



Lifetime Allowance Factsheet

Co-op Section

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



The information was updated
and is current as at April 2020.

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.

Pension tax limits: an overview

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.

From 6 April 2020, the Lifetime Allowance is £1,073,100. This is increased by the Government each April in line with the annual increase in consumer price inflation.

To avoid possible tax charges, The Co-op allows colleagues who are affected by the Lifetime Allowance 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.

More information about the Annual Allowance is covered in the [Annual Allowance Factsheet](#) and [Pension Tax Limits: Summary Factsheet](#) at coop.co.uk/pensions.

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

This factsheet provides you with details about the Lifetime Allowance and the options available if you're affected.

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. Pension tax legislation is complicated and we recommend you seek financial advice 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. You should check the specialist advice areas of any adviser, as well as the cost of their advice, before appointing them.

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 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 from 6 April 2020 is £1,073,100. The Lifetime Allowance is increased by the annual rise in the consumer price index (CPI) each April.

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 scheme you belong to:

- For defined contribution (DC) schemes such as Pace DC, Additional Voluntary Contributions (AVCs) and benefits from personal pensions, the value is simply the total fund value at the time you decide to take your pension benefits.
- Pensions from a defined benefit (DB) scheme, such as Pace DB, are usually valued by multiplying the actual pension you will receive at retirement by 20, plus 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, when these are brought into payment.

Does the LTA only relate to my pension savings?

Under current tax rules, any lump sum benefits (such as your death in service cover under Pace DC) may be added to the total amount of your pension savings for assessment against the LTA. You are more likely to exceed the LTA on your death before retirement if your earnings are high and you have substantial pension savings.

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

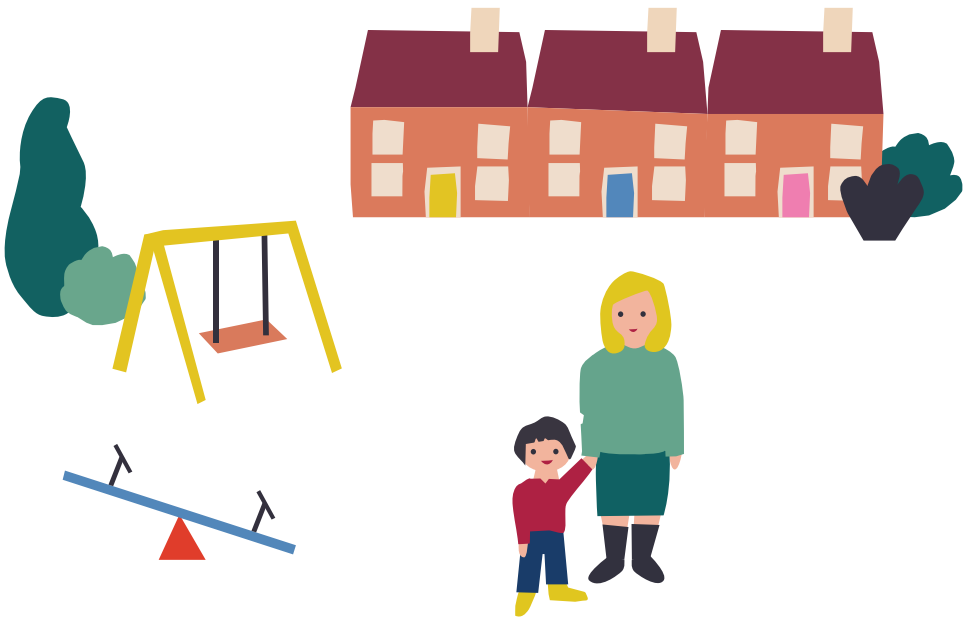
You can also request a pension statement at any date of your choosing by contacting Legal & General: Legal & General Trustee Services Team, City Park, The Drove Way, Hove BN3 7PY.

Tel: 0345 026 8689

Email: coopensions@landg.com

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?

