



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 August 2023.

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 lifetime before you have to pay a tax charge, known as the Lifetime Allowance tax charge.

The Government removed the Lifetime Allowance tax charge from 6 April 2023. This was a one-off tax charge of 55% where pension savings above the Lifetime Allowance were taken as a lump sum, or 25% plus income tax where they were taken as pension.

The Government has announced its intention to remove the Lifetime Allowance completely from 6 April 2024. We're still waiting for details on how this will be implemented and will update this factsheet once further information becomes available as we know many colleagues will be planning to take their pension savings after 6 April 2024.

References to the Lifetime Allowance in this factsheet therefore only apply to colleagues who are planning to take their pension savings during the 2023/2024 tax year.

The Lifetime Allowance is still in place for the 2023/2024 tax year and is currently £1,073,100. If you take your pension savings this tax year, any pension savings you have above the Lifetime Allowance will now be taxed at your marginal rate of income tax, and will not be subject to the Lifetime Allowance tax charge. This means all your pension savings, apart from any tax-free cash, will be taxed as earned income under PAYE, including any pension savings above the Lifetime Allowance and there will be no additional Lifetime Allowance tax charge.

If your financial adviser advises you to opt-out of Pace due to pensions tax reasons, the Co-op has an arrangement in place to allow you to do this and to receive a non-pensionable cash allowance instead. The Pensions Protections Factsheet at coop.co.uk/pensions also provides information about the various types of HMRC pension protections available if you're affected by the Lifetime Allowance.

- 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.

Up until 5 April 2023, the Annual Allowance was £40,000. From 6 April 2023, 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.

If you've taken flexible benefits from your money purchase/defined contribution (DC) pension savings while still paying into a DC pension, your Annual Allowance may be restricted to £10,000 (the **Money Purchase Annual Allowance**).

More information about the Annual Allowance and Money Purchase 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. This factsheet reflects the changes to pensions tax relief which were announced by the Government in the Budget of 15 March 2023. However, the draft legislation needed to implement the changes does not fully align with the announcement, and the details of the changes were in the process of being finalised by HMRC at the time this factsheet was published. Accordingly, the position summarised in this factsheet reflects the pensions industry's general understanding of the changes as at April 2023 but may be subject to change.

The law and tax rates relating to pensions may change in the future and will depend on your individual 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. Pension tax legislation is complicated and we recommend you seek financial advice 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, www.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 Lifetime Allowance?

This is the maximum build up of pension savings you can have over your lifetime before you have to pay 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.

- In March 2023, the Government announced its intention to abolish the Lifetime Allowance from April 2024. The Lifetime Allowance tax charge (of 55% where pension savings above the Lifetime Allowance are taken as a lump sum or 25% plus income tax where they are taken as pension) has been removed from April 2023.

For the 2023/2024 tax year, the Lifetime Allowance is £1,073,100. If you take any of your pension savings this tax year and at that time the total value of your pension savings is above this limit, you'll pay income tax on the excess at your marginal rate instead of the Lifetime Allowance Tax Charge. You'll pay this tax if you take your excess benefits as either income or cash. So all of your pension savings, apart from any tax-free cash, will now be taxed as earned income under PAYE, including any pension savings above the Lifetime Allowance and there will be no additional Lifetime Allowance tax charge.

- For the 2023/2024 tax year, the amount of tax-free cash you can take from your benefits is limited by reference to the Lifetime Allowance. You won't now be able to take any of your benefits **above** the Lifetime Allowance as tax-free cash. So if you take your benefits this tax year and their total value is more than the Lifetime Allowance, the maximum tax-free cash you'll be able to take will be £268,275 (i.e. 25% of the Lifetime Allowance). The maximum amount of tax-free cash you can take at retirement is expected to remain frozen at £268,275 and this limit would apply to you if you take your benefits in a future tax year.

If you have a protected right to a higher tax-free lump sum as at 5 April 2023 or if you successfully apply for such a protected right, you'll still be able to access this right. Please see the separate Pensions Protections Factsheet for more information about tax-free lump sums and protected rights.

How are pension savings valued for Lifetime Allowance purposes?

Although the Lifetime Allowance is expected to be abolished from 6 April 2024, if you take your benefits this tax year your pension savings must be measured against the Lifetime Allowance at that time.

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 Lifetime Allowance 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 Lifetime Allowance. You're more likely to exceed the Lifetime Allowance on your death before retirement if your earnings are high and you have substantial pension savings. However, it's important to remember that the Lifetime Allowance is expected to be abolished on 6 April 2024.

