

Lifetime Allowance (LTA)

Information

February 2024



Contents

Please note this guide does not cover changes to the Lifetime Allowance in association with Transitional Protection. Please view other parts of the website for more information on this.

Introduction

What's inside?

Welcome to our Lifetime Allowance support guide. We've collated together the various Lifetime Allowance Briefing Notes to help you manage, plan and understand more about your teacher's pension. This document contains information to help you understand your pension and how you can make the most of it for yourself and your family. There's also a number of useful web links for further information online.



Basic guidance on the Lifetime Allowance



Introduction

Since 6 April 2006 there has been no 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 – in respect of all their pension benefits.

Don't confuse the Annual and Lifetime Allowance as they're two separate pensions tax allowances.

The Lifetime Allowance since it was introduced are below:

Tax Year	Lifetime Allowance
2006/7	£1.5m
2007/8	£1.6m
2008/9	£1.65m
2010/11	£1.75m
2011/12	£1.8m
2012/13	£1.5m
2013/14	£1.5m
2014/15	£1.25m
2015/16	£1.25m
2016/17	£1m*

Tax Year	Lifetime Allowance
2017/18	£1m
2018/19	£1,030,000
2019/20	£1,055,000
2020/21	£1,073,100

The Lifetime Allowance was frozen at £1,073,100 from 6 April 2021.

Following the Spring Budget 2023 it has been decided that from April 2023, whilst the LTA remains at £1,073,100, there is no associated tax charge with it. From April 2024 onwards, there are plans to remove the LTA all together.

Testing pension savings against the Lifetime Allowance

Pension savings are tested against the Lifetime Allowance when a Benefit Crystallisation Event (BCE) occurs; the most common being retirement. However, there are also other events that trigger a test of pension savings against the Lifetime Allowance.

There are 13 Benefit Crystallisation Events which are covered in HMRC'S pension tax manual here: <https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual> Once a Benefit Crystallisation Event has occurred and your pensions savings have been tested, you use up a percentage of your Lifetime Allowance.

Valuing benefits

In order to test pension savings against the Lifetime Allowance at a Benefit Crystallisation Event, the capital value of benefits must be calculated. This is known as the crystallised amount (or capital value) and is calculated as follows:

- Where a scheme pension is to be taken from a Defined Benefit arrangement (such as the Teachers' Pension Scheme) an equivalent needs to be established for that benefit. The conversion factor is 20:1 (£20 for each £1 of pension taken).

It's worth noting that the calculation for commutation of pension into an additional lump sum occurs before pensions savings are tested against the Lifetime Allowance. Reduction in respect of the Scheme paying the Annual Allowance tax charge, or unpaid Pension on Divorce fees; also occurs before pension savings are tested against the Lifetime Allowance.

Where an automatic lump sum is payable (final salary NPA 60 members), the capital value also known as crystallised amount is simply the amount actually paid.

It's important to note that the Lifetime Allowance % is always rounded down to four decimal places as per HMRC guidance.

**Following the changes brought about in the Spring Budget 2023, whilst an individual will be assessed against the Lifetime Allowance, there will be no associated tax charge if an individual does exceed it. From April 2024 the current intention is for the Lifetime Allowance to be abolished.

Permitted Maximum

The permitted maximum is 25% of the lower of:

1. The available Lifetime Allowance (i.e. £1,073,100 or such other protected Lifetime Allowance if higher less the value of any benefits crystallised); and
2. The value of the your retirement benefits coming into payment.

Maximum lump sum payable from the Teachers' Pension Scheme

Maximum commutation

It's possible for you to commute pension into an additional lump sum at retirement if choose and are entitled to do so. Pension is converted to an optional lump sum by a ratio of £1 pension : £12 lump sum. However, there is a maximum that can be commuted. The maximum amount of commutation is worked out using the following formula:

$$\text{Pension} \times 20 = X$$

$$X / 4.6667 = \text{maximum that can be commuted}$$

However, overriding legislation in 2016/17 introduced the 'permitted maximum' to prevent members taking a lump sum from their retirement benefits that would result in them being unable to support themselves later in retirement.

The retirement lump sum you can take from the Teachers' Pension Scheme is restricted to the permitted maximum. So, although the commutation formula could indicate that you could receive a lump sum of one amount, the lump sum that can be paid by the Scheme could be lower due to the restriction.

Lifetime Allowance (Lifetime Allowance) protection



The most recent Lifetime Allowance reduction was back in April 2016, when the Lifetime Allowance was reduced from £1.25 million to £1 million. The government recognised that the reduction could potentially have a retrospective impact on members who already had benefits valued over £1 million.

The government offered 'transitional protection' to members who already had benefits valued above £1m or would in the near future.

From 6 April 2016 the transitional protections available are:

- Fixed Protection 2016 (FP16)
- Individual Protection 2016 (IP16)

Transitional protection is not provided automatically - you must apply to HMRC.

Protection against the Lifetime Allowance can be lost. Members should inform HMRC immediately when this happens.

If you've informed Teachers' Pensions of your transitional protection but it's lost before benefits come into payment, you also need to make us aware of this.

If, in the future the standard Lifetime Allowance rises to more than your protected Lifetime Allowance, then your Lifetime Allowance protection will cease. You'll no longer need the protection as the standard Lifetime allowance will be more advantageous.

Further information on transitional protection can be found on HMRC's website here: www.gov.uk/guidance/pension-schemes-protect-your-lifetime-allowance

Need a hand?

The easiest way to contact us is via My Pension Online and to explore our website for any queries you may have.

Visit us at:

www.teacherspensions.co.uk

My Pension Online (MPO)

MPO is the best way to access your pension information online anytime you want, you can interact with your pension in a whole new way. Log in or register online today. The tools and resources available online are designed to make things easier and give you all the answers you need. www.teacherspensions.co.uk/login

Message us on:

Secure web messaging

Open 24 hours day, responses will be sent Monday - Friday, 9:00am to 4:20pm (excluding bank holidays)

WhatsApp:

07545 932848 (please note it may take up to 48 hours to receive a response and this number doesn't allow phone calls)

Responses will be sent Monday-Friday, 9:00am to 4:20pm (excluding bank holidays)

Call us on:

0345 606 6166
Monday-Friday, 8.30am-6.00pm

Write to us at:

Teachers' Pensions, 11b Lingfield Point,
Darlington, DL1 1AX

The information contained in this document is correct at the time of press, but may be subject to change. If there is any difference between the legislation governing the Teachers' Pension Scheme and the information contained in this document, the legislation will apply.

Department for Work and Pensions – For questions about State Pension please contact the Department for Work and Pensions on: 0800 731 0175. HM Revenue & Customs (HMRC) – If you have any other questions about your income tax or P45 please contact: HMRC, HM Revenue & Customs Customer Operations, PSA PO BOX 4000, Cardiff, CF14 8HR. Contact telephone number: 0300 200 3300. The P AYE number in respect of your teacher's pension is 948 400.

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