Summary of HM Revenue & Customs (HMRC) Regulations

Prior to Tax Simplification, members of occupational pension schemes could receive a pension of up to 1/60th of their Final Remuneration for each year of service with their employer (subject to a maximum of 40 years) without calling into question Inland Revenue limits.

Members could additionally commute some of their pension and receive a tax-free cash sum of up to 3/80ths of their Final Remuneration for each year of service with the employer (subject to a maximum of 40 years) without calling into question Inland Revenue limits.

It was possible for higher benefits to be paid and these are summarised in the table below in the "Old Regime" column. The "Post A-Day" column of the table summarises where changes have occurred as a result of Tax Simplification and considers the maximum benefits above which tax charges potentially arise under HMRC regulations from 6 April 2006.

The 2014 Budget introduced further significant changes – particularly for those with money purchase savings – enabling greater 'freedom of choice'. Most of these changes were effective from 6 April 2015.

	Old Regime	Post A-Day
Members covered	**1970 regime** Scheme set up before 17 March 1987 and members joined before 17 March 1987. **1987 regime** Scheme set up before 14 March 1989 and members joined between 17 March 1987 and 31 May 1989. **1989 regime** Scheme set up after 13 March 1989 (or before 14 March 1989 and members joined after 31 May 1989).	All members who were not in receipt of their benefits on 6 April 2006 (although some members may be registered for one or more 'protections' (e.g. primary (2006), enhanced (2006), fixed 2012, fixed 2014, individual 2014, fixed 2016 or individual 2016).

Final remuneration Maximum earnings for pension & tax-free cash sum calculations	**1970 regime** No limit. **1987 regime** No limit for pension calculation but limit of £100,000 for tax-free cash sum calculation. **1989 regime** All benefits subject to earnings cap.	No limit.
Contributions Maximum employee contribution (including AVCs)	**1970 regime** 15% x final remuneration. **1987 regime** 15% x final remuneration. **1989 regime** 15% x final remuneration, subject to earnings cap.	Tax relief is available on all contributions up to £3,600 per annum (or 100% of taxable earnings, if higher) subject to the Annual Allowance, which is £60,000 for the 2025/26 tax year. Contributions above the Annual Allowance are taxed at the member's marginal rate (although if the tax charge exceeds £2,000, members can ask the scheme to pay and have their benefits reduced). The Annual Allowance does not apply in the final year of membership in the event of death or serious (terminal) ill-health.

		For defined benefit schemes, the Annual Allowance is effectively £16 for every one pound of increase in pension. For defined contribution schemes, the Annual Allowance is effectively the actual member / employer contributions paid (including AVCs).
Normal retirement		
Normal retirement age	**1970 regime** Men: 60-70 Women: 55-70 **1987 regime** Men: 60-70 Women: 55-70 **1989 regime** Male:60-70 (pre’91) Fem:55-70 (pre’91) Male:60-75 (pst’91) Fem:60-75 (pst’91)	Normal pension age is typically set between 60-75, but it can be lower.
Maximum pension at NRA	**1970 regime** 2/3 x final remuneration after 10 years' service [‘P']. **1987 regime** 2/3 x final remuneration after 20 years' service [‘P']. **1989 regime** 2/3 x final remuneration after 20 years' service [‘P'].	Prior to 6 April 2024, benefits were tested against the Lifetime Allowance. This was abolished from 6 April 2024. Benefits are now tested against a Lump Sum & Death Benefit Allowance (£1,073,100 from 6 April 2024) and a Lump Sum Allowance (£268,275 from 6 April 2024).

		Prior to 6 April 2023, the capital value of any benefits over and above the Lifetime Allowance were subject to a Lifetime Allowance tax charge. Where the excess capital value was taken as pension income, there was a 25% tax charge on the excess amount; and where the excess capital value was taken as cash, there was a 55% tax charge on the excess amount. The Lifetime Allowance tax charge of 25% was abolished from 6 April 2023. This means that where any excess capital value is taken as cash, it is now taxed as pension income via PAYE. A higher Lifetime Allowance (which has been replaced by the Lump Sum & Death Benefit Allowance and Lump Sum Allowance from 6 April 2024) was available to those members who had registered for one of the forms of 'protection' since 6 April 2006.

