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Annual allowance and Lifetime allowance

Got a question about Annual allowance or Lifetime allowance? You've come to the right place.

From April 2023 the lifetime allowance is still in place, however no tax charge is now associated with it. From April 2024 there are plans for the lifetime allowance will be removed all together.

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Frequently Asked Question 1: What is the Annual Allowance?

Answer:

The Annual Allowance (AA) is a limit on the tax free growth or input that you can have across all registered pension schemes during a pension input period. For defined benefit schemes, such as the Teachers' Pension Scheme, the Annual Allowance measures the growth in the value of benefits held in the scheme during the pension input period (PIP), rather than the contributions paid into the scheme. In contrast, defined contributions schemes measure the contributions made during the pension input period, while ignoring any investment return.

The Annual Allowance used to be 'one level for all' until 6 April 2015, when the Money Purchase Annual Allowance was introduced, affecting those who had flexi-accessed defined contribution benefits, and reduced their Annual Allowance to £10,000, followed by further reduction to £4,000 from 6 April 2017. From 6 April 2023 this figure once again increased to £10,000. The Money Purchase Annual Allowance applies to defined contributions schemes, though if it is exceeded it could result in an 'alternative Annual Allowance' being applicable to your benefits in defined benefit schemes. So, please take note if you have accessed any pension you hold in a defined contributions scheme, as this will affect the amount your pension in the Teachers' Pension Scheme can increase in value before an Annual Allowance charge may apply.

On 6 April 2016 the Annual Allowance taper was introduced, which only applies to defined benefit schemes. The taper works by reducing the Annual Allowance by £1 for every £2 of income above the adjusted income level for the relevant year. The income limits used in calculating the tapered annual allowance increased on 6

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April 2020, making the threshold income £200,000 and adjusted income £240,000. From April 2023 this figure was increased to £260,000. For the income limits prior to 6 April 2020 please see our briefing notes.

If the pension input amount is greater than the level of Annual Allowance available to you (after considering whether the taper, or alternative Annual Allowance applies), and you don't have enough carry forward to offset against the excess, you'll have an Annual Allowance charge to pay.

You can find the current level of the standard Annual Allowance in the [updates](#) section of the our website.

Frequently Asked Question 2: What am I responsible for?

Answer:

- For assessing what level of Annual Allowance applies to you taking account of the taper, and, if applicable, the alternative Annual Allowance.
- To request a Pension Savings Statement from each pension provider you were a member of during the pension input period if your pension input amount did not exceed the standard £60,000 Annual Allowance (if your pension input amount did exceed, then you should receive a PSS automatically).
- For assessing whether your total benefit accrual in the pension input period exceeds the level of Annual Allowance applicable to you,
- For determining if any carry forward can be used to offset against an excess, and if an Annual Allowance charge applies.
- For deciding whether you wish to pay the Annual Allowance charge direct to HMRC yourself, or if you wish make use of the Scheme Pays facility.
- To report any excess over the Annual Allowance (after utilising any carry forward) via a self-assessment tax return. If you're unable to assess your Annual Allowance position, it is your responsibility to estimate the potential Annual Allowance charge and to submit it to HMRC and then amend once the actual liability is known.

For information on how to report an Annual Allowance charge on your self-assessment [please visit HMRC's website \(This link opens in a new window\)](#).

Frequently Asked Question 3: Which period is the growth in pension savings assessed against?

Answer:

The pension input period is the period over which the growth in pension savings is measured. For the Teachers' Pension Scheme from the 2016/17 tax year onwards, the pension input period runs from 6 April to 5 April each year.

Please note the pension input period differs for the years prior to 2016/17. For information about the pension input periods for previous years, please see our [briefing notes](#).

Frequently Asked Question 4: If my service record is amended after a PSS has been issued, will I receive a new PSS?

Answer:

If there are changes to service after a PSS has been produced, this will not result in an amended PSS being automatically issued, you will need to request one.

Frequently Asked Question 5: How is the growth in benefits in the Teachers' Pension Scheme measured?

Answer:

In the Teachers' Pension Scheme, the pension input amount is calculated broadly as follows:

Opening calculation = [(pension x 16) + lump sum] x Consumer Price Index

Closing calculation = (pension x 16) + lump sum

Pension input amount = closing calculation - opening calculation

Frequently Asked Question 6: How will I know if I have exceeded the Annual Allowance?

