

Essex Pension Fund

Quick Guide to Budget Changes for Members of the Local Government Pension Scheme



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This guide provides members of the LGPS with a summary of the main pension related changes contained in the budget of the 15 March 2023.

Summary of the main points

- Removal of the Lifetime Allowance (LTA) charge
- Maximum tax-free lump sum of £268,275 for most members
- Members with certain protections continue to receive a larger tax-free lump sum
- Changes to how Lifetime Allowance excess lump sums are taxed
- Increase in the Annual Allowance from £40,000 to £60,000 for the 2023/24 tax year
- The tapered Annual Allowance will now apply for those with threshold income of £260,000 (rising from £240,000)

The appendix to this document contains examples of the lifetime and annual allowances which demonstrate the changes and its impact to members.





Removal of the Lifetime Allowance charge (LTA)

The LTA has historically been the maximum value of retirement benefits an individual can build up over their lifetime without paying a tax charge.

Before the 6 April 2023 members with lifetime pension savings valued at more than the LTA limit of £1,073,100 would be liable for a tax charge. From 6 April 2023 that charge has been removed meaning that there is no level of lifetime pension savings that will trigger a tax charge.

The Government has announced that from 6 April 2024 the LTA will be scrapped completely.

Maximum tax-free lump sum of £268,275 for most members

For members who had benefits valued in excess of the old LTA the maximum tax-free lump sum amount was 25% of the LTA.

From 6 April this limit has been retained meaning that for most people with benefits valued at more than £1,073,100, the maximum tax-free lump sum is £268,275 (see the sections entitled Protections and Lifetime Allowance excess lump sums for exceptions to this rule).

The maximum tax-free lump sum is cumulative. This means that if you have already taken a tax-free lump sum from a previous pension arrangement and then return to work and build up more pension benefits, the maximum tax-free lump sum you can take second time round is reduced to take account of the tax-free lump sum you've already taken.

Protections

Over the years the LTA has been reduced. Each time it was reduced, protections were put in place for those members who had saved up to the old limit so that they didn't face a retrospective tax charge.

To some extent those protections are no longer necessary since the LTA charge has been removed. However, the protections do also have the effect of allowing members to take a larger tax-free lump sum.

Members who have valid Enhanced Protection, Fixed Protection 2014 or Fixed Protection 2016 which they applied for before 15 March 2023, will retain the ability to take a larger tax-free lump sum. They will also be able to accrue new pension benefits, join new arrangements or transfer benefits without losing this protection.

Members who make a successful late application for any of these protection on or after 15 March 2023, will be able to take a larger tax-free lump sum but will face restrictions on how much more pension they can build up.



Lifetime Allowance excess lump sums

For most LGPS members the absolute maximum lump sum they can take from the Scheme will be the tax-free limit of £268,275 (or more if the member has LTA protection).

However, there are certain circumstances when it is possible to take a lump sum greater than the maximum tax-free amount. This can happen when at the point of retirement, a member has already exceeded the LTA and is drawing a lump sum. Any lump sum above the tax-free maximum is called a Lifetime Allowance Excess Lump Sum (LTAELS)

Before 6 April 2023 an LTAELS was taxed at 55% of its value. From this date any LTAELS will be taxed as if it is pension income. This effectively means it is taxed at the member's marginal income tax rate.

Annual Allowance (AA)

The Annual Allowance is the maximum amount of pension growth that a member of a pension scheme can build up over the course of a tax year (but see section on tapered annual allowance).

The Annual Allowance for the tax year 2022/23 was £40,000 but for 2023/24 it will increase to £60,000.

This means that members of the LGPS whose pension growth exceeded £40,000 in the period from 6 April 2022 to 5 April 2023 will be contacted by their LGPS administrators sometime before October 2023 to inform them of this fact. If an individual exceeds the AA in any given year, they can make use of any unused annual allowance in any of the three previous years to offset the excess growth in the current year. Where a member exceeds the AA and does not have sufficient unused allowance in previous years to completely remove the excess, then the pension growth over £40,000 will be taxed as income at the member's marginal rate.

