



Changes to the Lifetime Allowance Factsheet

Co-op Section

This factsheet provides a summary of changes to the rules on pension tax limits, which were introduced from April 2016.



The information was updated and is current as at August 2018.

Pension Tax Limits

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 for pension information that's relevant to you.

Reminder of changes to the pension tax limits

Tax relief on pensions is limited by:

- A **Lifetime Allowance**, which is the total value of pension savings you can build up over your working lifetime before tax penalties apply.

The Lifetime Allowance reduced from £1.5 million to £1.25 million on 6 April 2014 and was reduced again to £1 million from 6 April 2016.

To avoid possible tax charges, The Co-op allows colleagues who are affected by these changes to opt out of pension savings and receive an alternative cash allowance.

- An **Annual Allowance**, which is the maximum tax-free build up of pension savings you can make each year. The changes to the Annual Allowance are covered in a separate factsheet.

You should read this factsheet and collect relevant information about your pension savings.

If you have any questions about the Lifetime Allowance, please contact the Co-op Pensions Department: PensionSavings@coop.co.uk

What are the changes and who is affected?

What are the changes?

There are three main changes:

- 1** The amount that high earners will be allowed to contribute each year towards their pension (the Annual Allowance) was reduced from April 2016.
- 2** Anyone who has taken some of their pension savings under the flexible retirement tax rules will have their allowance restricted to £4,000 (the Money Purchase Annual Allowance effective from April 2017).
- 3** The total amount of pension savings that can be saved over a whole working lifetime without being subject to extra tax (the Lifetime Allowance) was also reduced from April 2016.

This factsheet provides you with details of the changes to the Lifetime Allowance. Details of the other changes can be found in the '**Pension Tax Limits - Changes to the Annual Allowance**' factsheet and '**Pension Tax Limits - Summary**' factsheet (please visit the Co-op's pensions website: coop.co.uk/pensions).

Action!

Dealing with your personal tax position is your responsibility and it's important that you collect relevant information about all of your pension savings so you can decide if you need to take any action.

What is the Lifetime Allowance?

This is the maximum build up of pension savings you can have over your working lifetime without incurring a tax charge and is measured when you start to take your benefits.

What happened to the Lifetime Allowance from 6 April 2016?

- The Lifetime Allowance was reduced from £1.25 million to £1 million from 6 April 2016.
- The Government intends to increase the Lifetime Allowance by the annual rise in the Consumer Prices Index (CPI) each year from April 2018. The Lifetime Allowance from April 2018 is £1.03 million.
- If you have pension savings, valued at 5 April 2016, of over £1 million, you may wish to take some action to reduce or avoid a tax penalty.

How are pension savings valued for Lifetime Allowance purposes?

Pension savings are measured against the Lifetime Allowance when you take your benefits.

The way in which they're valued depends on the type of pension benefits:

- Defined contribution (DC) schemes such as Pace DC, Additional Voluntary Contributions (AVCs) and benefits from personal pensions have a value equal to the total fund value.
- Pensions from a defined benefit (DB) scheme, such as Pace DB (formally Pace Complete) and final salary schemes, are valued by multiplying the annual pension amount by 20, and adding the amount of any tax-free cash lump sum you choose to take.
- If you have pensions from more than one scheme, then the Lifetime Allowance test applies to the value of all of your pension savings from all schemes added together.

Action!

You should start collecting information on all of your benefits from Pace (DC and any DB benefits) together with information on all other pension savings that you have in personal pensions or from previous employments.

How can I find out the value of my Pace DC benefits?

The value of your Pace DC benefits can be found on the **Manage your Account** section of the Co-op's pensions website: coop.co.uk/pensions

You can also request a pension statement at any date of your choosing (e.g. 5 April 2016)

How can I estimate the future value of my Pace DC benefits?

You can estimate the future value of your Pace DC benefits by using the DC pension modeller, available at coop.co.uk/dcm modeller



How do I find out the latest value of my previous Additional Voluntary Contributions?

