

## Is The Lifetime Allowance Going to Catch You?

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A small item in the package of Budget measures announced on Wednesday may have gone unnoticed, but could cause real problems for a number of clients. The Lifetime Allowance came into being in 2006 at £1.5m, but with predetermined increases to take it to £1.8m from April 2010. In 2008 it was announced that the LTA would then be frozen for the next 5 years up to 2016. On Wednesday the Registered Pension Schemes (Standard Lifetime and Annual Allowances) Order 2010 was laid confirming this.

This could affect a number of people:

1. Those with Funds in excess of £1m

If a client has a pension fund of just £1m now this will grow to £2m by 2020 assuming growth of just 7% p.a. If a client has a pension fund of £1.3m now this will grow to nearly £2m by 2016 again assuming 7% p.a. growth. And even those clients already in drawdown who might think they are safe could be caught by a "second crystallisation event".

2. Those with high pensions from an employer's scheme

The obvious example here is the NHS Scheme. Many consultants earn upwards of £150k p.a. and most will have 40 years service at retirement. This means that their NHS benefits alone will take them close to the LTA. Many of them also have private practise earnings, with associated PPs/SIPPs and they clearly need to be very wary of these taking them over the LTA.

3. Younger clients with high funds

A client aged 40 with a fund of £800k will see it rise to more than £1.9m by the time he is 55 – the earliest he can now take benefits – assuming growth of as little as 6% p.a. Growth of just 8% p.a. will take the fund over £2.5m in 15 years. So, unless the LTA is raised again in 2016 large numbers of younger people are heading for a Lifetime Allowance Tax Charge at 55% of their 'excess' funds.

#### 4. Clients paying large contributions

Although anti forestalling and the reduction in higher rate tax relief from 2011 will probably put a stop to £200k + contributions, we could still see contributions of £80 - £100k p.a. being paid, particularly in respect of people who can negotiate packages that ensure that their actual salaries are below £130k p.a. It should not take a maths degree to realise that 10 years at £100k p.a. plus some growth is likely to reach pretty close to £1.8m.

David Trenner, technical director of Retirement Income specialists Intelligent Pensions said:

“Unlike some of our competitors IP prides itself on the fact that we are not just interested in taking our clients’ money. Since Simplification in 2006 we have seen a huge rise in the need for technical pensions knowledge in connection with the LTA, anti-forestalling and other issues. Through our highly qualified team of analysts and review analysts backed by the technical strength of our Head Office we are well able to meet this demand.”

David Trenner  
Technical Director  
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