

Understanding the Pension Allowances

The Government has reduced both the annual and lifetime allowances for pensions in the last 12 months or so and you could be liable to some tough tax penalties if you exceed them.

The Annual Allowance

You can currently contribute a maximum of £40,000 into a pension each year which can be a combination of your own contributions (limited to 100% of salary) and your employer contributions. To check whether you're reaching the annual allowance limit, you need to add up all your annual contributions *including* any tax relief added separately by HMRC. Remember that you only have one annual allowance, regardless of how many schemes you may have.



Simon Jackson Dip, PFS
Independent Financial Planner

If you are in a defined benefit pension linked to your salary the calculation is not as simple and you should ask your employer or pension scheme provider to check your position. We can also assist with this calculation.

Bear in mind that future wage increases could take you over the limit if you are already on a high salary.

Also, from April 2016 the Annual Allowance is now 'tapered' for individuals with 'adjusted' income of more than £150,000. The reduction in Annual Allowance will be £1 for every £2 that the 'adjusted' income exceeds £150,000 up to a maximum reduction of £30,000 i.e. individuals will still have an Annual Allowance of at least £10,000.

If you pay the maximum contribution for the current tax year, then you are able to carry forward any unused Annual Allowance from the 3 previous years. However, you must have been a member of a registered pension scheme in those years which you wish to carry forward.

If you have already taken an income from your pension using the new retirement flexibility rules introduced in April 2016, your Annual Allowance could already be restricted to £4,000 per annum and carry forward of unused Annual Allowance from the previous 3 years would not be available.

The Standard Lifetime Allowance

The standard lifetime allowance is £1m. Unless you have some form of lifetime allowance protection, amounts over these limits are taxable, currently 55% if paid as a lump sum, or 25% if paid as an income.

Even if your pension pot is below the lifetime allowance but a reasonable size nonetheless, you may wish to refer to the tables over the page, which illustrate the investment growth that would be needed to reach the current standard lifetime allowance.

A Word of Caution

In some circumstances it may be worth continuing your pension contributions and paying the tax penalty anyway, for instance where your contributions are largely or entirely financed by your employer. However you should seek professional advice and check all the implications carefully before taking any action.

There is a lot to consider....regularly reviewing your pension, topping it up while you can, and possibly looking at additional ways to save tax-efficiently for the future. For assistance with any aspect of your pension planning please call us on 01789 263257 or email justask@jjfsltd.com

Annual growth rate required to fund for £1m

Term to Retirement Existing Fund Value	5 years	10 years	15 years	20 years
£100,000	58.49%	25.89%	16.59%	12.20%
£200,000	37.97%	17.46%	11.33%	8.38%
£300,000	27.23%	12.79%	8.36%	6.20%
£400,000	20.11%	9.60%	6.30%	4.69%
£500,000	14.87%	7.18%	4.73%	3.53%
£600,000	10.76%	5.24%	3.46%	2.59%
£700,000	7.39%	3.63%	2.41%	1.80%
£800,000	4.56%	2.26%	1.50%	1.12%
£900,000	2.13%	1.06%	0.70%	0.53%

Growth rate shown is the compound annual rate payable at the beginning of each year

**Annual growth rate required to fund for £1m
 (Assuming you pay an ongoing contribution of £40,000 p.a.)**

Term to Retirement Existing Fund value	5 years	10 years	15 years	20 years
£100,000	35.45%	10.61%	3.86%	0.90%
£200,000	24.42%	7.22%	2.26%	0.00%
£300,000	17.37%	4.78%	1.01%	-0.73%
£400,000	12.26%	2.87%	0.00%	-1.35%
£500,000	8.29%	1.32%	-0.86%	-1.89%
£600,000	5.05%	0.00%	-1.60%	-2.36%
£700,000	2.33%	-1.14%	-2.25%	-2.79%
£800,000	0.00%	-2.14%	-2.84%	-3.17%
£900,000	-2.04%	-3.04%	-3.36%	-3.52%

Growth rate shown is the compound annual rate payable at the beginning of each year