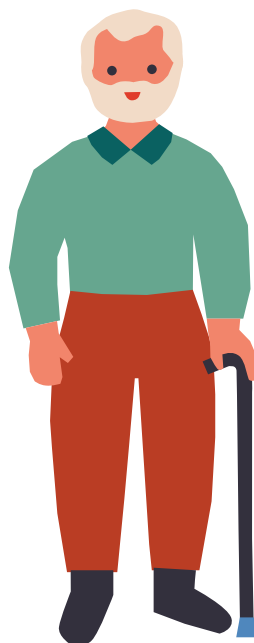
If you paid Additional Voluntary Contributions under Pace DB or other Co-op pension arrangements, an estimate of their current value can be found on the latest statement you have received. A value as at 5 April 2016 can be obtained by contacting the Co-op Pensions Department.

How do I find out the current value of my Pace DB or other DB benefits?

- You can obtain the current level (or level as at 5 April 2016) of your Pace DB and other Co-op DB benefits by contacting the Co-op Pensions Department.
- To work out the current value of these benefits, multiply the level of pension by 20.

Example

- Neil has a current Pace DB pension of £40,000 p.a.
- The current value for comparison with the Lifetime Allowance is $£40,000 \times 20 = £800,000$.



How do I calculate the possible future value of my Pace DB benefits?

To work out the possible value of your Pace DB benefits in the future, you need to increase the current pension by inflation and then multiply by 20.

Example

- Neil is aged 55 and has a current pension in Pace DB of £42,000 p.a.
- He wishes to estimate the value of his benefits in 10 years' time (at age 65).
- Assuming inflation is 2% over the years, the pension in Pace will be $£42,000 \times 1.02^{10} = £51,198$ p.a.
- The value for comparison with the Lifetime Allowance is $£51,198 \times 20 = £1,023,960$.
- **Note that if Neil retired early, his pension would be reduced for payment before normal pension date. If he retired at age 55 his pension might be reduced to £29,000 p.a. which has a Lifetime Allowance value of £580,000. This is well within the Lifetime Allowance.**

How do I calculate the possible future value of my final salary benefits?

To work out the possible value of your final salary benefits in the future, you need to increase the current level by your expectation of future salary increases and then multiply by 20.

Example

- Mike has a current final salary pension of £15,000 p.a.
- He wishes to estimate the value of his benefits in five years' time.
- Assuming his salary increases by 3.0% p.a. over this time, the final salary pension will be $£15,000 \times 1.03^5 = £17,389$ p.a.
- The value for comparison with the Lifetime Allowance is $£17,389 \times 20 = £347,780$.

If, however, you opt out of Pace DC for the future (see **pages 13 and 14**), then you'll lose your link to your final salary and your final salary pension would increase in future in a similar way as Pace DB benefits (see **page 7**).

Action!

Estimate the total value of your benefits built up to date by adding together the current value of all of your pension savings.

Estimate the value of your pension savings at the time you expect to take your benefits.

You'll need these figures to decide if any actions need to be taken.

A worksheet is available from the Co-op's pensions website: coop.co.uk/pensions to help you work out the total estimated value of your benefits built up to date.

What happens if I exceed the Lifetime Allowance?

- If the total value of all of your pension benefits exceeds the Lifetime Allowance when you start to take your benefits, a Lifetime Allowance Tax Charge will be payable.
- If your benefits over the Lifetime Allowance are taken as income, the Lifetime Allowance Tax Charge will be 25% of the excess income (and the remaining income will be further subject to income tax).
- If you're able to take your benefits over the Lifetime Allowance as cash, then you'll be subject to a 55% Lifetime Allowance Tax Charge on the excess over the Lifetime Allowance.

Example

- Ellie has a DC fund of £1.1 million at retirement and a Lifetime Allowance of £1 million.
- She decides to put £1 million into a drawdown fund and take the excess over £1 million (£100,000) as a lump sum.
- She therefore has a Lifetime Allowance Tax Charge = $£100,000 \times 55\% = £55,000$.

What happens if the value of my pension benefits as at 5 April 2016 is already more than £1 million?

If the value of your total pension benefits is already more than £1 million, the Government announced a form of protection which may protect you from a Lifetime Allowance Tax Charge. This is called Individual Protection (2016) and is similar to earlier protections offered when the Lifetime Allowance was previously reduced.

What is Individual Protection (2016)?

