

The pension lifetime allowance

Planning checklist

Our checklist is designed to highlight important considerations when assessing an individual's pension savings and the impact of the lifetime allowance (LTA). For a more comprehensive overview please see our technical guide on 'The pension lifetime allowance'.

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1. Establish the amount of the individual's LTA

1.1 Standard LTA or has LTA protection been established?

Enhanced and fixed protections		Primary and individual protections	
Enhanced	Unlimited	Primary	£1.8million + relevant individual enhancement factor
Fixed 2012	£1.8million		
Fixed 2014	£1.5million	Individual 2014	£1.25-£1.5million
Fixed 2016	£1.25 million	Individual 2016	£1.0-1.25 million (effectively now £1.0731-£1.25 million)
Has previous protection been lost? LTA protection in this group can be lost in the following circumstances: <ul style="list-style-type: none"> ■ Benefit accrual after protection date (although the test is slightly different with Enhanced Protection) ■ 'Impermissible' transfers – to or from the arrangement ■ New arrangements – other than to accept a permissible transfer 		When do these protections become revalued? The level of protection must be re-calculated if, after the date of protection, the pension becomes subject to a pension debit as a result of a pension sharing order on divorce or dissolution of a civil partnership. Additionally, these protections may also need to be revalued where benefits are increased as a result of GMP equalisation.	

Note: Protected LTA will be replaced by standard LTA where the standard allowance is higher at benefit crystallisation date.

1.2 Can Fixed Protection 2016 or Individual Protection 2016 be applied for?

1.3 Check whether existing protection has not been lost or needs revaluing

2. General enhancements and reductions to an individual's LTA

2.1 Check for any available enhancements

Check for any available enhancements to the LTA as a result of:

- Disqualifying (Crystallised) pension credits received following divorce
- Transfer in of Overseas Pension
- Relevant Periods of Non-UK Residence

2.2 Check for reductions to the LTA

Check for reductions to the LTA that may be caused as a result of:

- Pensions in payment prior to A-Day
- Protected Retirement age less than age 50 and drawing benefits before age 50

3. Consider how and when benefits will be tested against LTA

3.1 Taking 'lump sums' before age 75

LTA test event	Valuation method	Tax charge if exceeded
Payment of relevant lump sum [BCE 6] <ul style="list-style-type: none">■ Pension Commencement Lump Sum (PCLS)■ Serious Ill Health Lump Sum■ Uncrystallised Funds Pension Lump Sum (UFPLS)■ LTA Excess Lump Sum	Value of the relevant Lump Sum paid to the individual	PCLS/Serious Ill Health Lump Sums and UFPLS are only available up to LTA limit

3.2 Taking a 'pension' before age 75

LTA test event	Valuation method	Tax charge if exceeded
Purchase of Lifetime Annuity [BCE4]	Value of purchase*	None
Scheme Pension [BCE2]	Value of starting pension in first year x20*	None
Designating funds as available for 'drawdown' [BCE1]	Value of funds designated to drawdown	None

*Less the value of any amounts previously crystallised under BCE1 if from drawdown.

3.3 Death before age 75

Uncrystallised funds distributed within two-year relevant period.

LTA test event	Valuation method	Tax charge if exceeded
Lump Sum death benefit [BCE7]	Value of lump sum benefit	PAYE income tax
Designation to beneficiary drawdown [BCE5c]	Value of funds designated as available for drawdown	None
Purchase of beneficiary annuity [BCE5d]	Value of funds used to purchase annuity	None

3.4 Benefits tested at age 75

LTA test event	Valuation method	Tax charge if exceeded
Uncrystallised defined benefit [BCE 5]	Value of deferred scheme pension at 75th birthday x 20 plus any separate lump sum	None
Reaching age 75 while still holding unused drawdown monies [BCE 5a]	Value of fund at 75th birthday less the amounts previously crystallised under BCE 1	None
Uncrystallised money purchase funds [BCE 5b]	Value of uncrystallised funds	None

3.5 Other BCE events tested against LTA

LTA test event	Valuation method	Tax charge if exceeded
BCE 8 Transfer to QROPS	Value of transfer less any reduction for overlap (previous crystallisations)	None
BCE 3* Scheme pension increases beyond permitted maximum	Value of increase beyond permitted maximum x 20	None

*BCE 3 is the only crystallisation event that can still occur after age 75.

BCE 9 deals with certain payments that are made to or in respect of a member that constitute an event that is prescribed in Regulations. These BCE 9 events are not deliberately 'planned' events as such and include situations such as certain 'unusual' payments after death and corrections of previous erroneous payments.

4. Salient considerations and working through options and possibilities

The 'what ifs?'

- Calculate likely value of benefits versus projected LTA at the point when benefits are likely to be taken or could automatically otherwise crystallise
- Consider the impact of taking benefits earlier or later than originally planned
- If multiple pension arrangements are held, consider what order benefits are to be taken. If benefits exceed LTA, analyse options for taking benefits in different orders and potential impact of LTA charge
- Calculate LTA situation should death occur before age 75
- Calculate LTA situation on reaching age 75, whether benefits are crystallised or uncrystallised

More insights on tax and pensions

We're committed to providing you with technical support to help you keep pace with the latest rules and legislation. Our range of practitioner material is designed to help you keep on top of all aspects of retirement planning. Themes covered include death benefits, pensions and divorce, the State Pension, pension withdrawals taxation and much more.

Visit the **Technical matters hub** on our website
fidelityadvisersolutions.co.uk/technicalmatters



Important information

This document provides information and is only intended to provide an overview of the current law in this area and does not constitute financial advice, tax advice or legal advice, or provide any recommendations. Tax treatment depends on individual circumstances and all tax rules may change in the future. Withdrawals from a pension will not normally be possible until a client reaches age 55 (57 from 2028). Different options may have different effects for tax purposes, different implications for pension provision and different impacts on other assets and financial planning.

