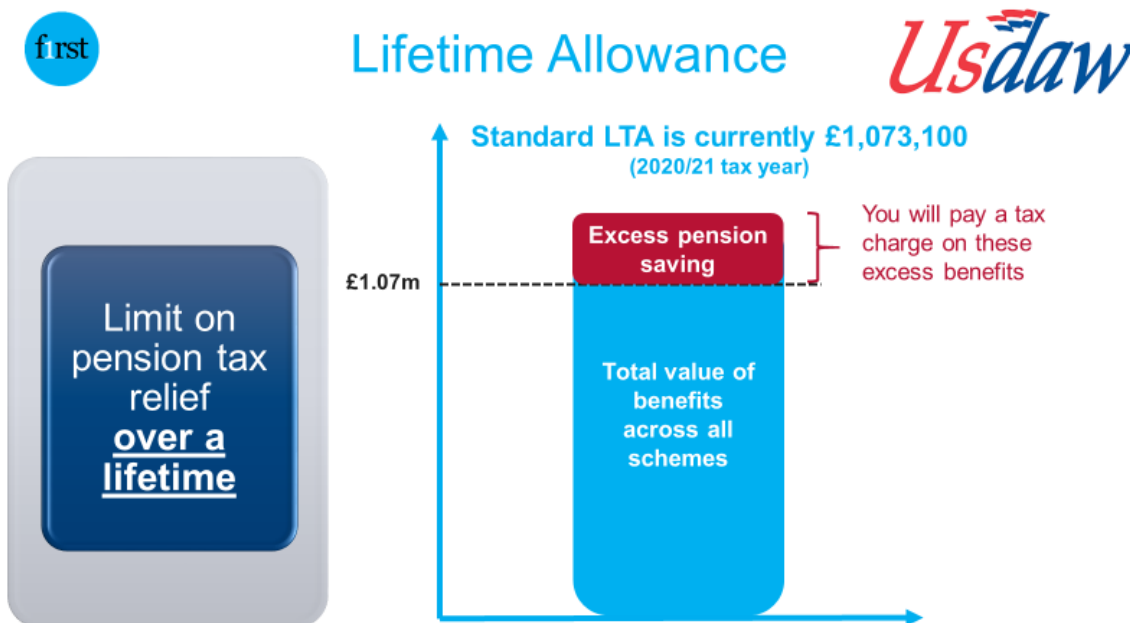


Factsheet – Limits on pension savings

Since 2006, limits have applied on the amount of tax-relieved pension savings that can be made to registered pension schemes. There is both a **Lifetime Allowance** and an **Annual Allowance**, each placing a limit on the amount of tax-relieved pension savings that can be made to registered pension schemes by, or on behalf of, an individual over a year and over their lifetime.

Lifetime Allowance (LTA)

With effect from 6 April 2020, the standard LTA is £1,073,100. The government intends to increase the standard LTA limit annually in line with the Consumer Prices Index (CPI) measure of inflation. The LTA limit will therefore be different if you were to retire from the Scheme after 6 April 2021. This is equivalent to an annual pension from a 'final salary' or 'defined benefit' scheme of £53,655. Therefore, for most people, their benefits will be lower than the Standard LTA.



If the estimated value of all your pension savings (including any other employer or private pension schemes but excluding the State Pension) is less than the standard LTA, you may not need to take any action. If the estimated value is above the standard LTA, we recommend you seek independent financial advice.

The amount of your LTA that is used when your pension comes into payment is measured as a percentage. For example, if, when it commences, you are entitled to a pension of £10,731 per year and the LTA is £1.0731 million, the calculation is as follows:

$$\text{Value of pension for LTA purposes} = [\text{£}10,731 \times 20^*] = \text{£}214,620$$

$$\% \text{ of LTA used} = \text{£}214,620 \div \text{£}1,073,100 \times 100 = 20.00\%$$

*20 is the standard factor by which a scheme pension (one provided by or arranged by the scheme) is multiplied by for this purpose. A lifetime annuity (one arranged by you under an open market option) is valued as the fund used to buy the annuity. Only if the accumulated percentage represented by all your pensions exceeds 100% will a LTA Charge be payable.

If the LTA is exceeded, benefits can still be paid, but they are subject to a tax known as a LTA Charge, which is deducted at source before payment commences.

How are your benefits valued? *Usdaw*Usdaw Staff
Superannuation
Fund

Defined Benefit

$$\left(\begin{array}{c} \text{Actual pension} \\ \text{taken at} \\ \text{retirement} \end{array} \times 20 \right)$$

Cash lump sum
(at face value)

Value of DB

Royal London -
Additional Voluntary
Contributions

Defined Contribution

Face value of cash taken
Or, value of savings when
transferred out at retirement to
provide benefits



Value of DC

Annual Allowance (AA)

The period over which the AA is tested is aligned with the tax year and therefore runs from 6 April 2019 to 5 April 2020. The AA limit over this period is £40,000 but this limit may be lower if you are a high earner (roughly those with income over £110,000 per year).

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Could you have an Annual Allowance problem?
While employed by Usdaw

Usdaw



Large salary increase in year



High contributions to Additional Voluntary Contributions



Lots of service in the Fund

Where pension growth is greater than £40,000, the Annual Allowance statement must be issued by 6th October following the end of the tax year. For example, for the tax year 2020/21 the Annual Allowance statement must have been issued by 6th October 2021. In any case, you can always request statements from the scheme administrators if you want them.

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How are your pension savings calculated?

Usdaw

Usdaw Staff
Superannuation
Fund
"Defined Benefit"

DB pension
savings in tax year



Increase in
Pension over a
tax year
(above inflation) $\times 16$

Royal London -
Additional Voluntary
Contributions
"Defined
Contribution"

DC pension
savings in tax year



Gross contributions paid
by you
over a tax year

An example calculation is as follows:

Pension built up at the start of the tax year = £11,000

Add inflation (2.4% for 2020) $£11,000 \times 2.4\% = £11,264$

Pension built up to end of the tax-year = £12,000 (this is quoted on this year's benefit statement)

Increase over the tax year (above inflation) = $£12,000 - £11,264 = £736$

(a) "Value" of increase for AA purposes = $£736 \times 16 = £11,776$

(b) Add any Additional Voluntary Contributions paid to Royal London via your pay

Test the total of (a) + (b) against the AA to see if there has been a breach

There is a calculator available here: www.tax.service.gov.uk/pension-annual-allowance-calculator

If you need help with any of the above, please contact Nick.Walker@USDAW.ORG.UK and/or sarah.houghton@firstactuarial.co.uk

Financial Advice

Lifetime Allowance and Annual Allowance rules are complex; it is strongly recommended that you take independent financial advice or seek specialist tax advice if you think that your pension might exceed the LTA.

The Trustees, Usdaw and their employees cannot give you financial advice regarding your pension decisions; this includes recommending financial advisers.

You can find a list of independent financial advisers in your area at www.unbiased.co.uk

The Financial Conduct Authority (www.fca.org.uk) also provides information for consumers about all aspects of financial planning, including how to find an adviser and what questions to ask.