

Note that valuations for Lifetime allowance testing may be different from the CE that the pension provider quotes.

What is the Lifetime Allowance?

The Lifetime Allowance (LTA) is the maximum 'pension benefit' that an individual can have beyond which a tax charge is made. The tax charge can be up to 55% of the pension value over the LTA.



Calculation of Lifetime allowance valuation

Defined Benefit Pensions = (Pension payable x 20) + the value of any additional lump sum payable.

Defined Contribution Pensions = Fund Value (Normally)

Current LTA = £1,055,000 (19/20) - currently indexed by CPI



What is Lifetime allowance protection?

In the past the LTA limit has been as high as £1.8M. In an endeavour to not disadvantage those who had made provision to fund their pension to levels higher than today's LTA. Various schemes were, and are, available to offer protection against the falling LTA. Lawyers should ask their clients if they have ever applied for LTA protection in the past. Some forms of LTA protection are still available.



Why is the LTA relevant to me and my clients?

Pension benefits over the LTA can make pension sharing matters more complex and strategies should be considered regarding how any LTA tax charge can be limited. Often this will require financial advice which should possibly be sought well before any decisions or actions are taken. If your client has LTA protection this can also have a big impact on the way that pensions are shared on divorce. Because pension funds and pension benefits generally increase faster than CPI, over time more and more people will be caught by the LTA tax charge.

Example:-	Lifetime Allowance Value
Civil Service Pension - £50,000 p.a. plus £150,000 lump sum	£1,150,000
Personal Pension – Standard Life – Fund value - £300,000	£300,000
Total	£1,450,000
Excess over the LTA (on which tax is paid)	£395,000

How is the LTA affected when a pension is shared?

A pension credit is not tested against the LTA. Pension sharing orders effective on or after 6 April 2006 count towards the receiving spouse's LTA. The person making the pension credit will experience a fall in their pension benefits when tested against the LTA. If the order affected pension benefits that were already in payment, the ex-spouse/civil partner can apply for an increase to their own LTA. They can do this because the pension benefits will have already been tested against the lifetime allowance of the member when the benefits were taken.



What should I look out for or ask?

Be aware that the CE quoted (particularly in the case of defined benefit schemes) may well be less than the 'pension benefit' value for testing against the LTA. (See example above)



Where pension benefits are near or over the LTA limit financial advice should be sought for further direction.



Ask if your client has ever applied for any form of LTA Protection as the instructed pension expert will need to know this.

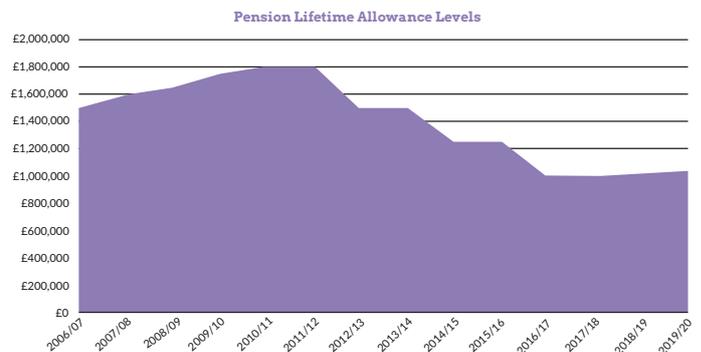


Where can I get help?



When asking for help, make sure that you are asking a Pension On Divorce Expert (PODE - see Pensions Advisory Group report) who can provide financial advice.

Bluesky Chartered Financial Planners are PODE's and able to assist in this area.



Please note that due to the intended brief nature of this Pensions Made Simple note detail is not exhaustive and detailed independent financial advice from a pension on divorce expert should be sought before any actions are taken.

