Pace pension scheme

Pension Tax Limits: Summary Factsheet

Co-op Section

This factsheet provides a summary of the rules on pension tax limits.

The information was updated and is current as at July 2025.

This factsheet is for members of The Co-op Section of Pace. If you're a member of The Co-operative Bank Section, you should visit the Bank's pensions website at **co-operativebank.co.uk/pensions** for pension information that's relevant to you.

Pension tax limits: an overview

You can pay 100% of your salary into your pension (or £3,600 if higher), but there is a limit on how much of your pension savings (including AVCs) can benefit from tax relief. Tax relief on pensions is limited by:

- An **Annual Allowance**, which is the total amount of pension savings you can make each year (running from each 6 April to 5 April in line with the tax year) without paying tax. The Annual Allowance is £60,000 for most people but it may be lower in some circumstances. You'll start to pay income tax at your marginal rate on any pension savings you make which are more than the Annual Allowance.

  You'll have a lower Annual Allowance if:

  - You're earning more than £260,000 a year
  - You have taken flexible benefits from your money purchase/defined contribution (DC) pension savings while still paying into a DC pension. In this case, your Annual Allowance may be restricted to £10,000 (the **Money Purchase Annual Allowance**).

- A **Lump Sum Allowance** and **Lump Sum and Death Benefit Allowance**, which came into force from 6 April 2024, replacing the Lifetime Allowance. The Lump Sum Allowance and Lump Sum and Death Benefit Allowance limit the amount of tax-free lump sum payments that can be paid from your registered pension arrangements.

  - The standard Lump Sum Allowance is £268,275.

  - The standard Lump Sum and Death Benefit Allowance is £1,073,100.

  Your Lump Sum Allowance and Lump Sum and Death Benefit Allowance may be higher than the standard amounts if you have HMRC pension protection.

  Most of our members are unlikely to be affected by these allowances. Whether they affect you or not will generally depend on the total value of your pension savings and whether you've already taken tax-free cash from other pension schemes, as this reduces the amount of Lump Sum Allowance and Lump Sum and Death Benefit Allowance available to you.

You can find more information about the Lump Sum Allowance and Lump Sum and Death Benefit Allowance later on in this factsheet as well as in the Lump Sum Allowances Factsheet at **coop.co.uk/pensions**

If you hold HMRC pension protection, the Pension Protections Factsheet at **coop.co.uk/pensions** provides information about tax-free lump sums and protected lump sum rights.

- An **Overseas Transfer Allowance**, which limits the amount of pension benefits you can transfer tax free to an overseas pension scheme. The Overseas Transfer Allowance is £1,073,100. If you transfer your benefits to an overseas pension scheme and the value of your transfer is more than the Overseas Transfer Allowance, the excess transfer amount will be taxable. You can find more information about the Overseas Transfer Allowance in the Lump Sum Allowances Factsheet at **coop.co.uk/pensions**. If you're thinking about transferring your benefits to an overseas pension scheme, please contact the Co-op Pensions Department for more information.

If you have any questions about your pension savings, please contact the Co-op Pensions Department: **PensionSavings@coop.co.uk**

The pension tax limits will not affect the majority of colleagues. However, it's important you consider whether they might affect you.

More detailed information can be found in the Lump Sum Allowances Factsheet at **coop.co.uk/pensions**

The law and tax rates relating to pensions may change in the future and will depend on your individual circumstances.

Pension tax legislation is complicated, so make sure you seek financial advice or guidance when deciding what action to take. You can find an adviser in your area who is regulated by the Financial Conduct Authority (FCA) by searching for 'retirement adviser' on the MoneyHelper website, **moneyhelper.org.uk** (the website offers contact options of live webchat, enquiry form and social media channels). You should check the specialist advice areas of any adviser, as well as the cost of their advice, before appointing them.

What is the Annual Allowance?

This is the maximum tax-free build up of pension savings that you can make each year (running from each 6 April to 5 April in line with the tax year).

- Up until 5 April 2023, the Annual Allowance was £40,000.
  From 6 April 2023, the Annual Allowance is £60,000 for most people, although there are some exceptions to this as explained below.
- **If you draw some of your money purchase/defined contribution (DC) pension savings under the flexible retirement rules and you have continued to make pension savings, your allowance may be restricted to £10,000 (the Money Purchase Annual Allowance). The restriction applies to Pace DC and any other DC pension arrangements you have. You should have been advised by your pension provider at the time you started to take your money out if this applies to you.**
- The Annual Allowance is also reduced on a sliding scale for people with 'Adjusted Income' over £260,000 (at a rate of £1 for every £2 of income).

