Pace pension scheme

# Lump Sum Allowances 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 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

## Tax relief on pensions is limited by:

- 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.

  This factsheet provides more information on the Lump Sum Allowance and Lump Sum and Death Benefit Allowance and how they may potentially impact your lump sum payments from Pace.

  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 **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.

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**

- An **Overseas Transfer Allowance**, which limits the amount of pension benefits you can transfer to an overseas pension scheme. The Overseas Transfer Allowance is £1,073,100. If you transfer your benefits to an overseas scheme and the value of your transfer is more than the Overseas Transfer Allowance, the excess amount will be taxable. 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 any of the allowances above, please contact the Co-op Pensions Department: PensionSavings@coop.co.uk**

This factsheet provides you with details about the the Lump Sum Allowance, the Lump Sum and Death Benefit Allowance and the Overseas Transfer Allowance and the options available if you're affected.

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, **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?

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.

You will have been issued a statement from your pension provider or scheme administrator 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 the benefits you've previously taken from other schemes.

# What is the Lump Sum Allowance and the 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 type of HMRC pension 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 have received benefits from other schemes before 6 April 2024 which used up some (or all) of your Lifetime Allowance.

## Do the Lump Sum Allowance and Lump Sum and Death Benefit Allowance limit the amount of tax-free cash I can take on retirement?

You can choose to take up to 25% of the capital value of your benefits, including AVCs, as a tax-free lump sum when you retire from Pace. 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 or Lump Sum and Death Benefit Allowance, your tax-free lump sum 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 from other pension schemes), 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.

### Example 1

- Ellie is retiring from Pace DB and wishes to take 25% of the capital value of her benefits as a tax-free lump of £50,000, calculated in line with the Pace Rules.
- Ellie has no HMRC pension protection, so her tax-free lump sum on retirement will be tested against the standard Lump Sum Allowance (£268,275) and the standard Lump Sum and Death Benefit Allowance (£1,073,100).
- Her **available** Lump Sum Allowance (allowing for benefits she has already taken from Pace DC and other pension schemes) is £120,000 and her **available** Lump Sum and Death Benefit Allowance (again allowing for benefits she has already taken from other pension schemes) is £925,000.
- Ellie has enough available Lump Sum Allowance and Lump Sum and Death Benefit Allowance and can take the full tax-free lump sum of £50,000. Her remaining benefits will be paid to her as a taxable pension income.

## Example 2

- Sam is retiring from Pace DB and wishes to take 25% of the capital value of his benefits as a tax-free lump sum of £150,000, with his remaining benefits paid as a taxable pension.
- Sam has no HMRC pension protection so his tax-free lump sum on retirement will be tested against the standard Lump Sum Allowance (£268,275) and the standard Lump Sum and Death Benefit Allowance (£1,073,100).
- His **available** Lump Sum Allowance (allowing for benefits he has already taken from Pace DC and other pension schemes) is £100,000 and his **available** Lump Sum and Death Benefit Allowance (again, allowing for benefits he has already taken from other pension schemes) is £500,000.
- Although Sam has enough available Lump Sum and Death Benefit Allowance (£500,000), his available Lump Sum Allowance (£100,000) is not enough to allow him to take his full tax-free lump sum of £150,000.
- Sam's tax-free lump sum will be restricted to £100,000 (ie the amount of his available Lump Sum Allowance). He will need to take his remaining lump sum of £50,000 as additional taxable pension income.

## Example 3

- Sue is retiring from Pace DB and wishes to take a reduced pension with a tax-free lump sum of £200,000 which has been calculated in line with the Pace Rules.
- Sue has no HMRC pension protection so her tax-free lump sum on retirement will be tested against the standard Lump Sum Allowance (£268,275) and the standard Lump Sum and Death Benefit Allowance (£1,073,100).
- She has used up all of her **available** Lump Sum Allowance and Lump Sum and Death Benefit Allowance with benefits previously taken from Pace DC and other pension schemes.
- As she has no allowances available, she cannot take a lump sum from Pace and must take all of her benefits on retirement as taxable pension income.

# 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. Any tax-free lump sum payable to you on ill-health grounds will need to be tested against your available Lump Sum and Death Benefit Allowance. If the lump sum is more than your available Lump Sum and Death Benefit Allowance, the excess amount 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 this will all be subject to income tax.

## Example 4

- Sanjay is 62 and retiring from Pace DB due to serious ill-health. He wishes to take all of his pension as a lump sum of £500,000.
- Sanjay has no HMRC pension protection. As he is under 75, his tax-free lump sum on serious ill-health retirement will be tested against the standard Lump Sum and Death Benefit Allowance (£1,073,100).
- His **available** Lump Sum and Death Benefit Allowance (allowing for benefits he has already taken from Pace DC and other pension schemes) is £300,000. This will restrict the amount of lump sum that Sanjay can take tax free from Pace.
- Sanjay can take £300,000 of his lump sum free of tax. The remaining lump sum of £200,000 will be taxed at his marginal rate of 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 payable to your beneficiaries will need to be tested against your available Lump Sum and Death Benefit Allowance, provided the lump sum death benefit is paid within two years of us being notified of your death. If the lump sum death benefit is more than your available Lump Sum and Death Benefit Allowance, your beneficiaries may have to pay income tax at their marginal rate 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 paid to you before you died, along with any lump sum death benefits payable to your beneficiaries from Pace DB, Pace DC and any other registered pension schemes 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 before reaching age 75 and your lump sum death benefit is paid more than two years after we have been notified that you have died, then 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.

