

## Factsheet: Local Government Pension Scheme (LGPS) - tax issues to be aware of

As a member of the LGPS, you are probably aware that you receive tax relief on pension contributions and pay income tax on your pension once it's in payment. The purpose of this factsheet is to inform you of the government's restrictions to the tax relief available on your pension savings. These restrictions particularly affect high earners but individuals with long periods of LGPS service and/or paying significant levels of additional contributions may also be affected.

This factsheet gives a high level overview of the tax issues and you should ensure that you seek further information if you believe you may be affected. It is important to note that it is YOUR responsibility to ensure you pay the correct level of tax.

You should seek guidance from an independent financial advisor (see <https://register.fca.org.uk/>) before making any decisions. Nothing in this factsheet will override the regulations in force at the time any tax charge is assessed.

### Lifetime Allowance (LTA)

#### What is the Lifetime Allowance?

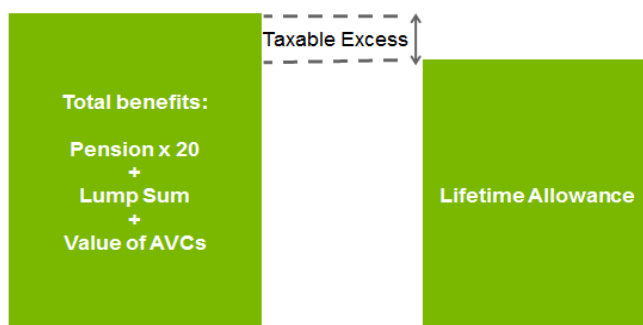
This is the level of pension savings you can build up (in all pension schemes except for the state pension) over your lifetime before incurring extra tax charges. The Lifetime Allowance (LTA) from 6 April 2018 is £1,030,000 (£1.03 million) and is set to increase in line with the cost of living in April of each year. It has previously been as high as £1,800,000 (£1.8 million), and the government may amend it at any time in the future.

#### When is the Lifetime Allowance assessed?

The LTA is assessed whenever any of your benefits come into payment, which is usually when you retire, but it may also be checked if you were to leave the scheme and transfer your benefits elsewhere.

#### How are my pension benefits assessed?

In a defined benefit scheme like the LGPS, the value of your benefits is calculated by multiplying your expected annual pension by 20, adding on the amount of any lump sum you are taking and adding on the value of any Additional Voluntary Contributions (AVC) fund. You then have to add on the value of any other pension arrangements you have. If the total value is less than the LTA in force at your retirement (currently £1,030,000), no further action is needed.



#### What happens if I exceed the Lifetime Allowance?

If you exceed the LTA on retirement, you will need to pay tax on the benefits in excess of the LTA. The Pensions Team will write to you with your options. The amount of tax payable will depend whether the excess benefits are taken as additional pension (taxed at 25% plus your marginal rate of income tax) or as an additional lump sum (taxed at 55%).

#### Are there any protections?

HMRC has introduced various levels of protection to mitigate the impact of the reductions to the LTA in recent years. If you qualify, you can still apply for Individual or Fixed Protection 2016. If you have any existing protection, you should inform the Pensions Team so that your benefits are calculated correctly. Check the HMRC website for further information:

<https://www.gov.uk/guidance/pension-schemes-protect-your-lifetime-allowance>

You can also make benefit choices that will reduce the value of your LGPS benefits – for example ceasing or reducing payment of any AVCs, opting out of the LGPS, opting into the 50/50 section or commuting pension to lump sum on retirement. You should consider these options carefully as they will result in changes to the benefits that will be payable to you, and some options may also affect the benefits payable to your family.

#### Where can I find further information?

Your Annual Benefit Statement includes an estimate of your current LTA value (excluding AVCs). If this value is close to or over 100% of the LTA please speak to the Pensions Team for further information (see below) or refer to the HMRC website <https://www.gov.uk/tax-on-your-private-pension/lifetime-allowance>

## Annual Allowance (AA)

### What is the Annual Allowance?

This is the increase in pension savings you can build up (in all pension schemes apart from the state pension) in one tax year before incurring additional tax charges. The Annual Allowance (AA) from 6 April 2018 is £40,000 for the majority of people, although it could be lower (possibly as low as £10,000) for anyone earning over £110,000 per annum. If that applies to you, you will have your own individual tapered AA.

