

The Lifetime Allowance

Pension Guide – Information for members

BAE SYSTEMS

This pension guide explains the Lifetime Allowance (LTA) and what happens if the retirement benefits you build up exceed it. Whilst most people are not affected, you need to be aware of it so you can take the necessary action if your benefits are approaching this level.

What is the LTA?

The LTA is the maximum amount of pension benefits you can build up in your lifetime (excluding your state pension) without paying extra tax. Any amount over the LTA attracts a tax charge when you start to draw your benefits and also in some other circumstances (see 'How will I know if I have exceeded the LTA?' below). Whilst the LTA level is fairly high, it applies to all of your pension benefits across all providers and from all employers, whether that be a personal or workplace pension.

How much is the LTA?

Since the 2020/21 tax year the standard LTA has been set at £1,073,100 and it is now frozen at this level until April 2026. Since its introduction there have been many changes to the LTA and you may have been able to apply for, and receive protection from, subsequent changes to the LTA. There are only two forms of protection that are currently available and this is covered later in this guide.

How will I know if I have exceeded the LTA?

In order to help you monitor your position in relation to the LTA, your annual benefit statement shows how much of the LTA has been taken up by your benefits under the relevant BAE Systems pension scheme. You will also need to take into account pension benefits you have elsewhere. The total of all your benefits should then be compared against the LTA.

Whenever benefits are drawn, a percentage of your LTA is used up. The Scheme administrator will perform a check when an event triggers a test against the LTA.

A full list of events which will trigger the LTA test can be found [here](#). The most **common** events include:

- When you take a lump sum or income from your pension benefits
- When you die
- When you transfer your benefits overseas to a qualifying recognised overseas pension scheme (QROPS)
- When you reach age 75 with unused pension benefits

How is the LTA test calculated?

The basis of the LTA calculation depends on the type of pension arrangement the benefit is being taken from. Different approaches are taken for Defined Benefit and Defined Contribution pensions.

Defined Benefit (DB) pension

For DB pensions, the test is undertaken by multiplying your expected DB pension by 20. If applicable, you need to add to this amount any tax-free cash lump sum. The resulting figure is compared to the LTA that is in place at the time the benefit is taken.

Example DB scheme:

DB annual pension: $\pounds 6,300 \times 20 = \pounds 126,000$ (taken 2019/20 tax year)

DB lump sum: $\pounds 50,000$ (taken 2019/20 tax year)

Amount tested against LTA (capital value): $\pounds 126,000 + \pounds 50,000 = \pounds 176,000$

Amount of the LTA utilised: $\pounds 176,000 / \pounds 1,055,000^* \times 100 = \mathbf{16.68\%}$

*The LTA for the 2019/20 tax year was $\pounds 1,055,000$

Defined Contribution (DC) pension

For DC pensions, the test is undertaken by comparing the value of your fund (DC pension pot) to the LTA that is in place at the time the benefit is taken.

Example DC scheme:

If you use your DC pension pot of, for example, $\pounds 130,000$ to buy an annuity in the 2021/22 tax year:

Amount of the LTA utilised: $\pounds 130,000 / 1,073,100 \times 100 = \mathbf{12.11\%}$

Based on the above example DB and DC schemes the total LTA used is 28.79% (16.68% + 12.11%). The remaining unused LTA is 71.21%

When you draw your retirement benefits, your BAE Systems Scheme administrator will let you know what percentage of the LTA you have used and whether your pension savings have exceeded the LTA.

What happens if my benefits exceed the LTA?

If the total value of your pension benefits exceeds the LTA then in general you will pay a tax charge on the excess amount.

Usually, LTA excess charges will be paid by the Scheme administrator and your benefit will be reduced accordingly. An exception to this relates to the payment of death benefits, where the responsibility for the payment of any LTA excess charge lies with the personal representatives of the deceased.

Any pension savings above the LTA attract the following tax charge:

- 55% if the excess is taken as a lump sum; and
- 25% if the excess is taken as income, for example as a scheme pension or an annuity. Income tax at your marginal rate will also be payable.

Examples

Taking a lump sum

If your benefits have exceeded the LTA by £50,000 and you take a lump sum, then £27,500 would need to be paid in tax ($£50,000 \times 55\% = £27,500$).

Taking an annuity from your DC benefits

If your DC benefits have exceeded the LTA by £50,000 and you were to take an income (annuity) then £12,500 would need to be paid in tax ($£50,000 \times 25\% = £12,500$). The remainder would then be used to purchase the annuity on which income tax will then be payable.

Taking your DB pension benefits

If your DB pension benefits have exceeded the LTA it is possible for the scheme to pay the tax on your behalf and then recover it from you by reducing your pension.

Your Scheme administrator will inform you of the following within three months of you drawing your benefit(s):

1. How much of your pensions savings are subject to a tax charge
2. How the tax has been calculated

You would then need to confirm if you have paid or intend to pay the tax charge.

You will be provided with a statement detailing how much LTA you have used through taking benefits from the scheme. This will help you work out how the remaining LTA you have when you are considering taking benefits from any other pension schemes.

Is there anything I can do to protect myself against the LTA tax charge?

It is currently possible to apply for one of the following two forms of protection:

- **Individual Protection 2016 (IP2016)** is available if you had a total relevant amount of your pensions valued in excess of £1 million as at 5 April 2016 and you can protect them to that amount up to a maximum of £1.25 million. Contributions and the build-up of pension benefits can continue.
- **Fixed protection 2016 (FP2016)** is available if you do not already have any sort of fixed, enhanced or primary protection and do not make contributions or accrue benefits after 5 April 2016. The LTA will be £1.25 million or the LTA at the time of claiming your benefits, whichever is higher.

How do I apply for LTA protection?

1. If you want to apply for either of the 2016 LTA protections you can do so online at:

[gov.uk/guidance/pension-schemes-protect-your-lifetime-allowance](https://www.gov.uk/guidance/pension-schemes-protect-your-lifetime-allowance)

2. In order to apply you will need an HM Revenue & Customs (HMRC) Online Services Account. To create an account, or to login to an existing one, go to:

[gov.uk/log-in-register-hmrc-online-services/register](https://www.gov.uk/log-in-register-hmrc-online-services/register)

With this account, you will be able to view your protection details online and print them if necessary.

3. HMRC has also published further guidance on the GOV.UK website to help members who want to apply for protection, including a guide for members on valuing their pensions for either of the 2016 protections at:

[gov.uk/guidance/pension-schemes-value-your-pension-for-lifetime-allowance-protection](https://www.gov.uk/guidance/pension-schemes-value-your-pension-for-lifetime-allowance-protection)

4. Members who are unable to use the online service can contact the HMRC Pensions helpline for help with applying for protection. Call the HMRC helpline on **0300 200 3300**.

Important note

It is recommended that you seek independent financial advice if you are concerned about how tax may affect your pension benefits. More information about getting independent financial advice can be found in the separate Pension Guide, [Independent Financial Advice](#). If you have any queries about a tax charge, please contact your HMRC tax office.