Maximum tax-free cash sum at NRA	**1970 regime** 1½ x final remuneration after 20 years' service, but accelerated accrual available for less than 20 years' service [‘LS']. **1987 regime** 1½ x final remuneration after 20 years' service, but accelerated accrual available for less than 20 years' service provided pension also enhanced [‘LS']. **1989 regime** 2¼ x initial annual pension or, if greater, 3N/80 x final remuneration (subject to maximum of N=40 years' service) [‘LS'].	25% of the capital value of benefits coming into payment (subject to a maximum of 25% of a member's remaining Lump Sum Allowance). The maximum tax-free cash sum has been capped at £268,275 across all arrangements from 6 April 2023. This equates to 25% of the standard Lifetime Allowance that was in force on 6 April 2023. A higher tax-free cash sum may be available to those members who have registered for one or more ‘protections’ since 6 April 2006.
Early retirement/withdrawal from membership		
Maximum pension	**1970 regime** N/NS x P **1987 regime** N/NS x P **1989 regime** N/30 x final remuneration (subject to maximum of N=20 years' service).	Same concept as ‘maximum' at normal pension age. From 6 April 2010, the earliest members can retire is age 55 (other than those with a ‘protected’ retirement age or those retiring due to serious ill-health). Where members have a contractual right to retain an earlier Minimum Pension Age than 55 years, the Lump Sum & Death Benefit Allowance is reduced by 2.5% for

		each complete year below Minimum Pension Age. The earliest Minimum Pension Age is set to rise to age 57 for those retiring from 6 April 2028. (Again, this rise in Minimum Pension Age will not apply for those with a protected' retirement age or those who retire due to serious ill-health).
Maximum tax-free cash sum	**1970 regime** N/NS x LS **1987 regime** 3N/80 x final remuneration, but accelerated formula available provided pension also enhanced. **1989 regime** 2½ x initial annual pension or, if greater, 3N/80 x final remuneration (subject to maximum of N=40 years' service).	Same concept as 'maximum' at normal 'pension' age.
Late retirement		
Maximum pension	**1970 & 1987 regime** N/60 x final remuneration (subject to maximum of N=45 years' service), or 40/60 x final remuneration after 10 years' service (20 years' service for 1987 regime members) based on service and final remuneration at NRA, and with late retirement increase.	Same concept as 'maximum' at normal pension age.

	1989 regime N/30 x final remuneration (subject to maximum of N=20 years' service) based on service and final remuneration at actual retirement date (maximum retirement age 75).	
Maximum tax-free cash sum	**1970 regime** 3N/80 x final remuneration (subject to max of N=45 years' service), or accelerated accrual based on service and final remuneration at NRA (to a maximum of 120/80) and with late retirement increase, or accelerated accrual based on service and final remuneration at actual retirement date (to a maximum of 120/80). **1987 regime** 3N/80 x final remuneration (subject to maximum of N=45 years' service), or accelerated accrual provided pension also enhanced. **1989 regime** 2¼ x initial annual pension or, if greater, 3N/80 x final remuneration (subject to maximum of N=45 years' service).	Same concept as ‘maximum' at normal pension age.

Death in service		
Maximum lump sum death benefit	**1970, 1987 and 1989 regimes** 4 x final remuneration at death (or, if greater, £5,000), plus refund of member's contributions with interest.	Prior to 6 April 2023, the excess capital value of any lump sum death benefits over the Lifetime Allowance was subject to a tax charge of 55%, which was payable by the recipient(s) of the lump sum death benefits. As the Lifetime Allowance tax charge of 25% was abolished from 6 April 2023 (and the Lifetime Allowance was abolished from 6 April 2024), each recipient's proportion of any excess over the deceased member's Lump Sum & Death Benefit Allowance is now taxed as pension income via PAYE.
Maximum spouse's / civil partner's pension	**1970, 1987 and 1989 regimes** 2/3 x member's maximum prospective pension at NRA.	The spouse`s / civil partner`s pension is not tested against any limits, but it is taxed in the hands of the recipient as pension income via PAYE.
Death after retirement		
Maximum lump sum death benefit	**1970, 1987 and 1989 regimes** Total of remaining pension instalments for balance of 5-year period from retirement date.	Lump sum death benefits are generally paid tax-free if the member is under age 75 at the date of death.

