Pace
pension
scheme

Pensions Tax Limits Factsheet

This factsheet provides a summary of the rules in relation to pensions tax limits, including changes from April 2023.

The co-operative bank

August 2023

This factsheet is for members of The Co-operative Bank Section of Pace. If you're a member of The Co-op Section, you should visit the Co-op's pensions website at **coop.co.uk/pensions** for pension information that's relevant to you.

Pensions tax limits: an overview

The **Annual Allowance** is the total amount of pension savings you can make each year without paying tax.

Up until 5 April 2023, the Annual Allowance was £40,000. From 6 April 2023, the Annual Allowance has increased to £60,000 for most people, but it may be lower in some circumstances. You'll start to pay income tax at your marginal rate on any pension savings you make which are more than the Annual Allowance.

The Annual Allowance is reduced on a sliding scale for people with annual earnings of more than £260,000 (at a rate of £1 for every £2). This reduces the Annual Allowance to a minimum of £10,000 for those with earnings of more than £360,000.

You'll have a lower Annual Allowance if you're drawing some of your money purchase/defined contribution (DC) pension savings under the flexible retirement rules while still paying into a DC pension. In this case, your Annual Allowance may be restricted to £10,000 (the Money Purchase Annual Allowance). Before 6 April 2023, the Money Purchase Annual Allowance was £4,000. You should be advised by your pension provider if such a restriction applies to you.

Pension savings are also limited by the **Lifetime Allowance**. This is the total value of pension savings you can build up over your entire lifetime before you have to pay a tax charge, known as the Lifetime Allowance tax charge. The value of your pension savings are only measured for Lifetime Allowance purposes when your savings are brought into payment.

The Government removed the Lifetime Allowance tax charge from 6 April 2023. This was a one-off tax charge of 55% where pension savings above the Lifetime Allowance were taken as a lump sum, or 25% plus income tax where they were taken as pension.

The Government has also announced its intention to remove the Lifetime Allowance completely from 6 April 2024. We're still waiting for details on how this will be implemented and will update this factsheet once further information becomes available as we know many colleagues will be planning to take their pension savings after 6 April 2024.

The Lifetime Allowance is still in place for the 2023/2024 tax year. References to the Lifetime Allowance in this factsheet **only** apply to colleagues who are planning to take their pension savings during the 2023/2024 tax year. The Lifetime Allowance is currently £1,073,100. If you take your pension savings this tax year and at that time the total value of your pension savings is above the Lifetime Allowance, you'll pay income tax on the excess at your marginal rate instead of the Lifetime Allowance Tax Charge. So, all of your pension savings, apart from any tax-free cash, will now be taxed as earned income under PAYE, including any pension savings you have which are more than the Lifetime Allowance and there will be no additional Lifetime Allowance tax charge.

Who will be affected by pensions tax limits?

The pensions tax limits will not affect the vast majority of colleagues.

The tax limits will affect colleagues in different ways depending on personal circumstances and it's important you consider how they might affect you.

If you're affected by the Annual Allowance (but not the Money Purchase Annual Allowance), you may be able to reduce or eliminate the tax payable by using any unused allowance from the three previous tax years. Any unused allowances up to 5 April 2023 will be restricted to £40,000 a year (or such lower amount that applied to you because you were a high earner).

If you're drawing some of your money purchase/defined contribution (DC) pension savings under the flexible retirement rules while still paying into a DC pension, your Annual Allowance may be restricted to £10,000 (the Money Purchase Annual Allowance). If this applies to you, then you should be notified individually by your pension provider.

The law and tax rates relating to pensions may change in the future and will depend on your individual circumstances. The Bank can provide generic and personal information to help you understand the pensions tax limits, but managing your personal tax position is your responsibility. If you believe you may be affected by the pensions tax limits, the remainder of this factsheet provides more details.

This factsheet reflects the changes to pensions tax relief which were announced by the Government in the Budget of 15 March 2023. However, the draft legislation needed to implement the changes does not fully align with the announcement, and the details of the changes were in the process of being finalised by HMRC at the time this factsheet was published. Accordingly, the position summarised in this factsheet reflects the pensions industry's general understanding of the changes as at April 2023 but may be subject to change.