Individual Protection (2016) will give you a personalised Lifetime Allowance equal to the value of your total pension benefits at 5 April 2016 (or the Standard Lifetime Allowance if it has risen to more than this by the time you take your benefits).

If you apply for Individual Protection (2016), you may continue to make further pension savings, but any benefits that you have over your Lifetime Allowance when you start to take them will be subject to a Lifetime Allowance Tax Charge.

Example

- Gregg has benefits valued at £1.1 million at 5 April 2016.
- He applies for Individual Protection (2016) and receives a personal Lifetime Allowance of £1.1 million.
- He continues to make pension savings and considers retiring in 2017 when his benefits are valued at £1.15 million. If he did, he would have to pay a Lifetime Allowance Tax Charge on the excess benefits of $£1,150,000 - £1,100,000 = £50,000$, which at 55% would be £27,500.
- Instead, he delays his retirement to 2022, when his benefits are valued at £1.2 million. However, by 2022 the Standard Lifetime Allowance has risen in line with price inflation to £1.3 million (say).
- As this is above his personal Lifetime Allowance, the Standard Lifetime Allowance applies and he does not have to pay a Lifetime Allowance Tax Charge.

Action!

If the total estimated value of your pension savings, valued at 5 April 2016, is more than £1 million, you should consider applying for Individual Protection (2016).

What happens if the value of my pension benefits is less than £1 million at 5 April 2016 but is likely to be more than £1 million by the time I take my benefits, even if I make no more pension savings?

If your total pension benefits are 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, even if you make no future pension savings, then you may wish to apply for a form of protection called Fixed Protection (2016). Again, this is similar to protections offered previously.

To do this you must have stopped making pension savings prior to 5 April 2016.

To avoid having benefits over the Lifetime Allowance you may wish to opt out of Pace - more details of how to do this are set out on page 13.

If, in the future, you find that the Standard Lifetime Allowance is more than your personalised Lifetime Allowance, The Co-op will allow you to re-join Pace based on the terms available at that time.



What is Fixed Protection (2016)?

Fixed Protection (2016) allows you to retain a Lifetime Allowance at the current 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).

You cannot apply for Fixed Protection (2016) if you made pension savings after 5 April 2016. You would lose any Fixed Protection (2016) if you make pension savings after 5 April 2016 and your Lifetime Allowance would revert to the Standard Lifetime Allowance (which may be lower).

Example

- Hannah has benefits valued at £950,000 at 5 April 2016.
- She applies for Fixed Protection (2016) and so retains a Lifetime Allowance of £1.25 million or the future Standard Lifetime Allowance.
- She opts out of all future pension saving.
- She considers retiring in 2017 when her benefits are valued at £1,050,000. If she did, she would not have to pay a Lifetime Allowance Tax Charge as her benefits are below her personalised Lifetime Allowance.
- Instead, she delays her retirement to 2025 when her benefits are valued at £1.45 million, which is above her Lifetime Allowance of £1.25 million. By 2025 the Standard Lifetime Allowance has risen to £1.35 million (say). She would therefore have to pay a Lifetime Allowance Tax Charge on the excess benefits of $(£1,450,000 - £1,350,000) = £100,000$, which at 55% would be £55,000.

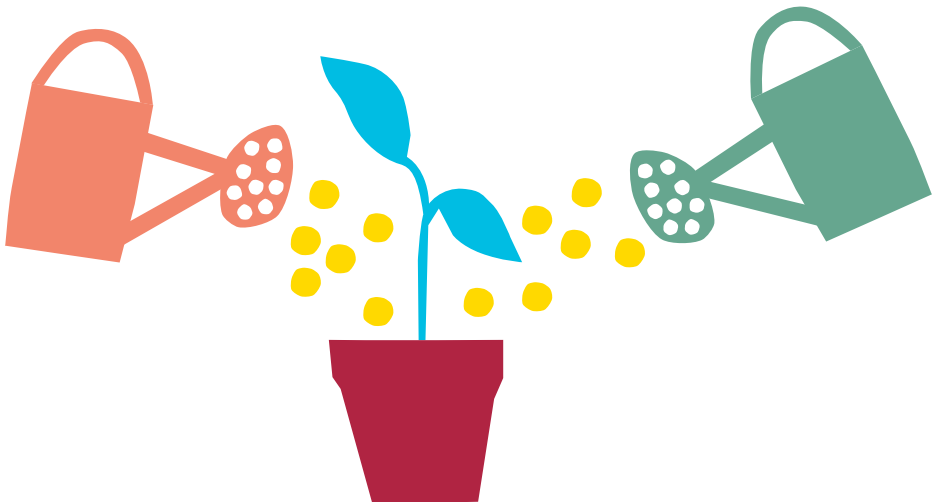
What happens if I expect my pension savings to be more than £1 million by the time I take my benefits, but only if I continue to make pension savings?