		Lump sum death benefits are generally taxed in the hands of the recipient(s) as pension income via PAYE if the member has reached age 75 at the date of death.
Maximum spouse's / civil partner's pension	**1970, 1987 and 1989 regimes** 2/3 x member's maximum approvable pension at NRA, increased in line with RPI.	The spouse's / civil partner's pension is not tested against any limits, but it is taxed in the hands of the recipient as pension income via PAYE.
Money Purchase Pension		
Increases in deferment (Non Protected Rights and Protected Rights)	Benefits increase / decrease in accordance with investment yields and bonuses resulting from contributions paid.	No change.
Increases in payment (Non Protected Rights)	No indexation requirements exist for Money Purchase benefits accrued before 6 April 1997. Pensions accrued after 5 April 1997 must be increased in line with RPI to a maximum of 5% per annum.	Pensions in payment before 6 April 2005 must still be increased in line with previous requirements. There are no indexation requirements for Money Purchase benefits coming into payment from 6 April 2005.
Increases in payment (Protected Rights)	Protected Rights accrued before 6 April 1997 must be increased in line with the rise in the RPI to a maximum of 3% per annum.	Pensions in payment before 6 April 2005 must still be increased in line with previous requirements.

	Protected Rights accrued after 5 April 1997 but before 6 April 2005 must be increased in line with the rise in the RPI to a maximum of 5% per annum.	There are no indexation requirements for Money Purchase benefits coming into payment from 6 April 2005 Protected rights no longer exist for members retiring from 6 April 2012.
Defined Benefit Pension		
Increases in deferment (Non GMP)	For leavers before 1 January 1986, any pension over and above the GMP does not need to be increased. For leavers between 1 January 1986 and 31 December 1990, any pension over and above the GMP accrued on/after 1 January 1985 must be increased in line with RPI to a maximum of 5% per annum. For leavers on/after 1 January 1991, any pension over and above the GMP must be increased in line with RPI to a maximum of 5% per annum.	From 6 April 2009, defined benefit schemes have been able to amend their scheme rules to permit increases in deferment to be limited to the increase in the RPI to a maximum of 2.5% per annum (from 5% per annum). This applies only to the element of pension accrued from 6 April 2009. The element of pension accrued before 6 April 2009 must still increase in accordance with previous rules. The Pensions Act 2011 implemented the Government`s policy to use CPI for revaluation in deferment. The Pensions Act 2011 confirmed that no CPI underpin is required where schemes continue to increase by reference to RPI.

Increases in deferment (GMP)	Depending on the scheme rules, GMPs must be increased in deferment by Limited Rate Revaluation, Fixed Rate Revaluation or Section148 Orders. From 'GMP due date', schemes are required to increase GMP accrued between 6 April 1988 and 5 April 1997 by RPI to a maximum of 3% per annum. GMP ceased to accrue after 5 April 1997.	There are no changes other than where schemes are required to increase post-1988 GMPs from 'GMP due date' by CPI (rather than RPI) up to a maximum of 3% per annum.
Increases in payment (Non GMP)	Any pension accrued between 6 April 1997 and 5 April 2005 must be increased in line with RPI to a maximum of 5% per annum. Any pension accrued from 6 April 2005 must be increased in line with RPI to a maximum of 2.5% per annum.	There are no changes other than where the Pensions Act 2011 implemented the Government`s policy to use CPI as the index for determining increases in payment. The Pensions Act 2011 confirmed that no CPI underpin is required where schemes continue to increase by reference to RPI.
Increases in payment (GMP)	For GMPs accrued before 6 April 1988, no requirements exist for schemes to increase this element of pension. For GMPs accrued between 6 April 1988 and 5 April 1997, schemes are required to increase this element of pension by RPI to maximum of 3%. GMPs ceased to accrue after 5 April1997.	No change other than where schemes are required to increase post-1988 GMPs from 'GMP due date' by CPI (rather than RPI) up to a maximum of 3% per annum.

Appendix 1

Annual Allowance (including Tapered Annual Allowance)

All schemes have a Pension Input Period (PIP), with the Annual Allowance for that PIP being dependent on the tax year in which the PIP ends. The Annual Allowance limit is set at the start of each tax year. It is the maximum amount of contributions that can be paid in a PIP for an individual and qualify for tax relief. It is possible to carry forward any unused Annual Allowance from the previous three PIPs.

In the July 2015 Budget, the Chancellor announced that all Pension Input Periods (PIPs) must end on 5 April, which meant that PIPs had to be aligned for all schemes and their members from the 2016/17 tax year onwards.

At the same time, the Chancellor announced that the 2015/16 tax year would be split into two mini tax years; for the period up to 8 July 2015 and for the period from 9 July 2015 to 5 April 2016.

