

Worcestershire Pension Fund



Lump sum limits

The lifetime allowance was abolished with effect from 6 April 2024. Instead, two lump sum limits were introduced and if the total of all lump sums you take from UK pensions is more than one of these limits, you will have to pay extra tax based at your marginal rate.

The government limits the total amount of tax-free lump sums and death benefit lump sums that can be paid in respect of someone's pension benefits to £1,073,100. This is known as the **Lump Sum and Death Benefit Allowance (LSDBA)**. The lump sum and death benefit allowance is used up when any of these sums are paid:

- pension commencement lump sum
- uncrystallised funds pension lump sum
- stand-alone lump sum
- serious ill health lump sum (paid before age 75)
- lump sum death benefit

There is also a limit of £268,275 that someone can receive in lump sums from all their pensions. This is known as the **Lump Sum Allowance (LSA)**. These lump sums use up your lump sum allowance:

- pension commencement lump sum
- uncrystallised funds pension lump sum
- stand-alone lump sum

Most members will not be affected because the maximum lump sum they can take is much lower than the limits. If you have built up a large pension in the LGPS or a different scheme, the new limits may affect you.

Transitional protection

If you took payment of a pension before 6 April 2024, that pension used up part of your lump sum allowance and lump sum and death benefit allowance. Before the next time you take a lump sum, your pension scheme must determine how much of your allowances you have used. Under HMRC regulations, they must assume that you took the maximum lump sum permitted.

The limits will generally only affect members who have built up very large pensions.

If you took a pension or reached age 75 before 6 April 2024, and did not take the maximum tax-free lump sum, you could apply for a transitional tax-free amount certificate (TTFAC). Applying for a certificate:

- the certificate will include total lump sums which an individual has taken instead of the assumed amount
- Individuals need to apply for a certificate before they take a pension lump sum after 6 April 2024
- An individual can apply for a certificate to any of the scheme's they are a member of. HMRC recommends applying to the scheme that is paying the first pension lump sum after 5 April 2024 or the scheme which is paying the biggest pension that started before 6 April 2024

Independent financial advice is recommended if you are considering applying for a transitional tax-free amount certificate (TTFAC), as in some cases, members could be worse off if they applied than they would be without a certificate.

Overseas Transfer Allowance

The government will also be introducing the 'overseas transfer allowance' (OTA), with a limit of £1,073,100. The OTA considers the total transfer amounts to a Qualifying Recognised Overseas Pension Scheme (QROPS). If it is exceeded, the excess will be subject to tax.

Applying for LTA protection

Individuals can still apply for Fixed Protection 2016 and Individual Protection 2016 until 5 April 2025. After this date it will not be possible to apply for either protection. Visit the HMRC website <https://www.gov.uk/guidance/pension-schemes-protect-your-lifetime-allowance>.

Examples

Example 1: no previous benefits paid

Jennifer retires on 31 May 2025.

She elects to take payment of her LGPS pension and a lump sum of £20,000. She has not taken payment of any pension benefits previously.

Immediately before the retirement, her available LSA is £268,275 and available LSDBA is £1,073,100.

Following the retirement, her available lump sum allowances are:

- LSA: £268,275 - £20,000 = £248,275
- LSDBA: £1,073,100 - £20,000 = £1,053,100

Example 2: - previous benefits paid after 5 April 2024

David retires on 31 March 2027.

He elects to take payment of his LGPS pension and a lump sum of £80,000. He has previously taken payment of benefits from another scheme on 31 May 2026 which included a tax-free lump sum of £50,000.

Immediately before the retirement, the available allowances are:

- LSA: £268,275 - £50,000 = £218,275
- LSDBA: £1,073,100 - £50,000 = £1,023,100

Following the retirement, the available lump sum allowances are:

- LSA: £268,275 - £50,000 - £80,000 = £138,275
- LSDBA: £1,073,100 - £50,000 - £80,000 = £943,100

Example 3: - previous benefits paid between 6 April 2006 – 5 April 2024

Viktor retires on 31 July 2024.

He elects to take payment of his LGPS pension and a lump sum of £55,000. He has previously taken payment of benefits on 1 December 2022 which used 50 per cent of his lifetime allowance. He does not hold a transitional tax-free amount certificate (TTFAC).

Immediately before the retirement, the available allowances are:

- LSA: £268,275 - ((£1,073,100 x 0.5) x 0.25) = £134,137
- LSDBA: £1,073,100 - ((£1,073,100 x 0.5) x 0.25) = £938,963

Following the retirement, the available lump sum allowances are:

- LSA: £134,137 - £55,000 = £79,137
- LSDBA: £938,963 - £55,000 = £883,963

Note: the above calculation is based on the standardised transitional calculation. This assumes the member has taken the maximum tax-free lump sum of 25% of the lifetime allowance (LTA) previously used. However, if they have taken less than 25 per cent of their LTA as tax-free lump sums, they could apply for a TTFAC to more accurately reflect the relevant tax-free lump sums paid.