  This reduces the Annual Allowance to £10,000 for anyone with 'Adjusted Income' of £360,000 or more. 'Adjusted Income' is generally all of your taxable income plus any pension savings you make, or The Co-op makes on your behalf. So this means that those colleagues whose basic salary, bonus and other taxable benefits are likely to total less than £260,000 may still be affected as you need to add on any taxable income from other sources plus any pension savings made by you and The Co-op. If your 'Threshold Income' is £200,000 or less, you won't need to calculate your 'Adjusted Income' and your Annual Allowance won't be reduced. The box on the next page gives you further information about 'Threshold Income' and 'Adjusted Income'.

Jargon buster

Threshold Income: Threshold Income is effectively your taxable income, so it includes salary (after any pension contributions paid by you), bonus, car allowance, P11D benefits, bank interest, dividend payments, rental income and any other taxable income. This is reduced by any tax-relievable items such as charity giving.

Adjusted Income: Adjusted Income is similar to Threshold Income, but it also includes the value of any pension contributions and the value of the increase in any final salary-linked benefits. This is reduced by any tax-relievable items such as charity giving. Because your Adjusted Income depends on the total level of income and pension savings during the year, you might only know your Adjusted Income towards the end of the tax year.

What happens if I exceed the Annual Allowance?

If your savings to all pension schemes in a year (running from each 6 April to 5 April in line with the tax year) are more than the Annual Allowance, then a tax charge payable at your highest marginal rate of income tax may be payable. This is based on the amount by which you exceed the Annual Allowance.

Pension savings for these purposes is the amount of contributions paid to Pace DC or any personal pensions you may have. If you have final salary benefits, then the value of any increase in these benefits will also count as pension savings.

To avoid a tax charge, you may be able to 'carry forward' any unused allowances from the previous three tax years. Any unused allowances up to 5 April 2023 will be restricted to £40,000 a year (or any lower amount that applied to you because you were a high earner).

Similarly, if you start to take flexible benefits from a DC pension and in a single tax year you and/or your employer also pay contributions into a DC pension of more than £10,000, then a tax charge payable at your highest rate of income tax may be payable. This is based on the amount by which you exceed the Money Purchase Annual Allowance.

Please note that if the Money Purchase Annual Allowance applies to you, unused allowances can't be brought forward to pay DC pension contributions which are more than £10,000. If this happens, you'll be subject to a tax charge on any contributions above the £10,000 limit.

What can I do if I expect to exceed the Annual Allowance?

First of all, check whether your total pension savings in a tax year will exceed your Annual Allowance. If this is the case, and you can't carry forward enough unused Annual Allowance from the previous three tax years, then you may need to consider reducing your pension savings to avoid paying an Annual Allowance tax charge. This action also applies if you think you'll exceed the Money Purchase Annual Allowance, if applicable.

Action!

You can find more details on how to work out if you're affected and what you can do about it in the Annual Allowance Factsheet, which is available from the Co-op pensions website: coop.co.uk/pensions. Please note, there are two separate versions depending on when you joined Pace DC.

Pensions taxation is complicated. If you think you may be affected by the Annual Allowance, you should consider getting independent financial advice before taking any action.

What is the Lifetime Allowance?

The Lifetime Allowance was abolished from 6 April 2024. The Lifetime Allowance placed a limit on how much you could save into your pension over your lifetime without having to pay extra tax.

If you've already taken benefits from other pension arrangements between 6 April 2006 and 5 April 2024, the value of these benefits will have been tested against the Lifetime Allowance by your pension provider or scheme administrator at the time the benefits were first paid to you.

Your pension provider or scheme administrator should then have issued you with a statement showing the percentage of Lifetime Allowance used up by the benefit(s) you took. Please keep these statements in a safe place. You'll need them when you come to retire from Pace and we ask you to provide us with information about previous benefits you've taken from other schemes.

- The Lifetime Allowance was abolished from 6 April 2024.
- The Lump Sum Allowance and Lump Sum and Death Benefit Allowance came into force from 6 April 2024, replacing the Lifetime Allowance. The Lump Sum Allowance and Lump Sum and Death Benefit Allowance limit the amount of tax-free lump sum payments that can be paid from your registered pension arrangements.
- The Overseas Transfer Allowance also came into force from 6 April 2024. This limits how much you can transfer tax free to an overseas pension scheme.

