

LOCAL GOVERNMENT PENSION SCHEME BEDFORDSHIRE PENSION FUND



TAX LIMITS ON YOUR PENSION POT FROM APRIL 2016

LIFETIME ALLOWANCE

This is a general limit on the size of pension pot that can be taken at retirement without a tax charge. If the value of all your benefits when they come into payment is more than the limit, you will have to pay a tax charge on the excess.

The Lifetime Allowance (LTA) is currently £1.25 million, but falls to **£1 million** from 6 April 2016. It is then due to go up from April 2018 in line with consumer prices.

You can work out the value of your pension pot:



You can protect your pension pot with either **Fixed** or **Individual Protection**.

How will the protections work?

Fixed Protection 2016 (FP2016) will work in the same way as Fixed Protections 2012 and 2014. A member that is granted FP2016 will have a lifetime allowance of £1.25 million instead of the new lifetime allowance of £1 million. However, as with the earlier fixed protections, in order to retain FP2016 the expectation is that the value of a member's benefits must not grow above inflation in any year.

To qualify for **Individual Protection 2016** (IP2016) a member's benefits must be valued at £1 million or more on 5 April 2016. If IP2016 applies then an individual's protected lifetime allowance will be the greater of the capital value of their benefits as at 5 April 2016 (subject to a maximum of £1.25 million) or the lifetime allowance at the point benefits are taken. As with Individual Protection 2014, there is no restriction on how much an individual's benefits can increase under IP2016 once granted; this is in contrast to the various fixed protections.

How can an individual manage their benefit growth in order to retain fixed protection?

To retain FP2016 (and the other fixed protections) an individual needs to carefully manage the annual growth in their benefits (beyond the usual annual allowance considerations) in order that their relevant accrual does not exceed the inflation limit in any tax year. As relevant accrual can be exceeded at any time this is an ongoing test and individuals will need to understand all the options available and their implications before they consider things like opting out of the Scheme, or alternatively moving into the 50/50 section (note that the 50/50 section may not always be sufficient to retain Fixed Protection).

How is the application for the protections different this time?

Unlike the application process for previous transitional protections, which was by means of a template application form, HMRC are planning to have an online facility available for FP2016 and IP2016. The online facility is not expected to be ready until July 2016.

On receipt of a successful application, HMRC will grant the protection to the member and then issue them with a reference number, rather than a certificate as they have for the earlier protections. Members of the Bedfordshire Pension Fund should provide the Fund with their reference number.

Unlike the previous protections there is no time limit for an individual to apply for FP2016 and IP2016. The only specific requirement is that any application for FP2016 and IP2016 must be made and the protection granted **prior** to retirement.

ANNUAL ALLOWANCE

This is a limit designed to cap the amount by which the size of your pension pot can grow from one year to the next without penalty. This is based on:

- The total amount of benefits built up in a **defined benefit** pension scheme - such as the LGPS, and
- The total amount of contributions that are paid into a **defined contribution** pension scheme (for example an AVC fund or personal pension).

Changes to pension input period

The actual period your pension is measured over to assess its growth against the annual allowance is known as the pension input period (PIP). From 6 April 2016 the PIP will be aligned to the tax year running from 6 April to 5 April (previously within the LGPS PIPs ran from 1 April to 31 March). This means that in 2015/16 benefits will have to be assessed over two pension input periods: a pre-alignment PIP from 1 April 2015 to 8 July 2015 and a post-alignment PIP from 9 July 2015 to 5 April 2016.

The annual allowance for the pre-alignment PIP will be £80,000 and for the post-alignment PIP will be nil but you will be able to carry forward up to £40,000 of unused allowance from the pre-alignment PIP.

There is also a three year “carry forward” which allows unused allowance from the three previous years to be offset against any excess in the current year.

How do I know how much my LGPS pot has grown?

The increase in the value of your LGPS pension savings is shown on your benefit statement beside ‘Pensions Input Amount’. Please note that the Pensions Input Amount does not include any AVCs. You will only have a tax charge if the value of your pension savings for a tax year increases by more than the annual allowance and you do not have enough “carry forward”. If you have pension benefits elsewhere you will need to take these into consideration as well when calculating your Pension Input Amount. We will automatically send you a pension savings statement if your LGPS pension grows by more than the annual allowance.

Tapered Annual Allowance

For 2016/2017, annual allowance tapers from £40,000 to £10,000 for high earners. There will be a £1 reduction in annual allowance for every £2 of ‘adjusted income’ you earn over £150,000. It only applies if your ‘threshold income’ is over £110,000.

In broad terms, threshold income is income less gross employee pension contributions. Adjusted income is threshold income plus the pension input amount.

Adjusted Income	Annual Allowance
Up to £150,000	£40,000
£180,000	£25,000
£200,000	£15,000
£210,000	£10,000

This leaflet is a brief overview of the changes from April 2016. It is recommended that you seek independent financial advice if you believe you may be affected by HMRC tax limits.