

Your Lifetime Allowance

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Pensions made simple: Your Lifetime Allowance

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A pension is a tax efficient way to save for life after work.

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However the Government sets limits on the amount of pension you can build up

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before you have to pay extra tax.

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This video explains your lifetime allowance.

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This is the total value of all of your pensions that can be paid to you,

On screen: Lifetime allowance £1,073,100

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excluding the State Pension, before you must pay extra tax.

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To calculate the current value of your LGPS pension,

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multiply the pension by 20,

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and add any lump sum you have built up.

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The lifetime allowance applies to all of your pension savings,

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not just your LGPS pension.

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Each time you take your pension, you use up part of your lifetime allowance.

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Most people are not affected by the lifetime allowance

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as the value of their pension savings is below the limit.

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If the value of your pension is close to or is more than the lifetime allowance,

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there are things you can do to reduce the tax you may have to pay.

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You can take your LGPS pension early.

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You can swap some of your annual pension for a lump sum at retirement.

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Both of these options would reduce the total value of your pension

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and so may keep you within the allowance.

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You can also slow down your pension growth

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by moving to the 50/50 section of the Scheme.

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Here you pay half the normal contribution rate to build up half the pension.

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If the value of your pension exceeds the lifetime allowance

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you will have to pay a tax charge when you start taking your pension.

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The charge is 25% of the excess if it's taken as income,

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or 55% if it's taken as a lump sum.

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You can ask the LGPS to pay the tax on your behalf.

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This cost will be recovered by reducing your LGPS lump sum

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or permanently reducing your annual pension.

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The last time the government reduced the lifetime allowance,

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it set up protections for those who had already built up large pensions.

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You can apply for protection by completing an application form online.

On screen: Individual protection 2016

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This is a complex area.

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It is your responsibility to pay the right amount of tax.

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So always take independent financial advice

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before you take any action to reduce your tax liabilities.

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For more information about the lifetime allowance,

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visit the Government's website.

On screen: gov.uk - Tax on your private pension

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You can also visit the LGPS website and use our quick check tool

On screen: lgpsmember.org

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to see if you might be affected,

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or watch more of our 'Pensions Made Simple' videos.

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LGPS. For you. For now. For the future.

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