What is the Lump Sum Allowance and Lump Sum and Death Benefit Allowance?

The Lump Sum Allowance and Lump Sum and Death Benefit Allowance came into force from 6 April 2024, replacing the Lifetime Allowance. The Lump Sum Allowance and Lump Sum and Death Benefit Allowance limit the amount of tax-free lump sum payments that can be paid from your registered pension arrangements.

- The standard Lump Sum Allowance is £268,275.

- The standard Lump Sum and Death Benefit Allowance is £1,073,100.

Your Lump Sum Allowance and Lump Sum and Death Benefit Allowance may be higher than the standard amounts if you have HMRC pension protection. Please make sure you tell us about any HMRC protection you hold so we can update our records.

Each time you take a relevant lump sum from any of your registered pension arrangements, your Lump Sum Allowance and Lump Sum and Death Benefit Allowance will be reduced by the value of any tax-free lump sum paid. Your Lump Sum Allowance and Lump Sum and Death Benefit Allowance will also be reduced if you've received benefits from other schemes before 6 April 2024 which used up some (or all) of your Lifetime Allowance.

Are there any limits on how much tax-free cash I can take when I retire?

When you retire from Pace you can choose to take up to 25% of the capital value of your benefits as a tax-free lump sum. Your remaining benefits will be paid to you as a taxable pension. If you choose this option, we'll need to check you have enough Lump Sum Allowance and Lump Sum and Death Benefit Allowance available **before** we can pay you your tax-free lump sum.

If you don't have enough available Lump Sum Allowance and Lump Sum and Death Benefit Allowance, your tax-free cash will be restricted to the lower of the allowances you have remaining and the amount permitted in the Pace Rules. You'll then need to take your remaining benefits as pension which will be taxed as income in the usual way.

If you don't have any Lump Sum Allowance or Lump Sum and Death Benefit Allowance available (because it has all been used up when you have previously taken benefits), you will not be able to take a tax-free lump sum and you'll need to take all of your benefits as a taxable pension.

What if I need to retire due to serious ill-health?

If you're retiring before you reach age 75 due to serious ill-health (where a doctor has confirmed you have less than a year to live), you may be able to take all of your benefits as a tax-free lump sum. We'll need to test this lump sum against your available Lump Sum and Death Benefit Allowance to see how much of it can be paid to you free of tax. If the lump sum is more than your available Lump Sum and Death Benefit Allowance, the excess lump sum will be taxed at your marginal rate of income tax.

If you're retiring for serious ill-health reasons after the age of 75, you can still take your benefits as a lump sum, but all of your lump sum will be subject to income tax.

Is there a limit on how much tax-free cash is payable to my beneficiaries on my death?

If you die before reaching age 75, any tax-free lump sum death benefit will need to be tested against your available Lump Sum and Death Benefit Allowance. If the lump sum death benefit payable is more than your available Lump Sum and Death Benefit Allowance, your beneficiaries may have to pay tax on the excess amount.

Your Legal Personal Representative(s) (ie the administrator/executor of your estate) will be responsible for calculating your available Lump Sum and Death Benefit Allowance. To do this, they will need to check whether the tax-free element of any benefits which were paid to you before you died, along with any Lump Sum Death Benefits payable to your beneficiaries following your death, are more than your Lump Sum and Death Benefit Allowance. If this is the case, your Legal Personal Representative(s) will have to tell HMRC about these excess benefits. HMRC will then calculate any tax due and contact your beneficiaries directly to tell them how much tax they have to pay.

If you die after age 75, all of your lump sum death benefit will be subject to income tax, which will be deducted and paid to HMRC by the Pace Trustee. Your Legal Personal Representative(s) won't need to calculate the available Lump Sum and Death Benefit Allowance if this is the case.

Transitional Tax-Free Amount Certificates

If you've taken benefits from any other schemes between 6 April 2006 and 5 April 2024, we're required to assume you took part of your benefits as a tax-free lump sum when we check how much Lump Sum Allowance and Lump Sum and Death Benefit Allowance you have available. We do this by applying a standard HMRC calculation which assumes you've received 25% of the capital value of any benefits taken between 6 April 2006 and 5 April 2024 as tax-free cash. If you've actually taken less than 25% of the value of your benefits as tax-free cash (or you've not taken any tax-free cash at all), you may have more Lump Sum Allowance and Lump Sum and Death Benefit Allowance available than you would have by using the standard HMRC calculation.