The Chancellor also announced that a 'tapered' Annual Allowance would apply to high earners from 2016/17 (i.e. if 'threshold' income exceeded £110,000 and 'adjusted' income exceeded £150,000). This essentially meant that the Annual Allowance for these members would reduce so that it reached a maximum of £10,000 for those earning £210,000 or above.

These thresholds and limits were changed for high earners for the 2020/21 tax year onwards. The 'threshold' income limit was set at £200,000 and the 'adjusted' income limit was set at £240,000. The Annual Allowance for these members was reduced so that it reached a maximum of £4,000 for those earning £312,000 or above, as follows:

Adjusted Income	Tapered Annual Allowance
£240,000	£40,000
£250,000	£35,000
£260,000	£30,000
£270,000	£25,000
£280,000	£20,000
£290,000	£15,000
£300,000	£10,000
£310,000	£5,000
£312,000 (and higher)	£4,000

These thresholds and limits were further changed for high earners from the 2023/24 tax year onwards. The ‘threshold’ income limit has remained at £200,000 but the ‘adjusted’ income limit has been increased to £260,000. The Annual Allowance for these members has been reduced so that it reaches a maximum of £10,000 for those earning £360,000 or above, as follows:

Adjusted Income	**Tapered Annual Allowance**
£260,000	£60,000
£270,000	£55,000
£280,000	£50,000
£290,000	£45,000
£300,000	£40,000
£310,000	£35,000
£320,000	£30,000
£330,000	£25,000
£340,000	£20,000
£350,000	£15,000
£360,000 (and higher)	£10,000

The historical limits (and current limit) for the Annual Allowance are as follows:

Tax year	**Annual Allowance**
2006/07	£215,000
2007/08	£225,000
2008/09	£235,000
2009/10	£245,000
2010/11	£255,000
2011/12	£50,000
2012/13	£50,000
2013/14	£50,000
2014/15	£40,000
2015/16	£40,000
2016/17	£40,000
2017/18	£40,000
2018/19	£40,000
2019/20	£40,000
2020/21	£40,000
2021/22	£40,000
2022/23	£40,000
2023/24	£60,000
2024/25	£60,000
2025/26	£60,000

For an active member of a money purchase scheme, the Pension Input Amount (PIA) – the value of benefits accruing in the PIP – is essentially the contributions paid by the member / employer (including AVCs). For an active member of a defined benefit pension arrangement, the PIA is essentially determined by reference to the increase in the value of that member's pension and lump sum benefits during the PIP:

- Accruing pension benefits need to be valued on a 16:1 basis (with the PIA at the end of the previous PIP being increased by CPI)
- Actual AVCs paid during the PIP need to be taken into account
- Accruing lump sum benefits need to be taken at face value

Example

Abigail is a member of her employer's defined benefit pension scheme. In 2025/26, she is promoted and her pensionable salary increases from £70,000 to £75,000. She has been a member of her employer's pension scheme for 20 years and the scheme provides benefits on a 60ths basis. There is no separate lump sum. The increase in the CPI over the previous year is 4.6%. Abigail has no Annual Allowance to carry forward from the previous 3 years.

<u>Calculation of amount of Annual Allowance used:</u>

- Accrued pension at end of previous year [20/60 x £70,000.00 x 4.6%] = £24,406.67 per annum
- Accrued pension at end of current year [21/60 x £75,000.00] = £26,250.00 per annum
- Growth in capital value [£26,250.00 - £24,406.67] x 16 = <u>£29,493.28</u>

Abigail's PIA of £29,493.28 has not exceeded her Annual Allowance of £60,000.00. In addition, Abigail can carry forward £30,506.72 to the next PIP [i.e. £60,000.00 - £29,493.28 = £30,506.72]

Appendix 2

Lifetime Allowance

The Lifetime Allowance was historically set at the start of each tax year. It was the overall limit on the value of an individual's pension benefits prior to attracting a tax charge. The Lifetime Allowance tax charge for exceeding the Lifetime Allowance was abolished from 6 April 2023 and the Lifetime Allowance was abolished from 6 April 2024. The historical limits for the Lifetime Allowance were as follows:

Tax year	**Lifetime Allowance**
2006/07	£1,500,000
2007/08	£1,600,000
2008/09	£1,650,000
2009/10	£1,750,000
2010/11	£1,800,000
2011/12	£1,800,000
2012/13	£1,500,000
2013/14	£1,500,000
2014/15	£1,250,000
2015/16	£1,250,000
2016/17	£1,000,000
2017/18	£1,000,000
2018/19	£1,030,000
2019/20	£1,055,000
2020/21	£1,073,100
2021/22	£1,073,100
2022/23	£1,073,100
2023/24	£1,073,100

