

APRIL 2020
BRIEFING

LIFETIME ALLOWANCE

This guide has been produced to support your conversations with members of the NHS Pension Scheme about lifetime allowance.

Raising awareness of the lifetime allowance and encouraging staff to engage with their pension savings earlier may help employees take steps to mitigate a tax charge at retirement.

WHAT IS LIFETIME ALLOWANCE?

Lifetime allowance is the amount of pension savings an individual can make over a working lifetime without paying tax. All pension benefits, except the state pension, count towards the lifetime allowance.

This includes pension benefits in the NHS Pension Scheme, other workplace pension schemes and personal pension arrangements. If an individual's total pension savings exceed the lifetime allowance, a tax charge is due on the excess benefits.

The lifetime allowance is £1,073,100 for the 2020/21 tax year.

How are benefits in the NHS Pension Scheme tested against lifetime allowance?

STEP 1

multiply the member's annual pension at retirement by 20

STEP 2

add the value of any automatic additional cash lump sum (for members of the 1995 Section only)

STEP 3

add the value of any additional voluntary contributions (AVCs)

Individuals will need to add the value of any other pension benefits from other pension schemes in this calculation.

THE LIFETIME ALLOWANCE CHARGE

The rate of tax payable on any excess benefits above lifetime allowance depends on how the member receives the benefits.

- Benefits taken as a cash lump sum are taxed at a rate of 55%.
- Benefits that are paid as a pension are taxed at a rate of 25%

NHS Pensions will deduct the lifetime allowance tax charge from the member's pension before it is paid. Regular pension payments in retirement will continue to be taxed according to the individual's marginal rate of income tax. Therefore, for higher rate tax payers, both the options above are broadly equivalent.

WHO IS LIKELY TO BE AFFECTED?

A range of factors will contribute towards an employee exceeding the lifetime allowance. Employees are more likely to breach the lifetime allowance if they have:

- a high income
- long service in the 1995 Section of the NHS Pension Scheme
- pension benefits in other schemes.

An individual with an annual pension at retirement worth over £53,655 would exceed the lifetime allowance for the 2020/2021 tax year.

The table below shows example combinations of the final pensionable pay figures and length of service which may be sufficient to reach the lifetime allowance in the 2020/21 tax year in the 1995 Scheme.

NHS Pension Scheme 1995 Section*	Length of service	Final pensionable pay	Annual Pension	Additional retirement cash lump sum	Value of pension savings
	45 years	£83,000	£46,688	£140,063	£1,073,813
	40 years	£93,314	£46,657	£139,971	£1,073,111
	35 years	£106,645	£46,681	£140,044	£1,073,669

As the 2008 Section and 2015 Scheme* were introduced fairly recently, it is unlikely that members of those schemes will have sufficient service to reach the lifetime allowance, based on their benefits in the 2008 Section and 2015 Scheme alone.

It is possible that members of the 2008 Section and the 2015 Scheme may breach the lifetime allowance once their benefits from other workplace pension schemes and personal pension arrangements are considered.

*The NHS Pension Scheme is divided into three parts; the 1995 Section, 2008 Section and 2015 Scheme. This [video](#) on the NHS Pensions website may help staff work out which part of the scheme they have joined.

COMMUNICATION

Pension benefits are measured against the lifetime allowance at retirement. At that time, NHS Pensions will confirm if the member has exceeded the lifetime allowance and if a tax charge is due.

Raising awareness of the lifetime allowance may encourage staff to engage with their pension savings earlier. If employees have a good understanding of how the lifetime allowance works, they are more likely to make informed decisions and take proactive steps to mitigate a tax charge on retirement.

The best way for staff to monitor the growth of their NHS Pension is to view their annual Total Reward Statement (TRS). It's important for employees to view their TRS alongside annual benefit statements from other workplace and personal pension schemes to identify the total value of their pension benefits.

OPTION FOR AFFECTED STAFF

Staff with pension benefits that are approaching the lifetime allowance value may wish to discuss their options with an independent financial adviser, to ensure they make an informed decision to suit their financial circumstances.

Employees may be able to apply to HMRC to protect the value of their pension savings, or take steps to reduce the value of their pension benefits at retirement before they are measured against the lifetime allowance.

- **Lifetime allowance protection** - employees may be able to apply to protect their pension savings from the 6 April 2016 reduction of the standard lifetime allowance, which was when the lifetime allowance was reduced from £1,250,000 to £1,000,000. More information about how the protection works and who can apply is available on the [HMRC website](#).
- **Commutation** – employees have the option to take a lower pension in exchange for a cash lump sum on retirement.
- **Early retirement** – taking benefits from the scheme stops further build-up of pension savings and if benefits are taken before normal retirement age, the pension is normally lower to reflect the early payment.

Members can request to retire, claim their pension benefits and then return to NHS employment. The Department of Health and Social Care has released [guidance](#) to help employers put policies in place to consider applications from staff.

- **Allocation** – members of the scheme can, subject to certain conditions, choose to take a lower pension and allocate part of their pension to be paid to another person after their death.
- **Scheme pays** – employees who are affected by the annual allowance may ask the scheme to pay their annual allowance tax charge to HMRC on their behalf, in return for a lower pension in retirement. Take a look at our [annual allowance briefing](#) for more information about scheme pays.



WHERE CAN I FIND FURTHER INFORMATION ABOUT LIFETIME ALLOWANCE?

Further information about the lifetime allowance is available online from [NHS Pensions](#) and [HMRC](#).

[The Money Advice Service](#) is set up by government to provide impartial money advice. Their website has further details on pensions and retirement, including a directory of regulated advisers.

NHS EMPLOYERS

NHS Employers supports organisations to develop effective approaches to reward to support their workforce priorities and challenges. We keep employers up to date with the latest developments in reward and provide guidance to help employers communicate and reinforce the value of their reward offer. Our Total Reward and Engagement Network provides an opportunity for colleagues from across the NHS to develop and share their reward knowledge and experiences.

The NHS Pension Scheme is a key part of the reward offer for employees in the NHS and we provide tools and resources to help employers promote the value of the scheme and carry out their local administration responsibilities.

CONTACT US

For more information about the NHS Pension Scheme, go to: www.nhsemployers.org/pensions

If you have any questions, email us at: pensions@nhsemployers.org

@NHSE Reward

NHS Employers
2 Brewery Wharf
Kendell Street
Leeds
LS10 1JR

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