

Lifetime Allowance

The lifetime allowance (LTA) is the maximum amount of retirement benefits you can build up across all registered pension schemes before being subject to a tax charge on the excess.

The charge applies at the point at which your benefits are paid.

For 2018/19 the standard lifetime allowance is £1,030,000. Each year, it is due to rise in line with the Consumer Prices Index (CPI).

You will be subject to the standard lifetime allowance, unless you have applied to HMRC for a different amount to be “protected”.

A lifetime allowance of £1.03m is equivalent to a USS pension of around £44,800 a year with a standard lump sum of £134,400 (excluding any benefits from the USS Investment Builder).

The lifetime allowance applies to all of your pension savings and not just your USS benefits.

You should read further if your total pension benefits could potentially breach these thresholds.

There is no limit on the amount of pension savings you can build up during your lifetime, but if the value of your pension benefits exceeds the LTA when they are put into payment, the amount in excess of the LTA is subject to a tax charge (the lifetime allowance charge). The current level for the LTA is £1,030,000. For subsequent tax years, it is due to increase in line with inflation (CPI), but this may be subject to change by HMRC.

How do I know if I have exceeded the LTA?

In order to check whether you have exceeded the LTA, each time you put a pension benefit into payment its value needs to be calculated and deducted from the amount of LTA you have remaining.

For a defined benefit arrangement (such as the USS Retirement Income Builder) the value of your pension benefits is calculated as 20 times the annual pension to be put into payment, plus any associated retirement lump sum taken at the same time. For a defined contribution arrangement (such as the USS Investment Builder and money purchase AVCs (MPAVCs) with the Prudential) the value is simply the value of your defined contribution account immediately prior to the date it is put into payment.

Please note that any USS Investment Builder funds or MPAVCs converted to scheme pension are valued as 20 times the resulting pension, not the fund value converted. If you have pension savings outside of USS, you will need to get the value of those pension benefits from your other provider(s) and add it to your USS pension benefits to work out if you have exceeded the LTA.

If the LTA value of all your benefits is greater than the standard LTA (or protected LTA, if applicable), the excess benefits above the LTA will be subject to an LTA tax charge. The benefits below the LTA amount will not be subject to this charge.

You are only likely to need a more precise LTA value if you are applying for a protection (information below) made available from HMRC, you are considering one of the USS tax options, or you are approaching retirement. If any of these apply to you, please contact USS directly at correspondence-team@uss.co.uk.

LTA excess charge

If an LTA excess charge applies, it becomes due at the point at which the benefits that breach the LTA are put into payment.

The amount of the LTA charge depends on how the benefits in excess of the LTA are taken: any excess benefits drawn as a pension are taxed at 25%, whilst those taken as a lump sum are taxed at 55%.

The different rates reflect that benefits paid as a pension will also be subject to future income tax, whereas there is no further tax to pay on a lump sum. The effect should be neutral for a 40% rate tax payer in retirement (i.e. the overall effect

of a 25% tax and a 40% tax is comparable to a one-off 55% tax). Members can often choose whether to take the excess as pension or lump sum but there are complex restrictions that may apply. If an LTA charge is due, USS is required to deduct the charge from the benefits before they are paid, and pay the charge to HMRC.

If an Annual Allowance charge is also due when you retire and it exceeds £1,000, you can use scheme pays to meet the Annual Allowance tax charge first, in which case the LTA charge will be based on your benefits after the adjustment for Scheme Pays has been made. Please see the separate "Scheme Pays" factsheet on uss.co.uk for more details.

LTA Protections

HMRC has made two forms of LTA protection available. Eligibility depends, amongst other things, on which previous protections you may already have in place. The protections are known as fixed protection 2016 (FP2016) and individual protection 2016 (IP2016).

Fixed Protection 2016 (FP2016)

Under FP2016, you will be given a protected LTA of £1.25million, provided you meet certain conditions, the main condition being that you must stop building up any further pension benefits, either in USS or elsewhere. If you build up any further pension benefits after 5 April 2016 (regardless of when you applied for FP2016) your protection will be lost, and the standard LTA will apply. Anyone without previous protections (except IP2014) can consider applying to HMRC for FP2016.

Individual Protection 2016 (IP2016)

Under IP2016 you are given a personal LTA amount, which is equivalent to the LTA value of your pension benefits built up to 5 April 2016, subject to a maximum of £1.25million. Although the amount protected may be less than under FP2016, the main difference is that you can continue to build up further pension benefits without the loss of this protection. Any benefits in excess of the protected amount will be subject to the LTA excess tax charge when put into payment.

Only those without primary protection, or IP2014, and with pension savings over £1million at 5 April 2016 can apply to HMRC for IP2016.

Under both FP2016 and IP2016, should the standard LTA increase in future to an amount greater than your protected LTA under FP2016 or IP2016, the standard LTA will apply to your benefits instead (i.e. you will not end up with a lower LTA by having a protection in place). Details of historic forms of LTA protection are available in the "Historical information and HMRC tax protections" factsheet on uss.co.uk.

Applying for LTA Protections

An online application process for both forms of protection is available from HMRC. You will need to complete this, if you wish to apply for LTA protection. There is no published deadline for making an application.

When you apply, details of your IP2016 or FP2016 (and any previous LTA protections) will show in your personal tax account. Going forward, the personal tax account will be populated with more details for you to access at any time. If you are considering applying for IP2016 or FP2016, we recommend you take independent financial advice. You can find an independent financial adviser at www.unbiased.co.uk. You may be charged a fee for any advice.

It is possible to apply for both FP2016 and IP2016 – this could be useful if you initially want to stop pension saving but might want to start again should your circumstances change, in which case you could resume pension saving, with IP2016 protecting a larger amount from an LTA charge than would otherwise have been the case.

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