For a money purchase scheme, the Lifetime Allowance was essentially the value of the member's fund. For a defined benefit pension arrangement, the Lifetime Allowance was essentially determined by:

1. Applying a factor of 20:1 for pension benefits (including AVC pension)
2. Adding on the current value of AVCs (if not taken as pension)
3. Taking lump sum benefits at face value

Example (historical)

Bert was a member of his employer's defined benefit pension scheme. He retired in 2023/24 with a final pensionable salary of £100,000.00 and had accrued 35 years' pensionable service in his employer's scheme. The scheme provided benefits on a 60ths basis and there was no separate lump sum. Bert had no other pension provision.

Scheme pension: 35/60 x £100,000.00 = £58,333.33 per annum

Capital value of scheme benefits: 35/60 x £100,000.00 x 20 = £1,166,667.00

Bert exceeded his Lifetime Allowance of £1,073,100.00 by £93,567.00 (£1,166,667.00 - £1,073,100.00 = £93,567.00).

Prior to 6 April 2023, Bert would have had 2 options:

1. Pay a 25% tax charge of £23,391.75 on the capital value of the excess (£93,567.00 x 25% = £23,391.75) and receive a pension of £58,333.33 per annum, which would have been taxed as pension income via PAYE

   OR

2. Receive a pension of £53,655.00 per annum (£1,073,100.00 / 20 = £53,655.00), which would have been taxed as pension income via PAYE

   AND

   Pay a 55% tax charge of £51,461.85 on the capital value of the excess (£93,567.00 x 55% = £51,461.85) and receive a lump sum of £42,105.15 (£93,567.00 - £51,461.85 = £42,105.15)

Appendix 3

Lump Sum & Death Benefits Allowance and Lump Sum Allowance

Since 6 April 2024, the Lifetime Allowance has effectively been replaced by two new allowances.

The ***Lump Sum & Death Benefit Allowance*** ('LS&DBA') means the amount (generally) against which the cumulative value of an individual's tax-free cash sums and the tax-free parts of any other lump sums paid out during the individual's lifetime or on death will be tested before potential tax charges apply. The 'LS&DBA' has been £1,073,100 since 6 April 2024. This was the value of the Lifetime Allowance up to 5 April 2024.

The ***Lump Sum Allowance*** ('LSA') means the amount (generally) against which the cumulative value of all an individual's tax-free cash sums and the tax-free parts of any other lump sums paid out during the individual's lifetime will be tested before potential tax charges apply. The 'LSA' has been £268,275 since 6 April 2024.

The limits for the 'LS&DBA' and 'LSA' are as follows:

Tax year	Lump sum & death benefits allowance	Lump sum allowance
2024/25	£1,073,100	£268,275
2025/26	£1,073,100	£268,275

Example

Emerald is a member of her employer's defined benefit pension scheme. She retires in 2025/26 with a final pensionable salary of £100,000.00 and had accrued 35 years' pensionable service in her employer's scheme. The scheme provides benefits on a 60ths basis and there is no separate lump sum. Emerald has no other pension provision.

<u>Option-1</u>

Scheme pension: 35/60 x £100,000.00 = <u>£58,333.33</u> per annum

OR

<u>Option-2</u> (*assuming a commutation factor of 19.88*)

Cash sum = £58,333.33 x 20 / (3 + (20 / 19.88)) = <u>£291,227.17</u>

Residual pension = £58,333.33 – (£291,227.17 / 19.88) = <u>£43,684.08</u> per annum

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For Option-1, Emerald has NOT exceeded her ‘LS&DBA’ of £1,073,100.00 and she has NOT exceeded her ‘LSA’ of £268,275.00 (*both allowances remain the same*).

For Option-2, Emerald has NOT exceeded her ‘LS&DBA’ but she has exceeded her ‘LSA’.

Emerald’s ‘LS&DBA’ will be reduced to <u>£804,825.00</u> (£1,073,100.00 - £268,275.00 = £804,825.00).

Emerald’s ‘LSA’ will be reduced to <u>£0.00</u> (£268,275.00 - £268,275.00 = £0.00).

In addition, Emerald will receive a Pension Commencement Excess Lump Sum (‘PCELS’) of <u>£22,952.17</u> (£291,227.17 - £268,275.00 = £22,952.17) which will be taxed as income at her marginal rate.
