

How to work out your Lifetime Allowance (LTA) Charge when you exceed the maximum limit

The standard Lifetime Allowance for 2021/22 is £1,073,100 and will remain at this level until April 2026. The maximum permitted tax-free lump sum an individual can take is 25% of the LTA (currently £268,275). If you have an APS or NAPS AVC account, we automatically use your AVCs to fund your tax-free cash, with any remaining tax-free lump sum entitlement provided by exchanging some of your yearly pension, if required.

When calculating your LTA chargeable amount, we offer the following options (but you can choose alternative options if you prefer). You can decide how you wish to receive the pension benefits that exceed your LTA within each option.

£1,073,100

The standard Lifetime Allowance for 2021/22 and will remain at this level until April 2026.



Option 1

Full pension plus any AVCs as a tax-free lump sum (up to the maximum allowed)

The amount exceeding your LTA and the LTA charge due is worked out by multiplying your yearly pension by 20, adding your APS/NAPS AVC fund (if you have one), and then deducting your available LTA.

Option 2

A reduced yearly pension plus the maximum tax-free lump sum

The amount exceeding your LTA and the LTA charge due is worked out by multiplying the reduced yearly pension (provided in your retirement pack) by 20 and adding the maximum tax-free lump sum (provided in your retirement pack), and then deducting your available LTA.

You can choose how to take any pension benefits that exceed your LTA. The LTA charge due will depend on how you choose to take these excess benefits.

Your choices for taking the pension benefits that are above your available LTA

Take the excess benefits as a pension:

The tax charge will be 25% of the amount by which your total pension benefits exceed your available LTA.

We can deduct the tax charge from your AVC fund (if applicable), or you can choose to convert part of your pension to pay the tax charge. The reduction to your pension is permanent, and it is worked out by dividing the LTA charge by the Scheme commutation factor (the rate for exchanging pension for a lump sum). This factor is worked out according to your age at the date you draw your pension benefits and is shown in your retirement pack.

If your AVC fund is not enough to cover the whole LTA charge amount, we do not automatically offer the option to pay the LTA charge from your AVCs, but you may combine the AVC and pension exchange options. If this applies, please contact us for details.

Take the excess benefits as a lump sum:

The tax charge will be 55% of the amount by which your total pension benefits exceed your available LTA.

We must first convert the amount by which the value of your pension benefits exceeds the LTA into an equivalent pension amount. We do this by dividing the excess amount by 20. We then convert this to a lump sum by multiplying the pension equivalent of the LTA charge by the Scheme commutation factor provided in your retirement pack. The tax charge is 55% of the result. The remaining 45% can be paid to you as an additional lump sum. This is on top of any tax-free lump sum you may take from your pension.

If your AVC fund is higher than the maximum tax-free lump sum you can take, the excess AVC fund will automatically be taxed at 55% and the remaining 45% of your AVC fund will be paid to you as an additional lump sum.