Pensions tax is complicated so make sure you seek financial advice when deciding what action to take. You can find an adviser in your area who is regulated by the Financial Conduct Authority (FCA) by searching for 'retirement adviser' on the MoneyHelper website, **www.moneyhelper.org.uk** (the website offers contact options of live webchat, enquiry form and social media channels). You should check the specialist advice areas of any adviser, as well as the cost of their advice, before appointing them.

The Annual Allowance

What is the Annual Allowance?

This is the maximum tax-free pension savings you can make each year (running from each 6 April to 5 April in line with the tax year).

Up until 5 April 2023, the Annual Allowance was £40,000. From 6 April 2023, the Annual Allowance has increased to £60,000 for most people, but it may be lower in some circumstances.

From 6 April 2023, the Annual Allowance reduces on a sliding scale if you have 'Adjusted Income' over £260,000. This reduced Annual Allowance is known as the tapered Annual Allowance.

If your 'Adjusted Income' is more than £260,000, your Annual Allowance will reduce on a sliding scale by £1 for every £2 of income over £260,000. This reduces the Annual Allowance to £10,000 for anyone earning £360,000 or more.

However, if your 'Threshold Income' is £200,000 or lower there will be no reduction to your Annual Allowance. (See the jargon buster panel for the definition of 'Adjusted Income' and 'Threshold Income'.)

Adjusted Income	Annual Allowance
Up to £260,000	£60,000
£270,000	£55,000
£280,000	£50,000
£290,000	£45,000
£300,000	£40,000
£310,000	£35,000
£320,000	£30,000
£330,000	£25,000
£340,000	£20,000
£350,000	£15,000
£360,000 or higher	£10,000

The reduction in Annual Allowance is not based on bands – so, if your Adjusted Income was £275,000, your Annual Allowance would be £52,500.

How do I calculate my pension savings for measuring against the Annual Allowance?

Pension savings will differ depending on the type of benefits.

The Annual Allowance test is applied to all pension savings, so any additional savings you make outside of Pace DC will also count towards the test.

For DC schemes like Pace DC, personal pension plans and Additional Voluntary Contributions (AVCs), the value for Annual Allowance purposes is the total level of contributions actually paid over the year, running from each 6 April to 5 April in line with the tax year. For Pace DC, this will include contributions paid by you and the Bank.

If you are an active member of more than one scheme or arrangement, then you have to account for all your pension savings in each scheme or arrangement. An example pension savings calculation can be found on **page 5**.

Other pension arrangements such as defined benefit (DB)/final salary schemes are valued in a different way. In particular, if you have benefits that are linked to your final salary, then any increase in the value of these benefits in a year will need to be taken into account.

What is carry forward and how can it be used?

If your pension savings exceed the Annual Allowance, you can reduce the tax payable by 'carrying forward' any unused allowance from the previous three tax years. Any unused allowances up to 5 April 2023 will be restricted to £40,000 a year.

If you have a reduced Annual Allowance, the carry forward available to you will be based on your reduced Annual Allowance amount. For example, if you pay £5,000 worth of pension contributions when a £35,000 Annual Allowance applies to you, then you will have £30,000 of unused Annual Allowance to carry forward into the next tax year.

What is the 'Money Purchase Annual Allowance', (MPAA)?

If you draw some of your money purchase/defined contribution (DC) pension savings under the flexible retirement rules while still paying into a DC scheme, you will be affected by the MPAA. This will mean that your Annual Allowance will be reduced to £10,000. You should be advised by your pension provider if this applies to you. Before 6 April 2023, the MPAA was £4,000.

Jargon buster

Threshold Income: Threshold Income is effectively your taxable income, so it includes salary (after any pension contributions paid by you), bonus, car allowance, P11D benefits, bank interest, dividend payments, rental income and any other taxable income.

