

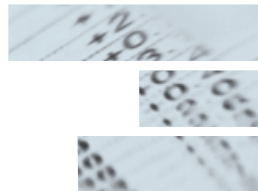
# The Benefits

## Lifetime Allowance (Uncrystallised funds)

Non-Protected Rights Plan

### Features

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The Lifetime Allowance was introduced on 6th April 2006 to limit the amount of tax-exempt funds that can be accrued by an individual across all registered pension schemes in their lifetime. Certain events trigger a test against the Lifetime Allowance (known as Benefit Crystallisation Events – BCEs), at this point benefits being crystallised are tested to see if, together with any previously crystallised benefits, they exceed the current Lifetime Allowance.

This fact sheet deals with how we value uncrystallised funds (i.e. those where benefits have yet to be taken) and how we calculate the amount of the lifetime allowance used.

## Lifetime Allowance (Uncrystallised funds)

### Lifetime Allowance

The lifetime allowance has been set until 2010/11, details below:

Year	Total
2006/7	£1.5m
2007/8	£1.6m
2008/9	£1.65m
2009/10	£1.75m
2010/11	£1.8m

### How and when do you check whether a client is over the lifetime allowance?

Checks are made at BCEs; there are a number of these BCEs, however, the one of primary concern in this fact sheet is when unsecured pension (USP) is to start from an uncrystallised arrangement. At this point the fund is valued for the purpose of checking against the Lifetime Allowance.

### Valuing the funds to be crystallised at the BCE

These are valued in the normal way, i.e. looking at their current market value.

The value of the funds being moved into USP, together with any pension commencement lump sum, is then expressed as a percentage of the lifetime allowance.

See the following example:

#### Example 1

	Calculation	Total
Uncrystallised SIPP value	-	£1,000,000
Fund value to be crystallised (including PCLS)	-	£875,000
Lifetime Allowance available	-	100%
Standard Lifetime Allowance for 2009/10		£1,750,000
Calculation	$\frac{£875,000}{£1,750,000} \times 100$	50%
Lifetime Allowance used	100% - 50%	50%

In this example we have assumed that the member had not taken pension benefits prior to or since 'A' day and is starting with a Lifetime Allowance of 100%. To follow on from this scenario when the member comes to take further benefits after the above calculation (assume they have no other pensions elsewhere) the current lifetime allowance will be reduced by the percentage that the member has used up to give a figure that is used to test the fund value against. See the following example:

#### Example 2

	Calculation	Total
Fund value to be crystallised	-	£200,000
Lifetime Allowance used so far	-	50%
Remaining LTA (In this example we will assume it is a year later and therefore the lifetime allowance has been increased)	100% - 50%	50%
Standard Lifetime Allowance for 2010/11		£1,800,000
New Calculation	$\frac{£200,000}{£1,800,000} \times 100$	11.11%
Remaining LTA (after new BCE)	50% - 11.11%	38.89%

As the client has still only used 61.11% of their LTA and therefore has 38.89% remaining, there will not be a tax charge applied. Should the member crystallise again then the process would continue until all the lifetime allowance has been used up.

It is also worth considering that should a member crystallise pensions held elsewhere, in between benefit crystallisation events with James Hay, this also needs to be factored in. This is achieved by the member declaring the percentage of lifetime allowance used by other pensions on the Benefit Payment form they submit to us for each crystallisation event. In turn, this is why we always inform the member ourselves of the amount of Lifetime Allowance used by each crystallisation event.

### What happens if the client is over the Lifetime Allowance?

Any amount crystallised that is found to be in excess of the lifetime allowance can be taken as an additional lump sum, however this is taxed at 55%. The member could instead choose to take the excess as pension income.

By choosing this option the excess is taxed at 25%. For example, where benefits start in the tax year 2009/10.

#### Example 3

	Calculation	Total
Total value of crystallised benefits	-	£1,900,000
Standard Lifetime Allowance 2009/10	-	£1,750,000
Fund in excess of LTA	£1,900,000 – £1,750,000	£150,000
Total tax charge if excess taken as a lump sum (55% tax):	£150,000 x 0.55	£82,500
Remainder to be paid to the client (45%)	£150,000 - £82,500	£67,500
Total tax charge if excess is to be taken as pension (25% tax)	£150,000 x 0.25	£37,500
Balance (Added to remaining crystallised fund value for pension calculation purposes)	£150,000 - £37,500	£112,500

The 25% option may at first glance appear to be the cheaper option, however, as any pension paid to the member will be taxed (most likely) at 40% the overall aggregate tax charge is 55% on the total fund.

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