If you only expect to have pension savings of more than the Lifetime Allowance by continuing to make further pension savings, then the protections available will not help you.

Instead, you may continue to make pension savings and monitor the total value of your pension savings against the Lifetime Allowance. You can then consider opting out of further pension savings at some point in the future, when your pension savings are anticipated to be impacted by the Lifetime Allowance.

How can I opt out of all future pension savings?

If you wish to opt out of all future pension savings from Pace (including any Pace or other final salary benefits) because it's anticipated that you'll be impacted by the Lifetime Allowance, then you'll need to contact the Co-op Pensions Department. If you opt out then The Co-op will pay you a cash allowance (**see page 14**).



What alternative benefits will I receive if I opt out of Pace?

If you opt out of Pace DC for Lifetime Allowance reasons, you'll stop paying employee contributions and you'll also stop receiving contributions from The Co-op.

In recognition of this, The Co-op will instead make available a non-pensionable cash allowance of 10% of your basic salary. This will be paid with your salary and will be subject to income tax and national insurance contributions.

Example

- Sarah has a basic salary of £125,000 and opts out of Pace DC.
- Instead she'll receive a non-pensionable cash allowance of 10% x £125,000 = £12,500 p.a.

If you opt out of Pace DC for Lifetime Allowance reasons, then your death in service benefits will remain at their current levels.

What happens to my Pace DC benefits if I opt out?

Any funds that you have in Pace DC will normally continue to be invested and will go up and down in line with investment returns until you take your benefits.

What happens if I opt out of Pace DC but I have Pace DB benefits?

If you opt out of Pace DC for future pension savings and elect to receive a cash allowance, any Pace DB benefits (including any Pace or other final salary benefits) will be treated as if you'd left The Co-op's employment and your benefits will become 'deferred'. This does not mean that they'll be frozen, as they'll be increased each year in line with inflation (as detailed in the Pace Scheme rules) until you take your benefits.

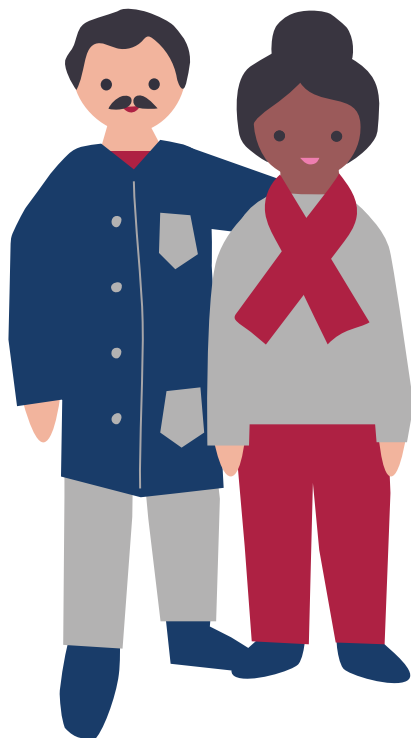
Importantly, this means that you'll lose any final salary link. This needs to happen otherwise the increase in the value of these benefits each year would count as pension savings.

How can I apply for HMRC protection?

You must apply for the protections before you take any benefits after 6 April 2016.

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

There is currently no deadline for applications, so long as it is accepted before you take your benefits.





Important note

If you believe that you might be affected by the reduction in the Lifetime Allowance, then you're strongly encouraged to consider what impact it may have on your circumstances. To enable you to do this, you should collect relevant data/information (such as the value of other pension benefits from employment before you joined The Co-op).

Please note that the Co-op Pensions Department cannot provide financial advice and you are strongly recommended to seek independent financial advice before making any pension planning decisions.

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.



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