Answer:

If the growth in your benefits held in the Teachers' Pension Scheme exceeds the standard Annual Allowance, we'll provide you with a Pensions Savings Statement. The statement details the pension input amounts for the year that you have exceeded/requested and the three preceding years.

The Pension Savings Statement provides you with the information needed to assess whether there is unused allowance that can be carried forward to offset against an excess. You won't receive a Pensions Savings Statement if your pension input amount is below the standard Annual Allowance unless you request one. You can request a Pensions Savings Statement at any time.

If you have pension savings elsewhere, you should consider requesting Pensions Savings Statements from all of the schemes you have contributed to during the pension input period, in order to fully assess your Annual Allowance position.

Frequently Asked Question 7: What happens if I exceed the Annual Allowance?

Answer:

If you exceed the level of Annual Allowance applicable to you during a pension input period and you don't have enough carry forward from previous years to offset against the excess, then you'll be required pay a tax charge on the value of pension savings that are above the level of Annual Allowance applicable to you.

You'll then need to decide whether to pay the tax charge to HMRC direct, or make a Scheme Pays election asking the Teachers' Pension Scheme to pay the charge on your behalf. There are deadlines and conditions that apply that will determine whether a Scheme Pays election will be accepted. Please read our [briefing notes](#) for more information on this.

If a tax charge has been incurred, you'll have to report this on a self-assessment tax return. If you wouldn't ordinarily complete one you will need to request one from HMRC.

Frequently Asked Question 8: How do I calculate an Annual Allowance tax charge?

Answer:

Teachers' Pensions are unable to provide guidance on this as the Annual Allowance is a personal taxation matter as defined in the Finance Act 2004 and to do so could constitute financial advice, which Teachers' Pensions are not able to provide.

You may wish to visit HMRC's website for information on how to calculate the Annual Allowance charge.

Frequently Asked Question 9: How do I know if the Annual Allowance taper will affect me?

Answer:

As the income definitions of adjusted and threshold income are not limited to simply the salary earned through teaching but include all aspects of 'income'; the question of whether the taper applies or not is something only you and/or your adviser/accountant can answer. We're unable to assist members with the taper.

HMRC's Pensions Tax Manual provides information on the Annual Allowance taper which you may find useful.

Frequently Asked Question 10: How does carry forward work?

Answer:

Unused Annual Allowance from up to the three previous years may be carried forward to offset against an excess.

Before unused Annual Allowance can be carried forward from a previous year, the current years Annual Allowance must first be exhausted. Any unused Annual Allowance must be carried forward from earlier tax years before later years. If the unused allowance is more than the amount by which you've exceeded the Annual Allowance, then you'll not be liable to a tax charge and you'll not be required to report anything to HMRC.

Frequently Asked Question 11: Can the Scheme pay the Annual Allowance charge for me?

Answer:

Yes, if the charge was accrued in the Teachers' Pension Scheme **AND** the charge relates to the tax year 2016/17 or later. Please see our briefing notes to understand how the charge will be paid by the Scheme.

Please be aware that you **MUST** inform HMRC of your decision to use Scheme Pays by 31 January in the year following the tax year in question i.e. the 2020/21 tax year this will be 31 January 2022 via the self-assessment tax return.

Frequently Asked Question 12: If I make a Scheme Pays election what is the impact on my benefits?

Answer:

The reduction in your benefits can be calculated using actuarial factors that reflect the cost of making the payment by the Scheme. Any reduction in pension benefits applies for life. **Details of the calculation and the factors can be found on our factors page.**

Frequently Asked Question 13: Are there any situations where the Annual Allowance test does not apply?

Answer:

The Annual Allowance does not apply in cases of death, serious ill-health (life expectancy of less than one year), or where the member meets HMRC's conditions for 'severe ill health' (where the member is unlikely to work again).

Deferred pensions are also exempt from the Annual Allowance if revaluation is not excessive.

Frequently Asked Question 14: Can I amend a Scheme Pays Election?

Answer:

You may amend a Scheme Pays election however there is a time limit to do so. Teachers' Pensions must receive the amended Scheme Pays election form no later than the 31st July that follows the period of six years from the end of the tax year to which the liability relates. If a Scheme Pays election is amended, please note that your self-assessment should also be amended, though the deadline to amend them differ.

