



# Basic guidance on the Lifetime Allowance (LTA)

July 2023

## Introduction

Since 6 April 2006 there has been no absolute limit on the level of benefits an individual can be provided with under a registered pension scheme such as the Teachers' Pension Scheme. Instead each individual has an allowance - a Lifetime Allowance (LTA) – in respect of all their pension benefits before they become subject to tax charges at the point of taking benefits.

Any benefits above the LTA will be subject to a tax charge, known as a "Lifetime Allowance charge". The rate of tax charged will depend on whether the excess is taken in pension or lump sum form.

The historic level of the LTA is set out below:

Tax Year	Lifetime Allowance	Tax Year	Lifetime Allowance
2006/7	£1.5m	2017/18	£1m
2007/8	£1.6m	2018/19	£1,030,000
2008/9	£1.65m	2019/20	£1,055,000
2010/11	£1.75m	2020/21	£1,073,100
2011/12	£1.8m	2021/22	£1,073,100
2012/13	£1.5m		
2013/14	£1.5m		
2014/15	£1.25m		
2015/16	£1.25m		
2016/17	£1m*		

From April 2023 whilst the Lifetime Allowance remains at £1,073,100, there's no associated tax charge. However, from April 2024, there are plans to remove the LTA completely.

## Protection against the LTA Charge

Some members may have protection against the LTA that is higher than the standard.

## When the LTA is tested and other provisions

### Benefit Crystallisation Events (BCEs)

When a member becomes entitled to draw benefits from a registered pension scheme, they will use up a percentage of their LTA.

A BCE happens when the pension rights that have been built up by an individual are realised, most commonly through the start of a pension benefit or where a lump sum benefit is paid.

There are twelve BCEs each triggering a LTA test, which include:

- Becoming entitled to a scheme pension or lifetime annuity;
- Becoming entitled to a relevant lump sum, e.g. a retirement lump sum from the Teachers' Pension Scheme or other pension commencement lump sum (PCLS);
- A member reaching age 75 without crystallising funds/benefits;
- The payment of a relevant lump sum death benefit; and
- The transfer of benefits to a qualifying recognise overseas pension scheme (QROPS). This is only permitted in the Teachers' Pension Scheme if a person transfers to an occupational defined benefits scheme overseas, where there is no access to the benefits before the age of 55.

When determining the value of the BCE and the percentage of the LTA used up, the scheme needs to establish the capital value of the benefits that are crystallising. HMRC prescribes how to value benefits for LTA purposes.

### Valuing benefits

The capital value of benefits being measured for LTA purposes is dependent upon how the benefits are being taken:

- Where a scheme pension is to be taken from a DB arrangement an equivalent value needs to be established for that benefit. The conversion factor to be used is 20:1 (£20 for each £1 of pension taken). E.g., a scheme pension worth £40,000 p.a. is valued as crystallising £800,000 of benefit;
- Where a PCLS (or other lump sum) is taken, the capital value is simply the amount actually paid.;

### Exceeding the LTA

Once the LTA has been exhausted, tax charges are payable for excess benefits as follows:

- 25% tax charge if the benefit is taken as a pension. The pension actually paid is also subject to income tax at the recipient's marginal rate of tax; or
- 55% tax charge if the benefit is taken as a lump sum (with no further tax payable).

Whilst the overriding legislation provides for lump sums to be paid in excess of the LTA taxable at 55%, the Teachers' Pension Scheme regulations do not permit lump sums to be paid in excess of the 'permitted maximum'. Consequently, in the Teachers' Pension Scheme, excess benefits over the LTA are payable as a pension with a 25% LTA charge, with no provision for a LTA excess lump sum.

## Calculation of the reduction in benefits on account of the LTA charge

While the factor for valuing pensions against the LTA remains at £20 for every £1 of pension, the factors for reducing benefits are now age related. Different factors also apply if the member is retiring on the grounds of ill-health.

<https://www.teacherspensions.co.uk/members/resources/factors.aspx>

The reduction in pension on account of the LTA charge will not affect any future entitlement to a survivor's adult or child's pension. In addition, for members with a Normal Pension Age of 60, the factors will also apply a reduction to the member's lump sum as well as pension.

## Permitted Maximum

The permitted maximum is 25% of the lower of:

1. The available LTA (i.e. £1,073,100 or such other protected LTA if higher less the value of any benefits crystallised); and
2. 25% of the value of the member's retirement benefits coming into payment.

The information in this Briefing Note is based on our current understanding of the tax and legal position and do not allow for any changes that may be communicated after the date of publication. This document is for reference purposes only and does not constitute financial advice. It is the member's responsibility to ensure that they pay any tax due on their pension savings. We recommend that you take independent financial advice from a regulated individual, who can assess and quantify the extent of any tax liability that is due. You can find a list of independent financial advisers at [www.unbiased.co.uk](http://www.unbiased.co.uk)