

## Annual and Lifetime Allowances

**Although pensions plans provide a tax-efficient way to save for your retirement, HMRC limits how much can be saved free of tax. It does this through the Annual Allowance and the Lifetime Allowance.**

The rules for these two allowances are complicated and there are other things to consider that are not mentioned below. The Trustee and its advisors cannot provide financial advice to members and we strongly advise that you seek independent financial advice, particularly if you think you may breach these allowances.

### Annual Allowance

This is the limit on the value that can be added to your pension funds each year before you start paying tax, across all of the pension schemes you belong to. For anyone earning below £240,000 a year, this limit is currently £40,000. Above £240,000, the limit decreases by £1 for every additional £2 earned, down to a minimum of £4,000. For your DC pension pot, the Annual Allowance used is simply the value of contributions that you and Affinity Water make in that year. These can be seen on your Annual Benefits Statement.

For DB pensions, the calculation is more complicated. The Annual Allowance used up relates to the increase in the value of your DB pension over the year, which is approximately 16 times the pension increase shown on your Annual Benefits Statement. For example, if at the start of a year you had built up a pension of £13,000 a year and the next year this has risen to £14,000 a year, your pension has increased by £1,000. Multiplying this by 16 means that your Annual Allowance for that year was £16,000.

You can roll over unused allowances for a maximum of three years. This may be significant if, for example, a promotion or job change pushes you above the £150,000 earnings threshold.

### Lifetime Allowance

As well as the Annual Allowance, there is a limit on the total value of your pension pots that can be accumulated on a tax-free basis. The rules are complex but in simple terms, the lifetime value of a DC pension is the value of all the DC pension pots that you have. The lifetime value of a DB pension is calculated as 20 times the annual pension that you receive, plus any tax-free cash that may come with that pension. In October 2020, the Lifetime Allowance was £1,073,100 – this figure is planned to be frozen until 2026.

The lifetime value of a pension is calculated by the pension provider on taking the benefit and is expressed as a percentage of your Lifetime Allowance. For example, if you used £100,000 of a £500,000 pot to buy an annuity this year, you would get a certificate showing that you had used about 10% of your Lifetime Allowance. If you then moved the rest of your pot to an income drawdown the following year, you would get a certificate showing that you'd used 40%. Once you get to age 75, your Lifetime Allowance will be calculated as above on all funds remaining.

### Money Purchase Annual Allowance (MPAA)

If you start accessing your funds after 55, there is a tax-free limit of £4,000 that you can reinvest in a DC scheme. You should consider getting financial advice if you're thinking of doing this.

### What if I exceed these allowances?

If you exceed your Annual Allowance, this will trigger a tax payment – you will have to notify HMRC about this on your self-assessment tax return and arrange the payment. If you exceed the Lifetime Allowance, there will be a Lifetime Allowance charge and possibly an income tax charge too.

### Where can I find more information?

All information about the Plan and your Personal Account can be found at

📧 [www.affinitywaterpensions.co.uk](http://www.affinitywaterpensions.co.uk)