Frequently Asked Question 15: What is the Lifetime Allowance?

Answer:

The Lifetime Allowance (LTA) came into effect on 6 April 2006. The LTA is the total value of any pension savings that you can have at retirement without incurring a tax charge. The total amount that you need to consider includes your pension savings from all your pension schemes, but excludes your state pension.

From April 2024 there are plans to remove the LTA all together.

Frequently Asked Question 16: How much is the Lifetime Allowance?

Answer:

The Lifetime Allowance (LTA) for most people is £1,073,100 for the 2020/21 tax year onwards due to it being frozen at this level until April 2026.

Whilst this limit remains the same from April 2023, there will be no tax charge associated with this limit. From April 2024 onwards there are plans to remove the LTA all together.

Frequently Asked Question 17: What counts towards my Lifetime Allowance?

Answer:

The Lifetime Allowance is the total value of benefits from **all** your registered pension schemes excluding your State Pension or any dependant's pension that you're receiving.

Answer:

If the value of benefits at retirement exceeds the LTA in a relevant tax year, the value of benefits in excess of the LTA will be subject to tax, unless you have transitional protection.

For the purposes of valuing benefits against the LTA, every £1 of annual pension coming into payment is multiplied by 20. The value of any separate (automatic) lump sum is added to this capitalised value.

As an example, a member taking a pension of £50,000 per annum with an automatic lump sum of £150,000 would have their benefits valued against the LTA as follows:

Value of pension: £50,000 per annum x 20 = £1,000,000

Value of lump sum = £150,000

Total value of crystallised rights = £1,150,000

This would represent a value of 107.16% of the LTA for 2020/21 (1,150,000/£1,073,100)

The amount by which the benefits exceed the LTA or protected LTA is known as the chargeable excess. The Teachers' Pension Scheme does not permit the chargeable excess to be paid as a lump sum taxable at 55%.

In our example the value of benefits in excess of the LTA is £76,900. This will be paid as pension and thereby subject to a tax rate on the excess of 25%. The member and the scheme are jointly and severally liable for the LTA charge.

The charge is paid by the Teachers' Pension Scheme to HM Revenue and Customs (HMRC). The member's pension is then reduced to recover (in instalments) the charge paid by the Scheme. The factors as well as being age specific are also dependent upon whether the retirement event is taken under 'normal health' or 'ill health' conditions.

The amount of the reduction on account of the Teachers' Pension Scheme paying the tax charge on the members behalf is: Amount of the tax / an age (and health) specific factor

If we continue with our example, and assume that the member is a NPA 60 member (in normal health) at age retirement with no LTA protection they will be liable to an LTA charge of:

£76,900 x 25% = £19,225

Teachers' Pensions will pay the tax charge directly to HMRC on their behalf.

In order to recover the charge from the member, an annual reduction in the member's gross pension will be applied by dividing the amount of charge paid by the scheme by the relevant factor (the normal health factor for a member 60 attained is; 20.79):

£19,225 / 20.79 = £924.72 per annum for the member's entire life.

Subsequent Pensions Increase will then be applied to the pension after allowing for the LTA deduction.

It should be noted that from April 2023 whilst the LTA remains at £1,073,100, there is no associated tax charge with it and from April 2024 onwards, there are plans to remove the LTA all together.

* For the latest factors check [here](#).

Frequently Asked Question 19: What if I had a pension in payment before 6 April 2006?

Answer:

If you had any pensions already in payment at 6 April 2006 they will not be affected unless you draw further pension benefits after 6 April 2006. At which point the benefits taken prior to 6 April 2006 will be tested against the same LTA as the benefits about to come into payment.

Frequently Asked Question 20: Can I protect my pension from a Lifetime Allowance charge?

Answer:

It may be possible to protect yourself from Lifetime Allowance charges. For more information about the Lifetime Allowance protections please go to the [HM Revenue & Customs website](#) (This link opens in a new window).

You should consider if you need professional financial advice before deciding whether to apply for protection and when to take your benefits. Please note that Teachers' Pensions are unable to provide advice.

Answer:

Every time any of your pension schemes start to make payments to you, the value of that new payment is compared against your remaining LTA to see if there is any additional tax to pay.

Forms

Ready to apply? Our forms page has everything you'll need to get started.

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