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THE LIFETIME ALLOWANCE

What is the lifetime allowance?

There is no absolute limit placed on the level of benefits an individual can be provided with under a registered pension scheme. However, every individual has a set level of benefits that they can draw from all registered pension schemes in their lifetime, without triggering tax charges. In certain circumstances, the benefits that can be provided from such schemes on the death of a member may also be paid without triggering tax charges. This measure is referred to as a **lifetime allowance**.

This lifetime allowance is expressed as a capital value and is set for each tax year. The lifetime allowance for the tax years 2010/11 and 2011/12 is £1.8M. The level will be reduced to £1.5M from 6th April 2012

Where the standard lifetime allowance does not apply

If a member successfully applied for Primary or Enhanced Protection prior to 6th April 2009, their personal lifetime allowance may be higher than the standard £1.8M.

The Government has advised that a new form of “protection” will be available for those who already have more than £1.5M assets as at 6th April 2012 or who believe that their pension assets may reach a value more than £1.5M without additional contributions. A new prescribed form will be published for this.

When do you test for the lifetime allowance A benefit crystallisation event (BCE)

The legislation specifies the various occasions when an individual will use up part of their **lifetime allowance**, and provides a means for calculating how much of that allowance is used up at that time. These occasions are referred to

as **benefit crystallisation events (BCEs)**.

A BCE happens when the pension rights that have been built up by an individual in a **registered pension scheme** are realised, most commonly through the start of a pension benefit or where a lump sum benefit is paid. There are ten BCEs, each triggering a lifetime allowance test. They apply to specific benefit entitlements under any registered pension scheme. The ten **BCEs** arise from the following circumstances:

- 1 Where funds are designated to provide a member with an **unsecured pension**. This BCE also arises where the member reaches age 75 still holding **uncrystallised funds** in a **money purchase arrangement** those uncrystallised funds are deemed to be designated to provide an unsecured pension.
- 2 Where a member becomes entitled to a **scheme pension**, whether from a **defined benefits arrangement** or a money purchase arrangement.
- 3 Where a scheme pension already in payment to a member is increased beyond a permitted margin.
- 4 Where a member becomes entitled to a **lifetime annuity** under a money purchase arrangement.
- 5 Where a member reaches their 75th birthday under a defined benefit arrangement without having drawn all or part of their entitlement to a scheme pension and/or lump sum.
- 5a Where a member reaches age 75 with an earlier designated unsecured pension fund which has not been secured by a lifetime annuity or scheme pension

<p>6 Where the member becomes entitled to a relevant lump sum. Not all the authorised lump sum payments are caught here.</p> <p>7 Where a relevant lump sum death benefit is paid on the death of the member. Again, not all the authorised lump sum payments that may be paid on the death of the member are caught by this BCE. Where benefits are paid on the death of the member in the form of a dependant's pension a lifetime allowance test is not triggered.</p> <p>8 Where a member's benefits or rights are transferred to a qualifying recognised overseas pension scheme</p> <p>9 Where certain payments are made to or in respect of a member that constitutes an event that is prescribed in regulations</p> <p>These BCEs only catch entitlements provided under a registered pension scheme that conforms to the authorised member payment rules.</p>	<p>An unauthorised member payment is not caught through any of the ten BCEs and so does not use up any lifetime allowance.</p> <p>At such an event the scheme administrator must establish the capital value of the member's pension savings arising from the BCE. This value is then compared to the individual's lifetime allowance that is still available at the time of the BCE (if any). If the amount crystallising exceeds the level of lifetime allowance available, then the excess represents a chargeable amount, which means that the excess over the Lifetime Allowance will be subject to tax at 55%.</p>
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