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, Ground Floor Knox Court, 10 Fitzalan Place, Cardiff CF24 0EB.

Tel: 0345 026 8689

Email: cooppensions@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 <https://coop.pacepensions.co.uk/dc-modeller/>

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

If you're currently paying Additional Voluntary Contributions to Pace DC, you can find out the value by logging on to coop.co.uk/pensions and following the links to Manage your Account.

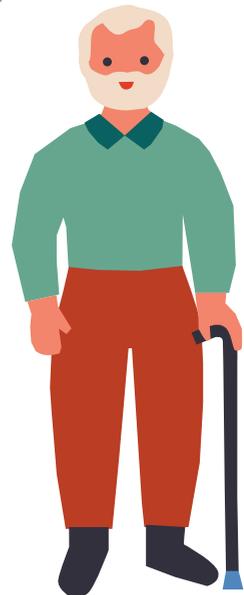
If you paid Additional Voluntary Contributions under Pace DB or the other Co-op pension arrangements, an estimate of their current value can be found on the latest statement you have received. You can also obtain an estimate by contacting the Co-op Pensions Department.

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 wish to take my benefits before 6 April 2024 and I think the value of my total pension savings will be more than the Lifetime Allowance?

The Lifetime Allowance tax charge has been removed from April 2023. If the total value of your pension savings is above the Lifetime Allowance when you come to take your benefits, you'll pay income tax on the excess at your marginal rate instead of the Lifetime Allowance tax charge. You'll pay this tax if you take your excess benefits as either income or cash. This means that, apart from any tax-free cash, all of your pension savings, including any pension savings above the Lifetime Allowance, will now be taxed as earned income under PAYE and there will be no additional Lifetime Allowance tax charge.

One key change introduced by the Government from April 2023 is that you aren't now able to take any of your benefits above the Lifetime Allowance as tax-free cash. So, if you take your pension savings this tax year and their total value is more than the Lifetime Allowance, the maximum tax-free cash you'll be able to take will be £268,275 (i.e. 25% of the Lifetime Allowance). The maximum amount of tax-free cash you can take at retirement is expected to remain frozen at £268,275 and this limit would apply to you if you take your benefits in a future tax year.

If you have a protected right to a higher tax-free lump sum as at 5 April 2023 or if you successfully apply for such a protected right, you'll still be able to access this right. Please see the separate Pensions Protections Factsheet for more information about tax-free lump sums and protected rights. You must apply for the pension protections before you take any benefits.

Example

- Ellie has a DC fund of £1.5 million at retirement during the 2023/2024 tax year and a Lifetime Allowance of £1,073,100.
- She decides to put £1,073,100 into a drawdown fund and take the excess over £1,073,100 (£426,900) as a lump sum.
- She is a 45% tax payer and will therefore pay tax at her marginal rate of £192,105 on the lump sum amount she takes above the Lifetime Allowance ($£426,900 \times 45\% = £192,105$). This tax is payable instead of the Lifetime Allowance tax charge.
- This means the whole of Ellie's lump sum is now taxed as earned income under PAYE.

If you're not sure how the Lifetime Allowance will affect you, it's best to speak to a financial adviser. They'll be able to advise you on the impact of the Lifetime Allowance, how much tax you'll need to pay, and whether it would be in your interests to opt out of pension savings due to pensions tax reasons.

If your financial adviser advises you to opt out of pension savings due to pensions tax reasons, the Co-op has an arrangement in place to enable you to do this and receive a non-pensionable cash allowance instead of pension contributions. Please see page 10 for more details.



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 at that time, or are likely to be affected by this reduction by the time they come to access their pension savings.

Please see the separate Pensions Protections Factsheet for more information about Individual Protection (2016) and Fixed Protection (2016). The Pensions Protections Factsheet also provides information on alternative forms of pension protection that you may already hold.



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

If your financial adviser advises you to opt out of pension savings due to pensions tax reasons, the Co-op offers an alternative non-pensionable cash allowance instead of pension contributions. If you're advised to opt out of Pace, please contact the Co-op Pensions Department at **PensionSavings@coop.co.uk** for more information.

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 a measure of 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 an adviser in your area who is regulated by the Financial Conduct Authority (FCA) by searching for 'retirement adviser' on the MoneyHelper website, www.moneyhelper.org.uk

You should check the specialist advice areas of any adviser, as well as the cost of their advice, before appointing them.

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

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.

