

## NHS Pensions - Information about the Lifetime Allowance from 6 April 2019

### Introduction

Since 6 April 2006 there has been no limit on the level of benefits that a member of a registered pension scheme such as the NHS Pension Scheme can receive. Instead every member of a registered pension scheme has a Lifetime Allowance in respect of all their pension benefits not just benefits accrued in this Scheme. This is the amount allowable before they become subject to a tax charge at the point of taking benefits.

Any benefits above the Lifetime Allowance will be subject to a Lifetime Allowance tax charge. The rate of tax charged will depend on whether the excess is taken as a pension or a lump sum; the amount of charge is confirmed in the section Lifetime Allowance charges.

The previous amounts of the Lifetime Allowance are set out below:

<b>Tax Year</b>	<b>Lifetime Allowance</b>
<b>2006/07</b>	£1.5 m
<b>2007/08</b>	£1.6 m
<b>2008/09</b>	£1.65 m
<b>2009/10</b>	£1.75 m
<b>2010/11</b>	£1.8 m
<b>2011/12</b>	£1.8 m
<b>2012/13</b>	£1.5 m
<b>2013/14</b>	£1.5 m
<b>2014/15</b>	£1.25 m
<b>2015/16</b>	£1.25 m
<b>2016/17</b>	£1 m
<b>2017/18</b>	£1 m
<b>2018/19</b>	£1.03m
<b>2019/20</b>	£1.055m

Current legislation confirms the standard Lifetime Allowance will be indexed annually in line with the Consumer Prices Index (CPI).

From 6 April 2019 without a valid HM Revenue & Customs (HMRC) protection, a NHS Pension Scheme pension will exceed the £1.055 million standard Lifetime Allowance before the commutation of pension to additional lump sum:

- 1995 Section - £45,869
- 2008 Section - £52,750
- 2015 Scheme - £52,750

NHS Pension Scheme benefits are measured against the Lifetime Allowance by converting the benefits paid to a capital value. The capital value of NHS benefits is dependent upon how the benefits are being taken. Where a pension is to be taken the capital value of the pension is calculated as 20 x the pension, while the capital value of a Pension Commencement Lump Sum (PCLS) is simply the amount of lump sum actually being paid.

A standard lifetime allowance of £1.055 million will affect those members who crystallise their NHS benefits when they:

- retire with a payable date on or after 6 April 2019 and the date benefits are authorised is on or before 5 April 2019; or
- retire with a payable date before 6 April 2019 and the date benefits are authorised on or after 6 April 2019.

For all members the percentage of Lifetime Allowance used will be based on £1.055 million unless they hold HMRC protection. In addition, any Lifetime Allowance charge that may apply to their NHS benefits will be based on £1.055 million unless they hold a valid protection certificate from HMRC.

NHS Pensions has no discretion on the date NHS benefits crystallise and the Lifetime Allowance used.

### **Lifetime Allowance charges**

Members who have a capital value of NHS benefits in excess of the standard Lifetime Allowance will be subject to a Lifetime Allowance charge unless they hold a protection certificate from HMRC.

The Lifetime Allowance charge is:

- 55% if the excess is taken as a lump sum, and
- 25% where the excess is taken as a taxable pension income.

The Lifetime Allowance charge is paid by the scheme administrator and NHS benefits are permanently reduced to recoup the charge. From 1 April 2015, the scheme actuary provided revised factors to calculate the reduction in NHS benefits. The factors are age related; there are separate factors for members retiring on the grounds of ill health and those who retire on any other grounds. The Scheme Actuary may revise these factors from time to time.

The reduction in pension on account of a Lifetime Allowance charge will affect any future entitlement to a surviving adult pension, but not a child's pension.

## Impact of the reduced Lifetime Allowance on the maximum tax free lump sum payable on or after 6 April 2019

The permitted maximum tax free lump sum is 25% of the lower of:

- i. the available Lifetime Allowance (i.e. £1.055 million or an amount from a protected Lifetime Allowance if higher **less** the value of any benefits already crystallised); and
- ii. the capital value of the member's NHS benefits being paid (after the commutation of pension).

Consequently, a member with no Lifetime Allowance protection and who has not previously crystallised any pension benefits cannot receive a tax free lump sum from of more than £263,750 for the 2019/20 tax year.

### Example 1

Dr Brown has a normal pension age of 65, has no other pension benefits elsewhere and no Lifetime Allowance protection. He has an accrued pension in the 1995/2008 Scheme of £60,000, but wants to take the maximum tax free lump sum available by giving up some of this pension.

Benefits crystallising on or after 6 April 2019 means that Dr Brown is restricted to a maximum tax free lump sum of £263,750.

There is also an increased risk that 1995 Section members will not be able to take the full value of their mandatory lump sum as a tax free Pension Commencement Lump Sum.

### Example 2

Ms Scott has a normal pension age of 60, no Lifetime Allowance protection and has not crystallised benefits with any other pension schemes. She is to take her 1995 Section benefits on her 60<sup>th</sup> birthday in September 2019.

Ms Scott's NHS pension at age 60 is £90,000 and her mandatory lump sum is £270,000, and therefore not all tax free.

The £6,250 excess (£270,000 - £263,750) will instead be a Lifetime Allowance excess lump sum and taxed at 55%. After tax of £3,437.50 (£6,250 x 55%) has been deducted Ms Scott will receive a lump sum of £266,562.50 (270,000 - £3,437.50).