

Reduction in the Lifetime Allowance (LTA) from £1.25 million from 6 April 2016

December 2015



An increasing proportion of members will be affected by the reduction in the LTA. The impact of the LTA is set out in the example below, which shows how pensions and lump sums are valued for LTA purposes:

Example

Mr Xavier Seed is a member with a normal pension age of 60 and has an automatic lump sum of 3 times his salary. Mr Seed leaves pensionable service at the age of 62 on 31 May 2016 and becomes entitled to Age benefits. After applying for Age benefits, he receives a pension £53,000 per annum from the Teachers' Pension Scheme and an automatic lump sum of £159,000 in the 2016/17 tax year. He has no transitional protection against the reduction to the LTA and has no other pension benefits from other schemes. He does not elect to convert part of his pension for a higher lump sum. Mr Seed will exceed the standard LTA as follows:

Valuation of TPS benefits against the LTA

<u>Pension</u>			
£53,000 per annum	x	20	= £1,060,000
<u>Automatic lump sum</u>			
3 x pension (i.e. 3 x £53,000)	=		<u>£ 159,000</u>
Total value of benefits against the LTA	=		£1,219,000
Excess over £1 million (Chargeable amount)	=		£ 219,000
LTA charge on excess (25% of £219,000)	=		£ 54,750
Reduction in pension and lump sum			
Unisex factor for a member aged 62	=		21.82

Reduction in annual pension (£54,750 / 21.82) = **£2,509.17 per annum**

Pension after reduction for LTA charge = (£53,000 - £2,509.17) = **£50,490.83 per annum**

Reduction in Lifetime Allowance

(It is the pension after deduction of the LTA charge that is assessed for future pension counting for pensions increase awards).

The reduction applied to the member's lump sum is $(£2,509.17 \times 3) = £7,527.51$

Lump sum after reduction for LTA charge = $(£159,000 - £7,527.51) = £151,472.49$

Please note that individuals should consider very carefully any decision to opt-out of the TPS in view of the valuable pension and attaching risk benefits (e.g. death in service benefits) that the scheme provides. Individuals should seek independent financial advice which is tailored to the person's individual circumstances.