Kymin
Financial Planners

FACTSHEET

Pension reforms

How the lifetime allowance reduction could impact on your retirement savings

The Government has introduced comprehensive reforms to the pension rules over the previous few years. One important change, which may have been overlooked by some savers, is the reduction of the lifetime allowance that applies to pension savings. The lifetime allowance is the total amount you can hold within all your pensions without incurring an additional tax charge when you extract money from the pot.

INFLATIONARY INCREASES

The Government has indicated that this allowance will increase each year in line with inflation (CPI) but only from 6 April 2018. It was reduced from £1.25m down to £1m from 6 April 2016. If you have more than £1m in your pension pot or are likely to do so at retirement, you can apply to protect it against reductions to the lifetime allowance.

TAKING ACTION

While some people may not be affected by the lifetime allowance, it's important to take action if the value of your pension benefits are approaching, or are above, the lifetime allowance. As pensions are a long-term commitment, what might appear modest today could exceed the lifetime allowance by the time you want to take your benefits.

TAX CONSEQUENCES

Exceeding the lifetime allowance could have significant tax consequences, for example, any lump sum withdrawals you take from the excess amount within your pension are taxed at 55%, and if you retain the excess amount within your pension fund a 25% tax charge is made (and any income taken from the fund will be taxed at your marginal rate of Income Tax).

FIXED PROTECTION

If you could be affected by the reduction in the lifetime allowance, there are some actions you could take to help protect yourself from this potential tax charge. However, if you have accrued pension benefits since 6 April 2016, fixed protection will not be available, so you should obtain professional financial advice to look at the options available to you.

TAKING BENEFITS

If you are already taking benefits from a pension, this will also impact your lifetime allowance. It is important to note that the allowance applies to the value of your pension when you eventually come to draw money from it (and not the value on 6 April 2016). This means that even if your pensions are currently worth well short of the new £1m limit, you could still be affected by the reduction and may need to take action now, even if you think the reduction does not currently really affect you.

HIGH EARNERS

Another pension change which came into effect from 6 April 2016 is a reduction to the annual pension contribution allowance (the amount you can pay into your pension pot each year) for high earners. The allowance of £40,000 will reduce by £1 for every £2 of income received above £150,000 (the threshold for the additional rate of Income Tax). The reduction is limited to £30,000, meaning anyone with income of £210,000 or more will have a £10,000 annual contribution allowance. Bear in mind that 'income' for this purpose includes employer pension contributions. ■

ARE YOU IN DANGER OF BREACHING THE ALLOWANCE?

While £1m may sound like a generous sum, it is surprisingly easy to breach this limit, meaning that you could be subjected to a tax bill of up to 55% on some of your pension pot. Whether you're a saver in the middle of your working life or nearing retirement, it's crucial you know if you're in danger of breaching the allowance. If you have any concerns and would like to discuss your situation, please contact us.

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