The same process will apply for the 2023/24 tax year except that pension growth will be measured against £60,000 instead of £40,000, meaning many fewer members are expected to be affected. The increase in the AA will mean that individuals who were previously close to the annual allowance will have scope to make additional pension saving through Additional Voluntary Contributions or other methods.

The tapered annual allowance

Although £40,000 is the standard AA some individuals on higher salaries may have their pension growth measured against a lower value called the tapered Annual Allowance. The tapered AA reduces the standard AA on a sliding scale depending on how much a person's salary exceeds certain thresholds.

From 6 April 2023 the tapered AA will apply to those with a threshold income of £260,000 or more (previously £240,000).

The definition of threshold income is, in simple terms, gross income less pension contributions. That would mean an LGPS member would have to be on a salary of over £297,000 to be affected.



Appendix 1: Lifetime Allowance examples

Member details

Pension = £60,000

Lump Sum = £110,000

LTA = £1,073,100

Maximum tax-free lump sum that the member could take is £268,275 (25% of £1,073,100)

No LTA protections in place

Pre-6 April 2023 scenario

Value of benefits at retirement = $20 * £60,000 + £110,000 = £1,310,000$

Benefits exceed the LTA by £236,900 ($£1,310,000 - £1,073,100$)

The member's lump sum is less than the tax-free maximum, meaning that the excess over the LTA is all pension and taxed at 25%

Tax charge falling on the member = £59,225 (25% of £236,900)

Post 5 April 2023 scenario

If the member retired on or after 6 April 2023 they could draw identical benefits without incurring a LTA tax charge.

Maximum Lump Sum

The maximum tax-free lump sum that a member can draw has not changed as a result of the budget.

Assume the member in the previous example wished to draw the maximum tax-free lump sum.

Maximum tax-free lump sum¹ = £268,275 (25% of £1,073,100)

The member may give up £1 of pension in exchange for £12 of additional lump sum. To achieve the maximum tax free lump sum this member must give up £13,189 of pension.

Pension after conversion = £46,810 ($£60,000 - £13,189$)

Standard lump sum = £110,000

Lump sum from conversion = $12 * £13,189 = £158,268$

Total lump sum = $£110,000 + £158,268 = £268,268^2$

1 Assumes that the member has the full LTA available. Note that members whose benefits are below the level of the LTA have a different, lower maximum tax free lump sum available to them

2 Example uses rounding down, so is slightly below 25% of the LTA

Appendix 2: Annual Allowance examples

Below we show examples¹ of the impact on the annual allowance changes for LGPS members on a range of salaries for the tax years 22/23, 23/24 and 24/25.

All examples assume a member with 10 years and 183 days of pre-1 April 2008 service and 6 years of service between 1 April 2008 and 31 March 2014.

Member on a salary of £90,000 for the year 2022/23

Details	Values at 6 April 2022	Values at 5 April 2023
Pay	£81,500	£90,000
Total Pension	£33,010.18	£36,813.25
Automatic Lump Sum	£32,094.81	£35,442.12
Final value of benefits (16*Pension + lump sum)	£560,257.69 + 3.1% ² = £577,625.68	£624,454.12
Increase in value over tax year (closing value less opening value)		£46,828
Standard annual allowance		£40,000
Amount in excess of annual allowance, taxed as income		£6,828
Details	Values at 5 April 2023	Values at 5 April 2024
Pay	£90,000	£92,000
Total Pension	£36,813.25	£40,767.21
Automatic Lump Sum	£35,442.12	£36,229.73
Final value of benefits (16*Pension + lump sum)	£624,454.12 + 10.1% ³ = £687,523.99	£688,505.09
Increase in value over tax year (closing value less opening value)		£981
Standard annual allowance		£60,000
Amount in excess of annual allowance, taxed as income		£0
Details	Values at 5 April 2024	Values at 5 April 2025
Pay	£92,000	£94,000
Total Pension	£40,767.21	£44,608.50
Automatic Lump Sum	£36,229.73	£37,017.33
Final value of benefits (16*Pension + lump sum)	£688,505.09 + 7.5% ⁴ = £740,142.97	£750,753.33
Increase in value over tax year (closing value less opening value)		£10,610
Standard annual allowance		£60,000
Amount in excess of annual allowance, taxed as income		£0

1 Examples are based on the new annual allowance limits and with salary increase assumptions added. It is for each individual to assess their tax position and include any relevant additional financial information to their assessment.

