1. Announcement

It was announced at Budget 2015 that legislation will be introduced in a future Finance Bill to reduce the pensions Lifetime Allowance to £1 million, with effect from 6 April 2016. Transitional protections for pension rights already over £1 million will be introduced alongside this reduction to ensure the change is not retrospective. These protections will have the same effect as those introduced for previous changes to the Lifetime Allowance. The Government will work with industry to ensure that these protections are implemented in the simplest way possible.

Additionally, the Lifetime Allowance will be increased by CPI from 2018-19 onwards.

2. The Lifetime Allowance

The Lifetime Allowance is the maximum amount of tax-free pension savings that an individual can have over their lifetime.

For the tax years 2014-15 and 2015-16, this is £1.25 million.

The Government announced at Budget 2015 that the Lifetime Allowance will reduce to £1 million from 6 April 2016, and will be increased by CPI from 2018 onwards.

Any pension savings above the Lifetime Allowance are subject to the Lifetime Allowance Charge. This charge will continue to be:

- 55% if the excess is taken as a lump sum
- 25% if the excess is taken as income, for example as a scheme pension, an annuity or drawdown.

3. Transitional Protection and Next Steps

For those who think they may be affected by the reduction in the Lifetime Allowance, the Government has announced that transitional protection will be available. These protections will have the same effect as those introduced for previous changes to the Lifetime Allowance.

Some individuals will already have transitional protection, either from when the Lifetime Allowance was first introduced, or when it has previously been reduced. These protections will not be affected by this reduction in the Lifetime Allowance. If anyone holds one of these protections they will not be affected by the reduction of the Lifetime Allowance to £1 million.

The reduction in the Lifetime Allowance was announced at Budget 2015. The Government will legislate for this and the protection regimes at the earliest possible opportunity and will work with the industry to ensure that these protection regimes are implemented in the simplest way possible. This will take into account the number of people likely to want to apply for transitional protection and the types of schemes they are currently saving in.

No decision has therefore been made about how and when individuals will have to opt for transitional protection and whether or not this must be done before a set date. Individuals will however be given sufficient time after the legislation is finalised, to gather any necessary information from their pension schemes about their pension savings on 5 April 2016. This will ensure that they have time to opt for transitional protection if they choose.

When the Lifetime Allowance was reduced to £1.25 million from 6 April 2014, two transitional protection regimes were introduced, fixed and individual protection. Broadly the previous protection regimes worked as follows:

- Individual protection protected savings made before the reduction in the Lifetime Allowance up to the previous Lifetime Allowance limit of £1.5 million. There are no restrictions on future savings, but these will be subject to the Lifetime Allowance Charge when they are taken.
- Fixed protection meant that no further contributions can be made, but existing savings and any future investment growth were protected up to the previous Lifetime Allowance of £1.5m

The transitional protection that will be provided this time is expected to be similar to these previous protection regimes and will have the same effect. That is, individuals will be able to have a protected Lifetime Allowance of £1.25 million subject to certain conditions about future savings, and/or they will be able to protect any savings up to the current Lifetime Allowance with no restrictions on future savings. For more information about the existing protection regimes, see http://www.hmrc.gov.uk/manuals/rpsmmanual/RPSM11100000.htm

If you have any comments or views on ensuring the process for opting for these transitional protections is proportionate and/or what could be improved from previous protection regimes, please send these to pensions.policy@hmrc.gsi.gov.uk, marking your e-mail 'Transitional Protection 2016'