Adjusted Income: Adjusted Income is very similar to Threshold Income, but it also includes the value of any employer pension contributions and the value of the increase in any final salary linked benefits. This is reduced by any tax-relievable items such as charity giving. Because your Adjusted Income depends on the total level of income and pension savings during the year, you might only know your Adjusted Income towards the end of the tax year.

How does the Annual Allowance affect me?

If your total pension savings to all pension schemes (including Pace DC and any personal pensions plus any increase in value of any final salary benefits) exceed the Annual Allowance in a year (running from each 6 April to 5 April in line with the tax year), then an Annual Allowance tax charge will be payable.

Tax is payable on the amount of pension savings over the Annual Allowance and is charged at your highest marginal rate of income tax.

You may be able to elect to have this tax charge paid out of your pension benefits rather than paid out of your income. However, if you exceed the Annual Allowance in any one year, you may be able to offset the potential tax payable by carrying forward any unused allowances from the previous three tax years.

Will I exceed the Annual Allowance?

This will depend on a number of factors specific to your circumstances, such as how much you earn, the rate at which you contribute to Pace each year and whether you make extra pension savings.

Because the Annual Allowance test is applied to all pension savings, any additional pension savings you make outside The Bank's pension arrangements will also count towards the test.

What are my options if it looks like I might exceed the Annual Allowance?

If you exceed the Annual Allowance from 6 April 2023, you will have the following options:

- You can remain in Pace DC and continue at the current contribution level, recognising that if you do exceed your Annual Allowance, you may be subject to a charge on your excess pension savings in any tax year.
- You can remain in Pace DC but reduce the level of your contributions (i.e. switch to a lower contribution tier) to mitigate the risk of exceeding the Annual Allowance. A pension cash allowance would then become payable to you, equivalent to the difference between 10% of your salary and The Bank's new lower contribution rate.
- You can opt out of Pace DC, in which case a pension cash allowance would not normally be payable.

1) Pete has Threshold Income of £195,000. Because his Threshold Income is less than £200,000 his Annual Allowance remains at £60,000.
2) Ian has Adjusted Income of £270,000 and Threshold Income of £240,000. His Annual Allowance is reduced by (£270,000 – £260,000) / 2 = £5,000. Thus his Annual Allowance will be £60,000 – £5,000 = £55,000.
3) Jean has Adjusted Income of £375,000 and Threshold Income of £330,000. Because her Adjusted Income is more than £360,000 her Annual Allowance will be £10,000.

For further information, you can read HMRC guidance at: **www.gov.uk/tax-on-your-private-pension**

The Lifetime Allowance

The Lifetime Allowance was introduced as part of new pension legislation that took effect from 6 April 2006.

The Lifetime Allowance is the overall value of pension benefits you can build up over your lifetime before you have to pay a tax charge and is measured whenever benefits are taken from a pension fund.

In March 2023, the Government announced its intention to abolish the Lifetime Allowance from April 2024. For the 2023/2024 tax year, the Lifetime Allowance is £1,073,100.

The Lifetime Allowance tax charge (of 55% where the excess pension savings are taken as a lump sum or 25% plus income tax where they are taken as pension) no longer applies from 6 April 2023. From 6 April 2023, pension savings above the Lifetime Allowance are now taxed at your marginal rate of income tax. This means all of your pension savings , apart from any tax-free cash, will be taxed as earned income under PAYE, including any pension savings you have which are more than the Lifetime Allowance and there will be no additional Lifetime Allowance tax charge.

How are pension benefits valued for Lifetime Allowance purposes?

Unlike the Annual Allowance test that is applied annually, the Lifetime Allowance test only applies when pension benefits are brought into payment, for example, on retirement or death and in certain other circumstances such as upon a transfer to an overseas pension scheme.

