NHS Pensions - Lifetime Allowance charge examples

Example 1

Dr Black is a 1995 Section member retiring on 1 May 2019 at age 62 with 40 years pensionable service and pensionable pay of £175,800. These provide him with a pension of £87,900 and a lump sum of £263,700. Dr Black has not previously used up any of the LTA.

1995 Section benefits are valued, for LTA purposes, as follows:

Capital value of pension: £87,900 x 20	= £1,758,000
Pension commencement lump sum:	= £263,700
Total capital value:	= £2,021,700
2019/20 LTA	= £1,055,000
Excess over the LTA: (£2,021,700 - £1,055,000)	= £966,700
LTA charge on pension: (25% x £966,700)	= £241,675 payable to HMRC

The LTA charge is recovered by reducing the pension by the amount of the LTA charge divided by an actuarial factor of 20.67 (£241,675 / 20.67)   = £11,692.07

This will result in a 1995 Section pension of £76,207.93 (£87,900 - £11,692.07) and a lump sum of £263,700.

The pension of £76,207.93 will be subject to income tax in the normal way. The lump sum is tax free.

Example 2

Mrs North is a 2008 Section member who retired on 31 October 2015. She had previously taken benefits that used up 60% of the LTA. Mrs North therefore has 40% of the LTA available to use before any liability for a LTA charge arises.

At retirement she has a pension of £45,000 a year and a lump sum of £150,000 after giving up some of her pension.

Capital value of pension: £45,000 x 20	= £900,000
Pension commencement lump sum:	= £150,000
Total capital value:	= £1,050,000

This is 84% of the 2015/16 LTA of £1,250,000.

This exceeds the amount of the available LTA remaining.

To calculate the LTA charge it is first necessary to check that the retirement lump sum does not exceed the maximum permitted tax free lump sum under HMRC's Lump Sum Rules.

The maximum tax free lump sum (known as the Pension Commencement Lump Sum (PCLS)) is the **lower of:**
- 25% of the available LTA; or
- 25% of the capital value of the benefits to be paid

The available LTA is £1,250,000 - 60% of the LTA (£750,000) = £500,000

Maximum tax free lump sum available: £500,000 x 25% = £125,000

                                    or

Capital value of benefits to be paid: £1,050,000 x 25% = £262,500

The lower figure gives a maximum PCLS of £125,000.

As the lump sum to be paid exceeds the maximum permitted PCLS amount by £25,000 (£150,000 - £125,000), this amount becomes a Lifetime Allowance Excess Lump Sum and there is a LTA charge of 55%:

LTA charge: £25,000 x 55% = £13,750

Lump sum payable: £150,000 - £13,750 = £136,250

The capital value of the pension is then assessed against the remaining LTA and any excess is subject to a LTA charge at the rate of 25%.

LTA available: £1,250,000 - £750,000 - £125,000 (PCLS) = £375,000

Capital value pension: (£45,000 x 20) = £900,000

Amount liable for a LTA charge at 25%: £900,000 - £375,000 = £525,000

LTA charge: £525,000 x 25 % = £131,250

The pension is reduced by the amount of the LTA charge divided by a factor of 17.82 (£131,250 / 17.82) = £7,365.32 each year.

This will result in a 2008 pension of £37,634.68 (£45,000 - 7,365.32) a year and lump sum of £136,250.

The pension of £37,634.68 is subject to income tax in the normal way. Only £125,000 of the lump sum is tax free.

Factors have been provided by the Scheme's Actuary to calculate the recovery from a pension. These can be found in Appendix A below.