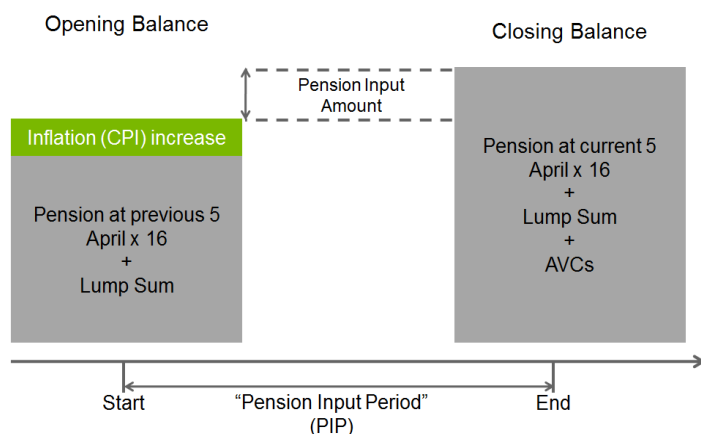
### When is the Annual Allowance assessed?

The AA is assessed at the end of each tax year (known as a Pension Input Period), and the Pensions Team will notify you if you have exceeded the standard AA for that tax year.

### How is the Annual Allowance calculated?

In a defined benefit scheme like the LGPS, the AA is calculated by comparing the value of the benefits at the end of the year (the Closing Balance) with the inflation-proofed value of the benefits at the start of the year (the Opening Balance). The Opening Balance is calculated by taking the annual pension you would have been entitled to if you had retired at that date, multiplying it by 16, and adding on the value of any lump sum you are entitled to. This figure is then increased by inflation (Consumer Prices Index or CPI). The Closing Balance is calculated in the same way, plus the amount of any AVCs paid during the year is added on. The Closing Balance is not adjusted for inflation. You must also take into account the growth in pension benefits from any other pension arrangements you have contributed to during that tax year.

If the difference between the opening and closing balance (the 'Pension Input Amount') is greater than £40,000 (or your tapered AA if applicable), there could be a tax charge due.



### What happens if I exceed the Annual Allowance?

You are allowed to 'carry forward' unused annual allowance from the three previous Pension Input Periods, and if you have enough carry forward available to offset the excess over the AA in the current tax year then there will be no tax charge to pay. However, if you still exceed the AA even after all your carry forward is taken into account, you will need to pay tax on the excess at your marginal rate (40% if you are a higher rate tax payer or 45% if you are an additional rate taxpayer).

### Can I do anything to reduce the risk of exceeding the Annual Allowance?

You can consider ceasing or reducing payment of any additional pension contributions and AVCs, opting out of the LGPS, or opting into the 50/50 section which will slow down your pension growth while retaining access to other benefits such as the death in service lump sum payment.

You should consider these options carefully as they will result in changes to the benefits that will be payable to you, and some options may also affect the benefits payable to your family.

### Where can I find further information?

If your benefits in the Southwark Fund exceed the standard AA of £40,000, the Pensions Team will notify you by 6 October following the end of the tax year. Please note that the Pensions Team will not be aware of any pension benefits you have outside of the LGPS, so you may still have exceeded the AA even if you don't receive a notification from the Pensions Team. You can also request details of your AA position if you don't receive an automatic notification. If you would like guidance on whether you are at risk of exceeding the AA and whether you should take steps to mitigate this, please speak to the Pensions Team.

Further information is available from the HMRC website <https://www.gov.uk/tax-on-your-private-pension/annual-allowance>

**Please remember that it is YOUR responsibility to make sure that you pay the correct level of tax.**

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