However, similar to the Annual Allowance, the value placed on pension benefits under the Lifetime Allowance will differ depending on the type of pension scheme you belong to:

- For members of Pace DC, it is simply your total fund value accumulated at the time you decide to draw your pension benefits.
- If you have previously been a member of a defined benefit scheme (e.g. 'Final Salary' or 'Career Average'), it means the actual retirement pension that you will receive, multiplied by a factor of 20, plus the amount of your tax-free cash lump sum.
- For any Additional Voluntary Contributions paid, or in respect of contributions made to personal pensions or other defined contribution schemes, it is simply the total fund value accumulated at the time you decide to draw your pension benefits.
- If you are a member of more than one scheme, then the Lifetime Allowance test applies to the value of all your pension benefits from all schemes, when these are brought into payment.

What happens if I exceed the Lifetime Allowance?

If you take your pension benefits this tax year and at that time the total value of all of your pension benefits exceeds the Lifetime Allowance, you'll pay income tax at your marginal rate on the excess benefits instead of the Lifetime Allowance tax charge. You'll pay this tax if you take your excess benefits as either income or cash. So all of your pension savings, apart from any tax-free cash, will now be taxed as earned income under PAYE, including any pension savings you have which are more than the Lifetime Allowance and there will be no additional Lifetime Allowance tax charge.

For the 2023/2024 tax year the amount of tax-free cash you can take from your benefits is limited by reference to the Lifetime Allowance. You won't now be able to take any of your benefits above the Lifetime Allowance as tax-free cash. This means if you're taking your benefits this tax year and your pension savings exceed the Lifetime Allowance, the maximum tax-free cash you'll be able to take will be £268,275 (i.e. 25% of the Lifetime Allowance). The maximum amount of tax-free cash you can take at retirement is expected to remain frozen at £268,275 and this limit would apply to you if you take your benefits in a future tax year.

If you have a protected right to a higher tax-free lump sum as at 5 April 2023 or if you successfully apply for such a protected right as described below, you'll still be able to access this right.

Can I protect the value of my pension benefits if they exceed the Lifetime Allowance?

Yes, potentially. The Government introduced two types of protection in April 2016, when the Lifetime Allowance was reduced from £1.25 million to £1 million. These are called Individual Protection (2016) and Fixed Protection (2016). The protections only help those individuals who had pension savings at April 2016 which were affected by the reduction in the Lifetime Allowance to £1 million at that time, or are likely to be affected by this reduction by the time they come to access their pension savings.

Individual Protection (2016) will give you a personalised Lifetime Allowance equal to the value of your total pension benefits at 5 April 2016 up to a maximum of £1.25 million. Importantly, the cap on the amount of the tax-free lump sum that you could take would be the greater of the standard cap of £268,275 (i.e. 25% of the standard Lifetime Allowance of £1,073,100) and 25% of your personalised Lifetime Allowance.

If you apply for Individual Protection (2016), you may continue to make further pension savings, but if you start to take them before 6 April 2024, any benefits that you have over your personalised Lifetime Allowance when you start to take them will be taxed at your marginal rate of income tax.

If you expect your total pension benefits to be worth more than £1,073,100 (the current standard Lifetime Allowance) by the time you take your benefits, then you may be able to apply for a form of protection called **Fixed Protection (2016)**.

Fixed Protection (2016) allows you to retain a Lifetime Allowance at the level of £1.25 million, meaning that the maximum tax-free lump sum that you could take would be 25% of the value of your pension benefits (subject to a maximum of £312,500 i.e. 25% of £1.25 million). This is greater than the standard limit of £268,275 (which is 25% of the standard Lifetime Allowance of £1,073,100).

If you hold Fixed Protection (2016) which was applied for before 15 March 2023, you can make further pension savings to Pace (or another scheme), join a new pension arrangement (including Pace) and transfer money between pension schemes from 6 April 2023 without losing your Fixed Protection (2016). However, if any of these events occurred between 6 April 2016 and 5 April 2023, you'll lose your Fixed Protection (2016) and your Lifetime Allowance will revert to the standard Lifetime Allowance of £1,073,100 for the tax year 2023/2024 unless you have another form of protection in place.