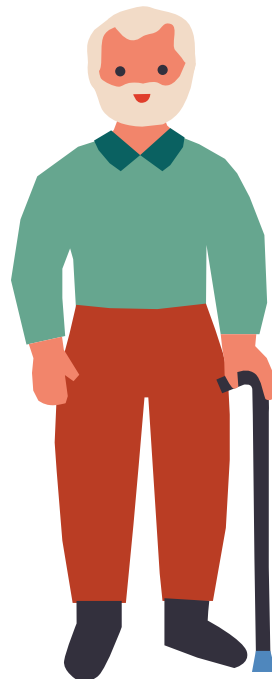
If you paid Additional Voluntary Contributions under Pace DB or the other Co-op pension arrangements, an estimate of their current value can be found on the latest statement you have received. You can also obtain an estimate by contacting the Co-op Pensions Department.

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

You can obtain the current value of your Pace DB and other Co-op DB benefits by contacting the Co-op Pensions Department:
PensionSavings@coop.co.uk

How do I find out the current value of my other pension savings?

If you have pension savings outside of The Co-op, please contact your provider for further details.



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 at your marginal rate).
- 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 £1.5 million at retirement and a Lifetime Allowance of £1,073,100.
- She decides to put £1,073,100 million into a drawdown fund and take the excess over £1,073,100 million (£426,900) as a lump sum.
- She therefore has a Lifetime Allowance Tax Charge of $£426,900 \times 55\% = £234,795$.

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 the value of your pension benefits to be more than the Lifetime Allowance as a result of continuing to make future pension savings, you should regularly monitor your position. 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 DB 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 at PensionSavings@coop.co.uk. If you opt out then The Co-op will pay you a cash allowance (see page 11).

To avoid having benefits over the Lifetime Allowance, you may wish to opt out of Pace.

If, in the future, you find that the Standard Lifetime Allowance is more than your personalised Lifetime Allowance (see pages 8 and 9 for details about Individual Protection (2016) and Fixed Protection (2016)), The Co-op will allow you to re-join Pace based on the terms available at that time.

If I exceed the Lifetime Allowance, can I protect the value of my pension benefits?

Yes, potentially. The Government introduced two types of protection in April 2016, when the Lifetime Allowance was reduced from £1.25 million to £1 million. These are called Individual Protection (2016) and Fixed Protection (2016). 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.

What is 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).

Individual Protection (2016) will give you a personalised Lifetime Allowance equal to the value of your total pension benefits at 5 April 2016, up to a maximum of £1.25 million (or the Standard Lifetime Allowance if this is more 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 had benefits valued at £1.1 million at 5 April 2016.
- He applied for Individual Protection (2016) and received a personal Lifetime Allowance of £1.1 million.
- He has continued to make pension savings and considers retiring in 2020 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 doesn't have to pay a Lifetime Allowance Tax Charge.

What is 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, then you may wish to apply for a form of protection called Fixed Protection (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).

You can't apply for Fixed Protection (2016) if you have made pension savings since 5 April 2016.

If you have Fixed Protection (2016) and you make pension savings in the future, you will lose your Fixed Protection (2016) and your Lifetime Allowance will revert to the Standard Lifetime Allowance (which may be lower).

Example

- Hannah had benefits valued at £950,000 at 5 April 2016.
- She applied for Fixed Protection (2016) and retained a personalised Lifetime Allowance of £1.25 million or the future Standard Lifetime Allowance.
- She has opted out of all pension savings since 5 April 2016.
- She considers retiring in 2020 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.

How can I apply for HMRC protection?

You must apply for the protections before you take any benefits.

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.



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 for the year of $10\% \times £125,000 = £12,500$.

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.



Important note

If you believe that you might be affected by the Lifetime Allowance, then you're strongly encouraged to consider what impact it may have on your circumstances.

Please note that The Co-op, the Pace Trustees and the Co-op Pensions Department are unable, by law, to provide financial 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. You should check the specialist advice areas of any adviser, as well as the cost of their advice, before appointing them.

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.

