

Lifetime Allowance

The lifetime allowance 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 over the maximum. This tax charge applies at the point at which your benefits are paid.

The standard lifetime allowance has been set at £1m for the 2016/17 and 2017/18 tax years and is then due to increase in line with the Consumer Prices Index (CPI) thereafter.

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 £1m is equivalent to a USS pension of around £43,500 a year with a standard lump sum of £130,500 (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 wealth could potentially breach these thresholds.

There is no limit on the amount of pension savings that can be built up by an individual during their lifetime but if the value of the pension benefits exceeds a certain amount (known as the lifetime allowance or LTA) when they are put into payment, the amount in excess of the LTA is subject to a tax charge (known as the lifetime allowance charge). The current and future level for the LTA is shown in the table below, but may be subject to further change.

Tax Year	Standard LTA
2016/17	£1m
2017/18	£1m
2018/19 and thereafter	£1m, increased by CPI

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) the value is simply the value of your defined contribution account immediately prior to the date it is put into payment.

If you wish to estimate the LTA value of your current USS benefits, you need to multiply your USS Retirement Income Builder pension by 20 and add on the USS Retirement Income Builder lump sum, plus any money purchase AVCs (MPAVCs) you may have with the Prudential and, once it is up and running, the value of your USS Investment Builder account. Please note that any MPAVCs or USS Investment Builder funds converted to scheme pension are valued as 20 times the resulting pension, not the amount 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 those to your USS pension benefits to work out if you have exceeded the LTA.

If the LTA value of your benefits is greater than the standard LTA (or protected LTA, if applicable), then the excess benefits over 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 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 using the following e-mail address:

correspondence-team@uss.co.uk

LTA excess charge

If a lifetime allowance 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 the fact 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 AA charge is also due when you retire and it exceeds £2,000 then you can use scheme pays to meet the AA 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 for further details.

LTA Protections

As a result of the recent reduction to the LTA, two forms of LTA protection have been made available by HMRC. Eligibility for the new protections depends, amongst other things, on which previous protections you may already have in place.

The new 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 lifetime allowance 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 £1million 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 your own 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 can apply to HMRC for IP2016.

Note that, under both FP2016 and IP2016, should the standard LTA increase in future to an amount greater than your protected LTA under FP2016 or IP2016, then 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.

Applying for LTA Protections

For those putting benefits into payment early during the 2016/17 tax year, HMRC has provided a paper based system for those individuals wishing to obtain a temporary reference number for FP2016 or IP2016.

An online application process for both forms of protection is due to be made available by HMRC from July 2016, and will need to be completed by all those wishing to obtain a permanent reference number. There is no published deadline for

making a permanent application but from August 2016 onwards, only permanent reference numbers will be recognised by HMRC, so those that applied for a temporary reference number will also have to apply for a permanent one.

When an individual applies for a permanent reference number, details of their IP2016 or FP2016 (and any previous lifetime allowance protections) will show in their personal tax account. Going forward, the personal tax account will be populated with more details for members to access at any time. If you are considering applying for IP2016 or FP2016 we recommend you take independent financial advice first. You can find an independent financial adviser through the following website: www.unbiased.co.uk. Please be aware that you may be charged a fee for any advice.

It is possible to apply for both FP2016 and IP2016 – this could be useful for someone who initially wishes to stop pension saving but whose circumstances may change, in which case they could resume pension saving, thereby invalidating FP2016 but could still rely on IP2016 to protect a larger amount from an LTA charge than would otherwise have been the case.

This publication is for general guidance only. It is not a legal document and does not explain all situations or eventualities. USS is governed by a trust deed and rules and if there is any difference between this publication and the trust deed and rules the latter prevail. Members are advised to check with their employer contact for latest information regarding the scheme, and any changes that may have occurred to its rules and benefits.

