

# Pension Tax

## Reduction of the Lifetime Allowance in 2012

The Lifetime Allowance Protection Audit - A new service from JLT Wealth Management

### History

April 2006 saw the introduction of an overall limit on tax advantaged pensions known as the Lifetime Allowance. The original limit was set at £1.5M and the Labour Government assured us that the limit would only affect a very small proportion of the population. At the time of its introduction, it was assumed that the limit would be increased in line with inflation; indeed, increases up to £1.8M by 2010/2011 were written into the legislation.

Those seeking to build up a substantial pension pot have, subsequently, been hit by a double whammy since the original legislation was introduced. Firstly, the news that the £1.8M limit was not to be increased and the more recent announcement that it is to be reduced back to £1.5M at April 2012 and to remain at that level until 2015/2016.

Building up pension benefits that potentially exceed the Lifetime Allowance does not make much sense. The 'recovery tax' payable on the excess is currently 55% which is higher than the maximum rate of income tax.

### Valuing your benefits

For those with defined contribution pension arrangements, calculations are not too complicated but timing may be the key. Benefits are tested against the Lifetime Allowance when they are drawn so with the 'real' and actual value of the Lifetime Allowance set to reduce, it may make sense for those over age 55 to look at drawing benefits now.

Defined benefit pension schemes continue to be valued on the basis of the pension promised with a factor of 20 applied to the starting figure. Once again, drawing benefits sooner rather than later may have advantages for those affected, but advice is essential in this area as there are many different issues to be considered.

### Protection of the current Lifetime Allowance

Anyone who wants to can apply to retain the current £1.8M allowance after April 2012, but this comes at a price. If protection (known as 'Fixed Protection') is to be retained, no further pension contributions can be made after 5/4/2012 and, broadly speaking, there can be no additional accrual under a defined benefit pension arrangement.

Those who applied for and were granted protection in 2006 (known as enhanced protection and primary protection) will not be able to apply for fixed protection - it would not make sense to do so anyway as this protection will, generally, always be greater than fixed protection.

For anyone whose pension fund is already over £1.5M, applying for Fixed Protection will probably make sense. It is a trickier decision for those who have pension assets of lower value but who might reasonably expect their funds to exceed £1.5M at some point in the future. This is the area where advice is likely to be key and undertaking an accurate valuation of present future values of pension benefits is essential.

## The Lifetime Allowance Protection Audit

To assist those who are considering how their benefits might be impacted by the revised Lifetime Allowance and to provide advice on protecting benefits, JLT Wealth Management has launched the Lifetime Allowance Protection Audit. The audit will undertake a complete valuation of benefits and provide advice as to whether applying for fixed protection will be advantageous plus an explanation of the actions needed to be taken.

The cost of the Lifetime Allowance Protection Audit will vary depending on the number and complexity of pension arrangements involved however, costs are likely to be in the region of £850 to £1,250. An initial discussion with one of our consultants will not be charged and will enable us to provide you with a quotation and explain what is required to undertake the work.

## For further information please call or e-mail...

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