If you have a Transitional Tax-Free Amount Certificate issued by another scheme which shows you took a lower (or no) lump sum from your previous pension arrangement, we may be able to use that figure in our calculations instead.

You can also apply for a Transitional Tax-Free Amount Certificate from Pace, provided:

- you've previously taken benefits from other registered pension schemes between 6 April 2006 and 5 April 2024; and
- you've not yet taken a lump sum benefit from any of your pension arrangements on or after 6 April 2024.

HMRC has confirmed that most people shouldn't need to apply for a Transitional Tax-Free Amount Certificate and that generally, the standard calculation we use to work out your available Lump Sum Allowance and Lump Sum and Death Benefit Allowance should accurately reflect any tax-free lump sum paid to you from other schemes before 6 April 2024. Not everyone will benefit from having a Transitional Tax-Free Amount Certificate, and it's possible you may end up with a worse outcome for your pension savings if you apply for a certificate than if the standard HMRC calculation had been used.

Once a certificate is issued, it is irreversible and must be used, even if it gives you a poorer outcome. We strongly recommend you obtain financial advice before requesting a Transitional Tax-Free Amount Certificate to see if having one really is in your best interests.

If you still wish to apply for a Transitional Tax-Free Amount Certificate, please contact the Pensions Department and ask for an application form.

What if I have HMRC pension protection?

The lump sum tax regime has changed the rules on pension protections. Protections still apply, but only in respect of the higher tax-free cash protection they provide. If you have a protected right to a higher tax-free lump sum, your Lump Sum Allowance and Lump Sum and Death Benefit Allowance may be higher than the standard Lump Sum Allowance and Lump Sum and Death Benefit Allowance amounts.

In some circumstances, you may now be able to make further pension savings without losing your protection. This will depend on the type of protection you hold and when you successfully registered your protection. If you have protection and you're thinking about making further pension savings, it's important you speak to a financial adviser first to ensure you don't lose your protection unnecessarily.

Please see the separate Pension Protections Factsheet for more information about tax-free lump sums and protected lump sum rights.

Speak to a financial adviser

If you're not sure if the Lump Sum Allowance and/or Lump Sum and Death Benefit Allowance will affect you, it's best to speak to a financial adviser. They'll be able to advise you on whether the Lump Sum Allowance and Lump Sum and Death Benefit Allowance will impact your pension savings, depending on your circumstances.

Action!

It's difficult to generalise about who the Lump Sum Allowance and Lump Sum and Death Benefit Allowance might affect as it depends greatly on what pension savings you have already made and whether you've already taken tax-free cash from other pension schemes.

More information about the Lump Sum Allowance and Lump Sum and Death Benefit Allowance is set out in the Lump Sum Allowances Factsheet, which you can find on the Co-op pensions website at: coop.co.uk/pensions

Remember

If you believe that you might be affected by the Lump Sum Allowance, Lump Sum and Death Benefit Allowance or Annual Allowance, you're strongly encouraged to consider how this might affect your personal circumstances.

Dealing with your personal pension tax position is your responsibility. The Co-op, the Pace Trustees and the Co-op Pensions Department are unable, by law, to provide you with advice. You are strongly recommended to seek independent financial advice before making any pension planning decisions. You can find an adviser in your area who is regulated by the Financial Conduct Authority (FCA) by searching for 'retirement adviser' on the MoneyHelper website, moneyhelper.org.uk. You should check the specialist advice areas of any adviser, as well as the cost of their advice, before appointing them. If you're a member of Pace DC, Legal & General offer a way of paying for pensions and retirement advice called a Facilitated Adviser Charge (FAC). You can ask Legal & General to make a payment directly to your financial adviser by making deductions from your Pace DC pension pot.

FAC can only be used if the advice you receive relates to your relevant Legal & General pension plan, in this case, Pace DC. Full details of how the FAC works, and how to access this can be found at landg.com/adviserchargeguide

For further information, please contact the Co-op Pensions Department: **PensionSavings@coop.co.uk**

This factsheet should not be treated as an authoritative statement of the law on any particular aspect or in any specific case. It should not be taken as financial advice and action should not be taken as a result of this factsheet alone. Individuals are recommended to seek independent financial advice in respect of their own personal circumstances and before making any pension planning decisions.

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J-075036

07/25