Pension Tax Limits Guide

When reading this Guide please remember it's your personal responsibility to understand your pension(s) and the tax rules that apply – if you are in any doubt you should seek help from an independent financial adviser, or a chartered tax accountant. Our aim is to give guidance and help only, and we cannot give any kind of tax related or financial advice.

This Guide provides information on each of the following:

- Lump Sum Allowance
- Lump Sum and Death Benefit Allowance
- Annual Allowance
- Money Purchase Annual Allowance

The information is correct as at April 2024 which is when the last changes to the Allowances were made. If any future changes to the Allowances arise, we will endeavour to update the information as soon as possible.

If you are tax resident in the Isle of Man, then the LSA and LSDBA rules apply to you in relation to your ZPen benefits, but the AA rules do not. You can read about the AA rules that apply in the IOM here.

Lump Sum Allowance (LSA)

The Lump Sum Allowance was introduced from 6 April 2024, replacing the previous Lifetime Allowance regime that had been in place since April 2006.

Under the new regime, instead of testing your total pension benefits against a limit, it is only the tax-free element of your benefits that are tested against the new Lump Sum Allowance (LSA) limit.

The tax-free element of your pension benefits will be tested against the LSA limit when one of the following events take place:

- Taking a pension commencement lump sum
- Taking an Uncrystallised Funds Pension Lump Sum (UFPLS)

The standard Lump Sum Allowance is set at £268,275. Please note that this limit applies to all of your benefits and does not reset for each benefit taken. For example, if you take benefits from one Scheme with a total tax-free element worth £100,000, when you go to take benefits from your next scheme, your personal Lump Sum Allowance will be £168,275 (£268,275 - £100,000).

If the LSA is exceeded, your tax-free element will be limited to the allowance cap and any benefits in excess can be paid to you as a Pension Commencement Excess Lump Sum and will be subject to your marginal rate of tax.

Please note that if you have a Lifetime Allowance protection from the previous regime, please let your pension provider know as these protections may still provide you with a higher personal LSA than the standard allowance.

Lump Sum and Death Benefit Allowance (LSDBA)

The Lump Death and Benefit Allowance was also introduced from 6 April 2024, and like the LSA, tests only the tax-free element of your benefits against the new Lump Sum and Death Benefit Allowance (LSDBA).

The tax-free element of your pension benefits will be tested against the LSA limit when one of the following events take place:

- Those that apply for the LSA
- Payment of a serious ill health lump sum
- Most authorised tax-free death benefit lump sums (exceptions include charity lump sum death benefits and trivial commutation lump sum death benefits)

The standard Lump Sum and Death Benefit Allowance is set at £1,073,100. As with the LSA, this limit applies to all of your benefits and does not reset for each benefit taken.

If the LSDBA is exceeded, the tax-free element of any benefits will be limited to the allowance cap and any benefits in excess will be paid at the recipient's marginal rate of tax. It's important to note that the benefits will be tested against the pension scheme member's LSDBA, who will not necessarily be the recipient of these benefits.

Please note that if you have a Lifetime Allowance protection from the previous regime, please let your pension provider know as these protections may still provide you with a higher personal LSDBA than the standard allowance.

Annual Allowance (AA)

As noted on the website page, some of the tax rules are now extremely complex – in particular, we're referring to the AA. However, most individuals are not affected by the AA, and so that means most individuals only need a basic awareness of how it is applied. Also note, if you are a deferred or retired ZPen member, then the AA will not apply to your ZPen benefits – however it will apply if you are currently saving into other pensions (e.g. with a new employer or via a personal pension policy).
ZPen members who are still employed by Zurich in the UK (so "active" members of the scheme), who need a more detailed understanding, are those potentially affected by the AA "tapering" rules.

In some instances, active members with Old Tier / ZPensionBuilder benefits (i.e. our DB / DC members – those we refer to as hybrid members) who receive a promotional pay rise, should familiarise themselves with the rules as they may be affected.

The headlines in terms of understanding the AA are:

- **The standard AA is currently £60,000**, but it has been "tinkered with" over the years - at its highest it was £255,000 in 2011.
- In the 2016/17 tax year the AA "tapering" rules were introduced - these essentially seek to reduce the allowance for some high earners – the rules are complex, and you can find further information on this here – many members should satisfy themselves that they are unlikely to be affected by the tapering rules.
- A key term to be familiar with is "pension input" – you will see this term referenced in the information on tapering rules. This is what is tested each tax year against the AA (whether that's the standard allowance or, if it applies to you, the reduced tapered allowance) – this looks at:
    - Contributions paid to the scheme by the employer and yourself (whether via salary sacrifice or APCs) – we refer to this as defined contribution or "DC" input.
    - In addition, for active hybrid members any deemed increase in your final salary pension – remember that although the final salary scheme is closed to future accrual, the link to final salary remains in place. We refer to this as defined benefit or "DB" input.
    - You can find a worked example for both DC and DB input here.
    - Deferred pensions, or pensions already in payment do not need to be taken into account.
    - If you exceed the standard, or if applicable, the tapered allowance, you can look back at the previous 3 tax years to see if you have allowance you have not used up

(referred to by HMRC as the "carry forward" rule) – this could reduce or potentially eliminate any "excess" input that has arisen. Note: if you have unused allowance, you would use up the allowance from the furthest year back, first.

  - If after checking for carry forward, you still have an excess input over the allowance, then it will be subject to income tax at your marginal rate, and must be declared on your self-assessment tax form – you do have the option to elect for "scheme pays" where we can reduce your pension benefits and pay the tax on your behalf – indeed, many members choose to do this if they incur a tax charge.

Our legal obligations in relation to these Allowances

We are required to notify all members who exceed the standard AA – so if your pension input exceeds £60,000 you should expect to receive a communication from us after the tax year end, usually around August time. Although there is no requirement to do so, we also contact individuals who have pension input below £60,000, but who we think might be affected by the tapering rules. This is not an exact science because we are only privy to your Zurich taxable earnings. If neither situation applies to you, then you won't hear from us.

If you incur an AA tax charge and wish to use scheme pays, we will discuss your options with you at that time, but largely our facility goes above and beyond what is required of us by law (for example our tax threshold for allowing scheme pays to be used is £500, rather than £2,000 as confirmed under statute).

What if I want to stop building up ZPen benefits because I am affected by the Allowance(s)

We have a policy in place for certain high earners, which allows them to reduce the company pension contribution and take a Savings Allowance instead – we write to these individuals in February each year, and so you should already be aware of this option if it applies to you.

If you are not one of these individuals, but you believe you are affected by the limit(s), then please get in touch with Faye Willetts, in the UK Pension Team to discuss further.

Money Purchase Annual Allowance (MPAA)

The MPAA is a reduced annual allowance of £10,000 and applies to those who flexibly access their pension from a money purchase pension arrangement (so what we have been calling "DC") – so this would typically be where someone encashes their DC pension pot, or someone who starts to drawdown on their pension from a flexi-access drawdown product. Note: the taking of tax-free cash is not a trigger for the MPAA to apply.

There is a small pots exemption for some types of arrangement, and if you are about to take pension benefits where MPAA would be triggered, then your pension provider is required to tell you that is the case.

If you are an active hybrid member, then any DB input is tested separately – the reduced allowance of £10,000 only applies to any DC input.