2 Inflationary uplift based on previous September CPI

3 Inflationary uplift based on previous September CPI

4 Assumed CPI increase

Member on a salary of £110,000 for the year 2022/23

Details	Values at 6 April 2022	Values at 5 April 2023
Pay	£108,000	£110,000
Total Pension	£42,891.78	£45,602.01
Automatic Lump Sum	£42,530.55	£43,318.15
Final value of benefits (16*Pension + lump sum)	£728,799.43 + 3.1% ¹ = £751,391.80	£772,950.31
Increase in value over tax year (closing value less opening value)		£21,558
Standard annual allowance		£40,000
Amount in excess of annual allowance, taxed as income		£0
Details	Values at 5 April 2023	Values at 5 April 2024
Pay	£110,000	£120,000
Total Pension	£45,602.01	£52,399.49
Automatic Lump Sum	£43,318.15	£47,256.16
Final value of benefits (16*Pension + lump sum)	£772,950.31 + 10.1% ² = £851,018.29	£885,648.00
Increase in value over tax year (closing value less opening value)		£34,629
Standard annual allowance		£60,000
Amount in excess of annual allowance, taxed as income		£0
Details	Values at 5 April 2024	Values at 5 April 2025
Pay	£120,000	£130,000
Total Pension	£52,399.49	£59,211.62
Automatic Lump Sum	£47,256.16	£51,194.18
Final value of benefits (16*Pension + lump sum)	£885,648.00 + 7.5% ³ = £952,071.60	£998,580.10
Increase in value over tax year (closing value less opening value)		£46,508
Standard annual allowance		£60,000
Amount in excess of annual allowance, taxed as income		£0

1 Inflationary uplift based on previous September CPI

2 Inflationary uplift based on previous September CPI

3 Assumed inflationary uplift

Member on a salary of £150,000 for the year 2022/23

Details	Values at 6 April 2022	Values at 5 April 2023
Pay	£148,000	£150,000
Total Pension	£59,247.74	£62,772.90
Automatic Lump Sum	£58,282.59	£59,070.21
Final value of benefits (16*Pension + lump sum)	£1,006,246.43 + 3.1% ¹ = £1,037,440.07	£1,063,436.61
Increase in value over tax year (closing value less opening value)		£25,996
Standard annual allowance		£40,000
Amount in excess of annual allowance, taxed as income		£0
Details	Values at 5 April 2023	Values at 5 April 2024
Pay	£150,000	£155,000
Total Pension	£62,772.90	£69,925.05
Automatic Lump Sum	£59,070.21	£61,039.21
Final value of benefits (16*Pension + lump sum)	£1,063,436.61 + 10.1% ² = 1,170,843.71	£1,179,840.00
Increase in value over tax year (closing value less opening value)		£8,996
Standard annual allowance		£60,000
Amount in excess of annual allowance, taxed as income		£0
Details	Values at 5 April 2024	Values at 5 April 2025
Pay	£155,000	£157,000
Total Pension	£69,925.05	£76,144.83
Automatic Lump Sum	£61,039.21	£61,826.82
Final value of benefits (16*Pension + lump sum)	£1,179,840.00 + 7.5% ³ = £1,268,328.00	£1,280,144.10
Increase in value over tax year (closing value less opening value)		£11,816
Standard annual allowance		£60,000
Amount in excess of annual allowance, taxed as income		£0

Reliances and limitations

This information contained in this guide is a high-level summary of the current annual and lifetime allowances position. It is not intended to be comprehensive and does not cover every individual situation. As such it should not be relied upon when making financial decisions. Nothing contained here should be construed as financial advice.

1 Inflationary uplift based on previous September CPI
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 3 Assumed inflationary uplift



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