

## Lifetime Allowance Policy

When a member of the Southwark Pension Fund (the **Fund**) retires and puts their pension benefits into payment, the Fund has to carry out a test against current HMRC Lifetime Allowance (**LTA**) limits. All registered pension schemes are legally required to carry out these tests to ensure a tax charge is applied if the LTA is exceeded. In line with existing legislation, LTA tax payments to HMRC must be made at the point at which the pension benefits to the member are put into payment.

Some members will have applied for and received an HMRC 'Individual Protection' limit against which their pension benefits are tested. These limits are higher than the standard LTA and HMRC would have sent the member a confirmation letter setting out their individual protected LTA amount. The individual reference applied to this confirmation letter should be shared with the Fund administrators as soon as it is received to be recorded against the individual's pensions record. This will assist the administration of the pension benefits and any tax payable at the point of retirement.

Should a member breach or exceed the standard LTA or their individual limit, a number of options exist to deal with any tax liability. Payment of any tax liability will be made by the Fund directly to HMRC either as part of existing 'Scheme Pays' provisions (i.e. Scheme Pays debit applied to pension), or on behalf of the member by reducing the Actual Lump Sum.

A member must decide how to deal with any tax liability before any pension benefits are put into payment. In the event that no decision is made by the member, the Fund will enforce the default tax option which is to put in place Option 3 - 'Scheme Pays' (see table overleaf). The tax charge is then paid to HMRC by the Fund and a 'Scheme Pays' debit is applied to the member's ongoing annual pension.

LTA taxation is a personal responsibility of the member (not the employer) and tax decisions are time limited. A member must make a decision as soon as possible and no later than three months after the date on which departure terms are agreed and updated by the council/employer on HR systems. If a member is unclear about their tax or financial position they should seek the advice of a qualified tax specialist or FCA regulated Independent Financial Advisor. The Fund/employer cannot give advice.

A summary of the benefits and tax options available to members is detailed overleaf, with an example of what the LTA pension benefits might look like in monetary terms.

Options	Standard Benefits (i.e. annual pension is higher than under Maximum Tax Free Lump Sum Benefits)	Maximum Tax Free Lump Sum Benefits (i.e. annual pension is lower than under Standard Benefits)
<p><b>Option 1</b> (higher lump sum)</p>	<p>Annual pension in excess of LTA threshold is reduced to allow a further (taxable) addition to the lump sum.</p> <p>Excess taxable lump sum benefits are <b>taxed at 55%</b>.</p> <p>The Fund reduces the actual lump sum paid to member and settles tax liability directly with HMRC on behalf of member.</p>	<p>Annual pension in excess of LTA threshold is reduced to allow a further (taxable) addition to the lump sum.</p> <p>Excess taxable lump sum benefits are <b>taxed at 55%</b>.</p> <p>The Fund reduces the actual lump sum paid to member and settles tax liability directly with HMRC on behalf of member.</p>
<p><b>Option 2</b> (higher pension)</p>	<p>Maximises annual pension and sacrifices further additional (taxable) lump sum.</p> <p>Excess taxable annual pension benefits are <b>taxed at 25%</b>.</p> <p>The Fund reduces the actual lump sum paid to member and settles tax liability directly with HMRC on behalf of member.</p>	<p>Maximises annual pension and sacrifices further additional (taxable) lump sum.</p> <p>Excess taxable annual pension benefits are <b>taxed at 25%</b>.</p> <p>The Fund reduces the actual lump sum paid to member and settles tax liability directly with HMRC on behalf of member.</p>
<p><b>Option 3</b> (‘Scheme Pays’ pension)</p>	<p>Provides annual pension and lump sum between Options 1 and 2.</p> <p>Excess taxable annual pension benefits <b>taxed at 25%</b> but member elects ‘Scheme Pays’.</p> <p>Member receives additional pension. The actual lump sum is not reduced but the ongoing annual pension is reduced following the application of a one off ‘Scheme Pays’ debit.</p>	<p>Provides annual pension and lump sum between Options 1 and 2.</p> <p>Excess taxable annual pension benefits <b>taxed at 25%</b> but member elects ‘Scheme Pays’.</p> <p>Member receives additional pension. The actual lump sum is not reduced but the ongoing annual pension is reduced following the application of a one off ‘Scheme Pays’ debit.</p>

### Example of pension options

	<b>Pension (pa) <sup>1</sup></b>	<b>Actual Lump Sum</b>	<b>Member Tax Payment to HMRC</b>	<b>Lump Sum less HMRC Payment</b>
<b>(A) Standard Benefits</b>	<b>£55,000</b>	<b>£105,000</b>	<b>Not applicable</b>	<b>Not applicable</b>
<b>Option 1</b> – commute excess pension for further lump sum	£35,000	£309,000	£148,000	£161,000
<b>Option 2</b> – pay tax on excess pension	£55,000	£105,000	£91,000	£14,000
<b>Option 3</b> – ‘Scheme Pays’ tax	£50,000	£105,000	£0	£105,000
<b>(B) Maximum Tax Free Lump Sum Benefits</b>	<b>£31,000</b>	<b>£301,000</b>	<b>Not applicable</b>	<b>Not applicable</b>
<b>Option 1</b> – commute excess pension for further lump sum	£23,000	£450,000	£120,000	£330,000
<b>Option 2</b> – pay tax on excess pension	£31,000	£301,000	£70,000	£231,000
<b>Option 3</b> – ‘Scheme Pays’ tax	£28,000	£301,000	£0	£301,000

### Note

**(A) Standard Benefits** and **(B) Maximum Tax Free Lump Sum Benefits** shown in the dark grey box are the benefits that would have been payable had there been no LTA tax liability.

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<sup>1</sup> Regardless of option elected, the annual pension will be taxed at an individual's marginal rate of tax.

**LTA Election Form** (to be completed by member within 3 months)

Name: .....	DOB: .....
NINO: .....	Retirement Date: .....

I hereby elect the following Retirement Benefits:-

**Standard Benefits** (where annual pension is higher than under Maximum Tax Free Lump Sum Benefits)

or

**Maximum Tax Free Lump Sum Benefits** (where annual pension is lower than under Standard Benefits)

I hereby instruct the Fund to deal with my LTA tax as follows:- <sup>2</sup>

**Option 1** (means receipt of a lower annual pension but higher lump sum). I ask the Fund to make a member tax payment to HMRC which reduces my lump sum.

or

**Option 2** (means receipt of a higher annual pension but lower lump sum). I ask the Fund to make a member tax payment to HMRC which reduces my lump sum.

or

**Option 3 'Scheme Pays' Pension** (means ongoing annual pension and lump sum figures are between Option 1 and Option 2). My lump sum is not reduced but my annual pension is reduced by the application of a one off 'Scheme Pays' debit.

Signed:- .....	Dated:- .....
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<sup>2</sup> In the event no LTA tax decision is made within the stated time period this will default to **Option 3**.