

Lifetime Allowances

The two types of protection	
Primary	Enhanced
The member's benefits value on A-Day must exceed £1.5 million	The member can protect any amount with no possibility of a lifetime allowance charge
Can make future contributions	All contributions or accrual must cease at A-Day, the only exception being any contracted-out rebates to an existing scheme
Benefits value on A-Day is expressed as a factor which is used to calculate the member's PLA	Full fund growth/accrual protected
May attract a lifetime allowance charge on excess above PLA	May revert to primary protection if contributions made (if registered for primary protection as well)

Enhanced Protection is best for large funds but ensure no further contributions or it is lost.

Table 2	
How to value benefits against lifetime limit	
Type of benefit	Calculation
Annuity in payment	Multiply the annuity by 25.
Final salary scheme	Multiply the member's pension before commutation by 20 defined lump sums (otherwise than by commutation) are valued using a factor of 1:1 and are added to the above value
Income drawdown in payment before A-Day	Multiply the relevant GAD maximum withdrawal by 25 (regardless of whether lower amount is being drawn).
Money purchase scheme	The total value of the funds/assets held (unless a scheme pension is paid in which case a factor of 20 times the promised pension).
Cash balance plan	The value of the benefits as calculated in line with the scheme rules.

If your fund exceeds the Lifetime allowance and no protection is available a tax charge will be made this is:

- 25% if you draw the money as pension.
- 55% if you draw the money as cash.

As the pension income will be then be subject to income tax at 40% many people will prefer to take the cash sum.