

Lifetime Allowance

The lifetime allowance is the limit on the amount you can take from your pension before it attracts a tax charge. The government-set limit is £1,055,000, and it is linked to consumer prices index (CPI) inflation so it may go up each year.

Each time you use your pension benefits to provide an income and/or a lump sum, you will use up some of your lifetime allowance.

The lifetime allowance equates to a USS Retirement Income Builder pension of around £45,800 a year and a standard lump sum of £137,400 (not including any pension you may get from the USS Investment Builder). Any pension benefits you have built up above this will be taxed.

It does not apply to your State Pension but the lifetime allowance applies to all other pension benefits you build up, not just those in USS.

Work out how close you are to the limit

You use up a portion of your lifetime allowance when:

- You take pension benefits such as a lump sum or payments from your USS Retirement Income Builder; or
- you take your USS Investment Builder pot, which might be as cash, to enter drawdown or buy an annuity.

You can work out roughly how close you are to your lifetime allowance by calculating the value of the benefits you want to take.

For a defined benefit arrangement like the USS Retirement Income Builder:

- The value of your benefits is 20 times the annual pension, plus any retirement lump sum you take at the same time.

For a defined contribution arrangement like the USS Investment Builder and Prudential MP AVC:

- The value is what your pot is worth immediately before it is put into payment. However, if you convert any of your defined contribution pot to scheme pension in the USS Retirement Income Builder, it will be valued (as above) at 20 times your pension.

Use the [modelling and illustration tools](#) in the Resources section of uss.co.uk to estimate what the value of your USS benefits will be at retirement.

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 how close you are to the lifetime allowance.

The lifetime allowance excess charge

If tax on the excess applies, we will deduct it and pay it to HMRC when we pay your pension benefits.

The amount you will pay depends on how the benefits in excess of the lifetime allowance are taken:

- Excess benefits drawn as a pension are taxed at 25%;
- those taken as a lump sum are taxed at 55%.

The rates are different because benefits paid as a pension will also be subject to income tax, but this does not apply to a lump sum. The effect should be neutral for a 40% tax payer in retirement (the overall effect of 25% tax and 40% tax is comparable to a one-off 55% tax charge). There are circumstances when you could take the excess as pension or lump sum, but restrictions may apply.

If an annual allowance charge is also due when you retire and it exceeds £1,000, you can use Scheme Pays to pay it first. Then, any lifetime allowance charge will be based on your benefits after the adjustment for Scheme Pays has been made.

See the [annual allowance](#) and [Scheme Pays](#) factsheets on uss.co.uk for more details.

Lifetime allowance protections

The lifetime allowance has dropped from £1.8m in 2011 to £1,055,000 now. If a future drop might affect you, you can 'protect' your benefits.

Protection was introduced because HMRC understands that you might have been aiming to save to a higher lifetime allowance in the past.

There are two types of protection that you can apply for: Fixed protection 2016 and Individual protection 2016.

Fixed Protection 2016 (FP2016)

With FP2016, your lifetime allowance will be fixed at £1.25m, but to be eligible, you must not have built up any benefits in any pension arrangement since 6 April 2016.

Individual Protection 2016 (IP2016)

Under IP2016, you get a personal limit that is equivalent to the lifetime allowance value of the benefits you built before 6 April 2016, up to a maximum of £1.25m. You can continue to build up pension benefits, and any benefits in excess of your protected amount will be taxed when they are put into payment.

You can only apply for IP2016 if you do not already have primary protection or IP2014, and your pension benefits were valued at more than £1m at 5 April 2016.

Lifetime allowance increases

If the standard lifetime allowance ever increases to more than your protected limit, it will apply to you automatically. See the [Historical information](#) and [HMRC tax protections](#) factsheet on uss.co.uk for more details.

Applying for LTA Protections

You can apply for both types of protection on the HMRC website. There is no deadline.

When you apply, details of your IP2016 or FP2016 (and any previous lifetime allowance protections) will show in your personal tax account. If you are considering applying for IP2016 or FP2016, we recommend you take financial advice.

You can find a financial adviser at unbiased.co.uk.

You can apply for both protections at the same time – this could be useful if you want to stop building your pension but might want to start again should your circumstances change.

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