

What is the lifetime allowance?

The lifetime allowance is the maximum amount of tax relieved pension savings you can build up over your lifetime. It is set by government and reviewed regularly.

Changes to the lifetime allowance

When it was introduced in 2006 the lifetime allowance was £1.5 million. It has increased and decreased since then.

The lifetime allowance for the 2015/16 tax year is £1.25 million and the government will reduce this to £1 million for the 2016/17 tax year.

Additionally, from April 2018, the lifetime allowance will be indexed year on year in line with the Consumer Price Index.

Will it impact me?

The lifetime allowance is set at a high level. If you consider the benefits available under USS or SAUL it equates to approximately £43,000 annual pension.

However all pension pots are added together and included in the calculation. This means Money Purchase AVC's (MPAVC's) and other pensions you may have must be considered.

Type of pension pot	What counts towards your lifetime allowance?
Defined contribution - personal, stakeholder and MPAVC's	Money in pension pots that goes towards paying you, however you decide to take the money
Defined benefit – SAUL and USS	Usually 20 times the pension you get in the first <u>year plus your lump sum</u>

The above information does not constitute advice. Anyone that thinks they may be affected should seek individual advice relating to their specific circumstances.

What is the annual allowance?

The annual allowance is a limit to the total amount of contributions that can be paid to defined contribution pension schemes and the total amount of benefits that you can build up in defined benefit pension scheme each year, for tax relief purposes. The annual allowance is currently capped at £40,000 although a lower limit of £10,000 may apply if you have already started drawing a pension. The annual allowance applies across all of the schemes you belong to; it's not a 'per scheme' limit and includes all of the contributions that you or your employer pay or anyone else who pays on your behalf.

Tapering Annual Allowance from 6 April 2016

From 6 April 2016 those with income above £150,000 will see their annual allowance reduced by £1 for every £2 of excess income. The maximum reduction results in an annual allowance of £10,000. The measure used to determine whether an individual's income exceeds £150,000 is 'adjusted income'. This new calculation to determine 'adjusted income' only applies to someone where net income is more than £110,000.

Adjusted Income

The 'adjusted income' calculation includes net income for the year such as earnings and the value of any pension contributions / pension input during the tax year. This means that employer pension contributions are included along with personal contributions that reduce taxable income.

The taper on adjusted income is shown below:

Adjusted Income	Pension annual allowance
Up to £150,000	£40,000
£160,000	£35,000
£170,000	£30,000
£180,000	£25,000
£190,000	£20,000
£200,000	£15,000
£210,000+	£10,000

If you exceed the allowance

If you exceed the annual allowance in a year, you won't receive tax relief -on any contributions you paid that exceed the limit and you will be faced with an annual allowance charge.

The annual allowance charge will be added to the rest of your taxable income for the tax year in question, when determining your tax liability. Alternatively, if the annual allowance charge is more than £2,000, you can ask your pension scheme to pay the charge from your benefits. This means your pension scheme benefits would be reduced.

The above information does not constitute advice. Anyone that thinks they may be affected should seek individual advice relating to their specific circumstances.