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.

## Example 5

- George died when he was 72, and a lump sum death benefit of £900,000 is due to be paid from Pace DC to his beneficiaries. His Legal Personal Representative has told us this is the only lump sum death benefit George has and no further lump sum death benefits are due to be paid from any other pension schemes. George has also not taken benefits from any other schemes previously.
- George has no HMRC pension protection. As he died before age 75, his lump sum death benefit will be tested against the standard Lump Sum and Death Benefit Allowance of £1,073,100.
- George has not taken any benefits from other schemes and has not therefore used up any of his Lump Sum and Death Benefit Allowance.
- George's beneficiaries will not need to pay tax on the lump sum death benefit.

## Example 6

- Asha died when she was 71, and a lump sum death benefit of £200,000 is due to be paid from Pace DB to her beneficiaries.
- Asha has no HMRC pension protection. As she died before age 75, her lump sum death benefit will be tested against the standard Lump Sum and Death Benefit Allowance of £1,073,100.
- When she was alive, Asha was paid a serious ill-health lump sum from another scheme which used up all of her Lump Sum and Death Benefit Allowance.
- As Asha has no available Lump Sum and Death Benefit Allowance left, the beneficiaries of her Pace lump sum will be required to pay tax on the full amount (£200,000).
- Pace will pay the lump sum death benefit (£200,000) to Asha's beneficiaries gross of tax and is not responsible for deducting any tax due. Asha's Legal Personal Representative is responsible for calculating whether Asha has any Lump Sum and Death Benefit Allowance left. In this case, Asha has no Lump Sum and Death Benefit Allowance left after the payment of all her benefits. Her Legal Personal Representative must let HMRC know that her total benefits paid (ie both her lump sum death benefit and her previous serious ill-health lump sum) are more than her Lump Sum and Death Benefit Allowance. HMRC will then calculate any tax due and contact Asha's beneficiaries directly to tell them how much tax they have to pay.

## How do you check the amount of Lump Sum Allowance and Lump Sum and Death Benefit Allowance I have available?

When you retire from Pace DB, we'll send you an information pack. This will include a form asking you to provide us with the following information to help us work out how much Lump Sum Allowance and Lump Sum and Death Benefit Allowance you have available:

- Details of any lump sum benefits you've already received (and are due to receive) from other schemes on or after 6 April 2024.
- Details of any benefits you've received from other schemes before 6 April 2024, including details of the percentage of Lifetime Allowance used up when your benefits were paid to you.

If you can't find the information you need, please approach the administrator or pension provider of your other scheme(s) in the first instance.

Once we have the information we need, we'll work out your available Lump Sum Allowance and Lump Sum and Death Benefit Allowance to see how much tax-free cash you're able to take.

If you have benefits in Pace DC, Legal & General will also send you a separate pack asking you to provide them with similar information so they can work out your available Lump Sum Allowance and Lump Sum and Death Benefit Allowance. You'll need to provide this information directly to Legal & General.

In the event of your death, we'll send an information pack to your Legal Personal Representative(s) so Pace DB has the information it needs to work out your available Lump Sum and Death Benefit Allowance.

If you have benefits in Pace DC, Legal & General will also send your Legal Personal Representative(s) further information about this.

If you're not sure how the Lump Sum Allowance and/or the Lump Sum and Death Benefit Allowance will affect you, we strongly suggest you speak to a financial adviser who'll be able to help you. Please see page 3 for details of how you can find a financial adviser near you.

# 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 capital 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 lump sum from your previous pension arrangement, we may be able to use that figure in our calculations.

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

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

HMRC has confirmed that most people shouldn't need to apply for a Transitional Tax-Free Amount Certificate, and 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 Co-op Pensions Department and ask for an application form.

# What if I have HMRC pension protection?

Firstly, please make sure you tell us about any HMRC pension protection you have (or have applied for) so we can update our records.

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, you'll still be able to access this right, so your Lump Sum Allowance and Lump Sum and Death Benefit Allowance may therefore 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.

## The Overseas Transfer Allowance

If you're considering transferring your pension benefits to an overseas pension scheme, the Overseas Transfer Allowance places a limit on the amount 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 scheme and the value of your transfer is more than the Overseas Transfer Allowance, the excess transfer amount will be taxable. If you're thinking about transferring your benefits to an overseas pension scheme, please contact the Co-op Pensions Department for more information.

## Important note

**We strongly encourage you to obtain financial advice before making any pension planning decisions.**

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, 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 have benefits in 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

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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