information on any pensions that you have. If you do not give us the information this may delay payment of your pension or we may deduct a LTA charge from any pension and/or lump sum payable.

Transitional Protection

If you have been granted transitional protection from HMRC then you must send us a copy of your certificate on each occasion when there is a benefit crystallisation event.

This document reflects current law and practice as at October 2010

Important Note - The Government have announced that the lifetime allowance will reduce from £1.8 million to £1.5 million from 6 April 2012.