Appendix A - Factors to calculate the reduction to NHS pension to recoup the Lifetime Allowance charge to 31 March 2019

Age last birthday	1995/2008 Scheme		2015 Scheme
	1995 Section	2008 Section	
20	30.38	30.30	30.28
21	30.24	30.17	30.14
22	30.11	30.03	30.01
23	29.97	29.89	29.86
24	29.82	29.74	29.72
25	29.68	29.59	29.56
26	29.52	29.43	29.41
27	29.36	29.27	29.24
28	29.20	29.11	29.08
29	29.03	28.93	28.91
30	28.86	28.76	28.73
31	28.68	28.58	28.55
32	28.50	28.39	28.36
33	28.31	28.20	28.17
34	28.11	28.00	27.97
35	27.91	27.80	27.76
36	27.71	27.59	27.55
37	27.49	27.37	27.34
38	27.27	27.15	27.11
39	27.05	26.92	26.89
40	26.82	26.69	26.65
41	26.58	26.45	26.41
42	26.34	26.20	26.16
43	26.08	25.94	25.90
44	25.82	25.68	25.64
45	25.56	25.41	25.37
46	25.28	25.13	25.09
47	25.00	24.85	24.80
48	24.70	24.55	24.50
49	24.41	24.25	24.20
50	24.10	23.94	23.89
51	23.78	23.62	23.57
52	23.46	23.29	23.24
53	23.13	22.96	22.91
54	22.79	22.62	22.57
55	22.45	22.27	22.22
56	22.10	21.92	21.86
57	21.73	21.55	21.50
58	21.37	21.18	21.12
59	20.99	20.80	20.74
60	20.60	20.41	20.35
61	20.20	20.00	19.94
62	19.78	19.59	19.53
63	19.36	19.16	19.10
64	18.93	18.72	18.66
65	18.48	18.28	18.21
66	18.02	17.82	17.75
67	17.56	17.35	17.28
68	17.08	16.87	16.81
69	16.57	16.37	16.31
70	16.06	15.86	15.80
71	15.57	15.37	15.31
72	15.08	14.88	14.82
73	14.59	14.39	14.32
74	14.04	13.85	13.79
75	13.48	13.30	13.24

Factors to calculate the reduction to NHS pension to recoup the Lifetime Allowance charge from 1 April 2019

Age last birthday	1995/2008 Scheme		2015 Scheme
	1995 Section	2008 Section	
20	34.66	34.57	34.55
21	34.47	34.37	34.34
22	34.26	34.17	34.14
23	34.05	33.96	33.93
24	33.84	33.74	33.71
25	33.62	33.52	33.49
26	33.40	33.29	33.26
27	33.17	33.06	33.03
28	32.93	32.82	32.79
29	32.69	32.58	32.54
30	32.44	32.33	32.29
31	32.19	32.07	32.03
32	31.93	31.81	31.77
33	31.66	31.54	31.50
34	31.39	31.26	31.23
35	31.11	30.98	30.94
36	30.82	30.69	30.65
37	30.53	30.40	30.36
38	30.23	30.10	30.06
39	29.93	29.79	29.75
40	29.61	29.48	29.43
41	29.29	29.15	29.11
42	28.97	28.82	28.78
43	28.63	28.49	28.44
44	28.29	28.14	28.10
45	27.94	27.79	27.74
46	27.58	27.43	27.38
47	27.21	27.06	27.01
48	26.84	26.68	26.64
49	26.45	26.30	26.25
50	26.06	25.91	25.86
51	25.66	25.50	25.45
52	25.25	25.09	25.04
53	24.83	24.68	24.62
54	24.41	24.25	24.20
55	23.97	23.81	23.76
56	23.53	23.37	23.31
57	23.08	22.92	22.86
58	22.61	22.46	22.40
59	22.14	21.99	21.93
60	21.66	21.51	21.45
61	21.17	21.02	20.96
62	20.67	20.52	20.46
63	20.16	20.01	19.95
64	19.64	19.49	19.44
65	19.11	18.96	18.91
66	18.57	18.40	18.38
67	18.02	17.84	17.84
68	17.47	17.28	17.28
69	16.88	16.69	16.68
70	16.28	16.10	16.07
71	15.71	15.52	15.48
72	15.13	14.94	14.89
73	14.54	14.36	14.30
74	13.91	13.74	13.69
75	13.27	13.12	13.07