

Lump sum limits

Two lump sum limits were introduced from 6 April 2024. If the total of all lump sums you take from UK pensions is more than one of these limits, you will have to pay extra tax. Tax on any excess is charged at your marginal rate.

In the LGPS, you can generally take up to 25% of the value of your benefits as a lump sum. **Most members will not be affected because the maximum lump sum they can take is much lower than the limits.** If you have built up a large pension in the LGPS or a different scheme, the new limits may affect you.

Lump sum allowance (LSA)

The lump sum allowance is £268,275. It limits the amount of tax-free cash you can take from your pension.

Staffordshire Pension Fund must check your lump sum allowance when you take a lump sum from the LGPS. If you have already taken payment of a lump sum from the LGPS or a different UK pension scheme, this used up some of your lump sum allowance. These lump sums use up your lump sum allowance:

- pension commencement lump sum,
- uncrystallised funds pension lump sum, and
- stand-alone lump sum.

From the LGPS, you can only have a pension commencement lump sum. However, you could receive an uncrystallised funds lump sum or a stand-alone lump sum from a different pension scheme.

Lump sum and death benefit allowance (LSDBA)

The lump sum and death benefit allowance is £1,073,100. Staffordshire Pension Fund must check this allowance when you take payment of a lump sum. Your personal representatives will do this check when a death grant is paid. The lump sum and death benefit allowance is used up when any of these lump sums are paid:

- pension commencement lump sum,
- uncrystallised funds pension lump sum,
- stand-alone lump sum,
- serious ill health lump sum (paid before age 75), and
- lump sum death benefit.

Transitional protection

If you took payment of a pension before 6 April 2024, that pension used up part of your lump sum allowance and lump sum and death benefit allowance. Before the next time you take a lump sum, your pension scheme must work out how much of your allowances you have used. Under HMRC rules, they must assume that you took the maximum lump sum allowed.

For most members, this will have no effect on the lump sum they can take from the LGPS. The limits will generally only affect members who have built up very large pensions.

There is a process for members who took a pension or reached age 75 before 6 April 2024, if they did not take the maximum tax-free lump sum. They can apply for a transitional tax-free amount certificate (TTFAC):

- the certificate includes the total lump sums that they have taken instead of the assumed amount,
- they must apply for the certificate before they take a pension lump sum after 6 April 2024,
- they can apply to any scheme they are a member of for a certificate. HMRC recommends applying to the scheme that is paying the first pension lump sum after 5 April 2024 or the scheme that is paying the biggest pension that started before 6 April 2024.

If you are thinking about applying for a transitional tax-free amount certificate, you may wish to seek specialist independent financial advice. Some members could be worse off if they apply than they would be without a certificate.

The lifetime allowance

Before 6 April 2024, the lifetime allowance limited the total amount of pension benefits a person could have before they paid extra tax. The Government reduced the lifetime allowance three times since it came into force in 2006. Each time it reduced, those people who had already built-up large pensions could apply for protection from the reduction.

The lifetime allowance has now been replaced by the two lump sum limits described above. If you hold one of the lifetime allowance protections, your lump sum allowance and lump sum and death benefit allowance could be higher than the standard limits. You must let your pension fund know about any lifetime allowance protection you hold before you take a lump sum.

Applying for lifetime allowance protection

You can still apply to protect your pension lifetime allowance by applying to HMRC for Fixed or Individual Protection 2016. The deadline for making an application is 5 April 2025. However, you will need to inform HMRC of the value of your pension savings on 5 April 2016 to apply for Individual Protection 2016. Your pension administrator was only obliged to provide you with this information up to 5 April 2020.

Although the lifetime allowance tax charge no longer applies, holding protection may still allow you take a larger tax-free lump sum.

For further information on how to apply for and check protections from the reductions in lifetime allowance, please visit:

<https://www.gov.uk/guidance/pension-schemes-protect-your-lifetime-allowance>

Examples

Example 1: no previous benefits paid

Sarah retires on 31 May 2025.

She elects to take payment of her LGPS pension and a lump sum of £20,000. She has not taken payment of any pension benefits previously.

Immediately before the retirement, her available LSA is £268,275 and available LSDBA is £1,073,100.

Following the retirement, her available lump sum allowances are:

- LSA: £268,275 - £20,000 = £248,275
- LSDBA: £1,073,100 - £20,000 = £1,053,100

Example 2: - previous benefits paid after 5 April 2024

John retires on 31 March 2027.

He elects to take payment of his LGPS pension and a lump sum of £80,000. He has previously taken payment of benefits from another scheme on 31 May 2026 which included a tax-free lump sum of £50,000.

Immediately before the retirement, the available allowances are:

- LSA: £268,275 - £50,000 = £218,275
- LSDBA: £1,073,100 - £50,000 = £1,023,100

Following the retirement, the available lump sum allowances are:

- LSA: £268,275 - £50,000 - £80,000 = £138,275
- LSDBA: £1,073,100 - £50,000 - £80,000 = £943,100

Example 3: - previous benefits paid between 6 April 2006 – 5 April 2024

Joe retires on 31 July 2024.

He elects to take payment of his LGPS pension and a lump sum of £55,000. He has previously taken payment of benefits on 1 December 2022 which used 50 per cent of his lifetime allowance. He does not hold a transitional tax-free amount certificate (TTFAC).

Immediately before the retirement, the available allowances are:

- LSA: £268,275 - ((£1,073,100 x 0.5) x 0.25) = £134,137
- LSDBA: £1,073,100 - ((£1,073,100 x 0.5) x 0.25) = £938,963

Following the retirement, the available lump sum allowances are:

- LSA: £134,137 - £55,000 = £79,137
- LSDBA: £938,963 - £55,000 = £883,963

Note: the above calculation is based on the standardised transitional calculation. This assumes the member has taken the maximum tax-free lump sum of 25% of the lifetime allowance (LTA) previously used. However, if they have taken less than 25 per cent of their LTA as tax-free lump sums, they could apply for a TTFAC to more accurately reflect the relevant tax-free lump sums paid.

Most members should not need to apply for a TTFAC as the amount of tax-free lump sum(s) they can take will be less by the LSA and/or LSDBA limits. If you are considering applying for a TTFAC, you may wish to seek independent financial advice to be sure it is right for you as there is no opportunity to revert to the standard calculation once a TTFAC has been granted. You cannot apply for a TTFAC if a relevant lump sum has already been paid to you on or after 6 April 2024.

Further information

To find out more about Tax on your private pension contributions, including the lump sum allowance, please visit <https://www.gov.uk/tax-on-your-private-pension>

Information on Choosing a financial adviser is available from
<https://www.moneyhelper.org.uk/en/getting-help-and-advice/financial-advisers/choosing-a-financial-adviser>

If you have any questions about your LGPS membership or benefits, please contact:

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