If you hold Fixed Protection (2016) which was applied for after 14 March 2023, please be aware that any increase in the value of your benefits must be due to investment returns and/or inflation only. You must not have made any pension savings, joined a new pension arrangement (including Pace) or transferred money between pension schemes since 5 April 2016 and you must not make any further pension savings, join a new pension arrangement or transfer money between pension schemes in the future. If you do, you'll lose your Fixed Protection (2016) and your Lifetime Allowance will revert to the standard Lifetime Allowance of £1,073,100 for the tax year 2023/2024 unless you have another form of protection in place.

What happens if I already hold an alternative type of HMRC Protection which is not Fixed Protection 2016 or Individual Protection 2016?

If you hold valid Enhanced Protection, Fixed Protection (2012) or Fixed Protection (2014), you may make further pension savings to Pace (or another scheme), join a new pension arrangement (including Pace) and transfer your money between pension schemes from 6 April 2023 without losing your protection. However, if any of these events occurred before 6 April 2023, you'll lose your protection and your Lifetime Allowance will revert to the standard Lifetime Allowance (which may be lower).

If you hold Enhanced Protection which includes personalised tax-free lump sum protection and the protected lump sum exceeds £375,000, your maximum lump sum amount will be limited to the maximum lump sum which could have been paid to you had you taken your benefits on 5 April 2023.

If you hold Individual Protection (2014), you may continue to make further pension savings after 6 April 2023, although the value of any pension savings above your personalised Lifetime Allowance will be liable to an income tax charge at your marginal rate.

If you hold primary protection with lump sum protection, you continue to have the lump sum protection stated on your certificate.

Pension protections are very complicated and you may inadvertently lose any protection you hold if you make any changes to your pension planning or if a pension debit is applied to your pension savings upon divorce or the dissolution of a civil partnership. We strongly recommend you seek financial advice before taking any action.

Removal of Lifetime Allowance from April 2024

The Government is planning to abolish the Lifetime Allowance from April 2024. If this takes place, and you hold a form of protection, only the protected tax-free cash element (if any) of your protection will be maintained from April 2024. However, the restrictions mentioned on this page relating to making further pension savings, joining a new pension scheme or transferring money between pension schemes will still apply.

What happens if I wish to take my benefits before 6 April 2024 and I think my total pension savings will be more than the Lifetime Allowance by the time I draw them because of continued pension savings I will make?

If you're not sure how the Lifetime Allowance will affect you, it's best to speak to a financial adviser. They'll be able to advise you on the impact of the Lifetime Allowance, how much tax you'll need to pay, and whether it would be in your interests to opt out of pension savings due to pensions tax reasons.

However, it's important to remember that the Lifetime Allowance tax charge has been abolished and it is expected that the Lifetime Allowance itself will be abolished in April 2024.

How do I opt out of future pension savings?

If you wish to opt out of all future pension savings from Pace DC, to limit any likely tax charge on pension savings above the Lifetime Allowance, you should contact Graeme White, Pensions Manager (see red box opposite for contact details).

How can I apply for protection?

You must apply for protection before you take any benefits. HMRC has set up an online system that will enable you to apply for protection. Please visit **www.gov.uk/guidance/pension-schemes-protect-your-lifetime-allowance**

If you have any questions about pensions tax allowances, please contact:

Graeme White - Pensions Manager

Tel: 0161 201 4350

Email: graeme.white@co-operativebank.co.uk

This factsheet should not be treated as an authoritative statement of the law on any particular aspect or in any specific case. It should not be taken as financial advice and action should not be taken as a result of this factsheet alone. Individuals are recommended to seek independent financial advice before making any pension planning decisions.

You can find an adviser in your area who is regulated by the Financial Conduct Authority (FCA) by searching for 'retirement adviser' on the MoneyHelper website, www.moneyhelper.org.uk. You should check the specialist advice areas of any adviser, as well as the cost of their advice, before appointing them.

Legal & General offer a way of paying for pensions and retirement advice called a Facilitated Adviser Charge (FAC). You can ask Legal & General to make a payment directly to your financial adviser by making deductions from your Pace DC pension pot.

FAC can only be used if the advice you receive relates to your relevant Legal & General pension plan, in this case, Pace DC. Full details of how the FAC works, and how to access this can be found at landg.com/adviserchargeguide