



# 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 April 2020.

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 [www.co-operativebank.co.uk/pensions](http://www.co-operativebank.co.uk/pensions) for pension information that's relevant to you.

## Pension tax limits: an overview

### Tax relief on pensions is limited by:

- An **Annual Allowance**, which is the maximum tax-free build up of pension savings you can make each year. The Annual Allowance is currently £40,000 a year.

You'll have a lower Annual Allowance if:

- You're earning more than £240,000 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 £4,000 (the **Money Purchase Annual Allowance**).

- A **Lifetime Allowance**, which is the total value of pension savings you can build up over your entire working lifetime before tax penalties apply. From 6 April 2020, the Lifetime Allowance is £1,073,100. This increases each April in line with the annual increase in consumer price inflation (CPI).

If you have any questions about your pension savings, please contact the Co-op Pensions Department: [PensionSavings@coop.co.uk](mailto: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 **Annual Allowance Factsheet** and **Lifetime Allowance Factsheet** at [coop.co.uk/pensions](http://coop.co.uk/pensions)

Pension tax legislation is complicated so make sure you seek financial advice or guidance when deciding what action to take. You can find details of a financial adviser, regulated by the Financial Conduct Authority (FCA), in your area at [unbiased.co.uk](http://unbiased.co.uk). 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.

- For most colleagues, the Annual Allowance is currently £40,000 although there are some exceptions to this.
- **If you draw some of your pension savings under the new flexible retirement rules and you have continued to make pension savings, your allowance may be restricted to £4,000 (the Money Purchase Annual Allowance). The restriction applies to Pace DC and any other DC pension arrangements you have. You will 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 £240,000 (at a rate of £1 for every £2 of income).

This reduces the Annual Allowance to £4,000 for anyone with 'Adjusted Income' of £312,000 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 £240,000 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 lower, then you will not be affected by the reduction in the Annual Allowance. The box below gives you further information.

## 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 very 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 tax year are more than the Annual Allowance (or Money Purchase Annual Allowance, if applicable), 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 (or Money Purchase Annual Allowance, if applicable).

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.

**Please note that if the Money Purchase Annual Allowance applies to you, then you are not able to 'carry forward' unused allowances.**

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

If you think that your total level of pension savings in a tax year will exceed your Annual Allowance (or Money Purchase Annual Allowance, if applicable), then you may wish to reduce your pension savings to avoid paying an Annual Allowance Tax Charge.

### Action!

You can find more details on how to work out if you are 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](http://coop.co.uk/pensions). Please note, there are two separate versions depending on when you joined Pace DC.

There's also a worksheet available in the 'Tax information' dropdown in the [useful information](#) section of [coop.co.uk/pensions](http://coop.co.uk/pensions), which provides guidance on how to work out your Threshold Income and Adjusted Income, and shows how these may impact your Annual Allowance.

## What is the Lifetime Allowance?

This is the maximum build up of pension savings that you can have over your working lifetime without a tax charge and is measured whenever benefits are taken from a pension fund. If you are unsure whether or not your current pension savings will exceed the Lifetime Allowance, we strongly recommend you seek independent financial advice.

- The Lifetime Allowance is £1,073,100 from 6 April 2020.
- The Government increases the Lifetime Allowance each April in line with the annual increase in consumer price inflation.
- The Lifetime Allowance is measured against all pension savings, including any you may have outside of The Co-op.

## What happens if I exceed the Lifetime Allowance?

If the total value of your pension savings when you take them is more than the Lifetime Allowance, a Lifetime Allowance Tax Charge will be payable.

The charge is currently:

- 55% of the amount that is over your LTA, if the excess is taken as a lump sum, and/or
- 25% of the amount that is over your LTA, if the excess is taken as income, for example as a scheme pension (which would then also be taxed under PAYE at your marginal tax rate)

The value of pension savings for this purpose is the fund value of any defined contribution savings (such as Pace DC or personal pensions) and 20 times the annual pension payable at retirement from any defined benefit scheme such as Pace DB.



## What happens if I continue to make pension savings, and my total pension savings in the future are more than the Lifetime Allowance?

If you expect to have total pension savings of more than the Lifetime Allowance by continuing to make future pension savings, you should regularly monitor your position and take action at a later date, if necessary.

If you want to opt out of future pension savings because your pension savings are expected to be impacted by the Lifetime Allowance, The Co-op has an arrangement in place which will enable you to do this and receive a cash allowance instead. The [Lifetime Allowance Factsheet](#) gives you more details.



## Can I protect my pension benefits if I exceed the Lifetime Allowance?

The Government introduced two forms of 'protection' in April 2016, when the Lifetime Allowance was reduced from £1.25 million to £1 million.

The protections only help those individuals who had pension savings at April 2016 which were affected by the reduction in the Lifetime Allowance to £1 million.

### **Individual Protection (2016)**

If the value of your total pension benefits was more than £1 million as at 6 April 2016, you may be able to apply for Individual Protection (2016).

### **Fixed Protection (2016)**

If your total pension benefits were valued at less than £1 million at 5 April 2016, but you expect them to be worth more than £1 million by the time you take your benefits, due to inflation and/or investment returns, you may be able to apply for Fixed Protection (2016), provided you've made no further pension savings since 5 April 2016. Fixed Protection (2016) allows you to retain a Lifetime Allowance at the level of £1.25 million (or the Standard Lifetime Allowance if it has risen to more than this by the time you take your benefits).

Fixed Protection (2016) is only available if no further pension savings have been made since 5 April 2016.

You must apply for the protections before you take any benefits. There is currently no deadline for an application, so long as it is accepted before you take your benefits.

## How can I apply for HMRC protection?

An online system is available from HMRC to enable applications to be made. Please visit [www.gov.uk/guidance/pension-schemes-protect-your-lifetime-allowance](http://www.gov.uk/guidance/pension-schemes-protect-your-lifetime-allowance)

## Action!

It's difficult to generalise about who the Lifetime Allowance might affect as it depends greatly on what pension savings you have already made and what your pension planning objectives are.

Full details of how the Lifetime Allowance may affect you and how you may be able to protect yourself are set out in the Lifetime Allowance Factsheet.

A worksheet has also been produced which will help you work out whether this might affect you. This is available on The Co-op's pensions website: [coop.co.uk/pensions](http://coop.co.uk/pensions)

## Remember

If you believe that you might be affected by either the Lifetime Allowance or the 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 details of a financial adviser, regulated by the Financial Conduct Authority (FCA), in your area at [unbiased.co.uk](http://unbiased.co.uk). You should check the specialist advice areas of any adviser, as well as the cost of their advice, before appointing them.

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