LTA abolition: how to help your members deal with uncertainty

Abolition of the lifetime allowance (LTA) won't be reversed, but pension schemes still face uncertainties until the reform is implemented properly.

When the government announced the abolition of the LTA in 2023, Shadow Chancellor Rachel Reeves said a Labour government would reintroduce it. However, Labour's manifesto, published on 14 June, didn't mention the LTA and the party briefed that Reeves had changed her mind.

We welcomed this decision in our article about the election manifestos.

Even before the election was called, the pensions industry was waiting for regulation we needed to make abolition work for members. The dissolution of Parliament has caused further delays.

Our advice to trustees is: make sure you understand the issues and stay close to your members to help them navigate potential problems. Consider contacting members whose position is unclear so you can act when the rules appear.

This article highlights some of the issues your members may be facing.

Abolition created complexity

To recap, the LTA capped the tax-free benefits a pension saver could accrue at £1,073,100. On 6 April, the government replaced the LTA with the lump sum allowance, lump sum and death benefit allowance, and overseas transfer allowance.

Abolition was billed as a simplification of pension taxation, but unsurprisingly the three new allowances created extra complexity. HMRC has also tied itself in knots over issuing amending regulations, causing challenges for pensions delivery.

One tricky interim scenario is where retirement packs were sent out before abolition, but those packs are returned and benefits are paid out under the new regime. This is particularly important for making sure we pay the right tax-free cash. At Aptia, we are working hard to get the balance right between settling benefits quickly and making sure we have the correct information.

Delayed retirement could affect lump sums

For members with HMRC protections, HMRC has said that schemes may want to suggest delaying retirement until the regulations arrive. This can affect members who have made financial plans based on receiving payments at or shortly after retirement and could affect the lump sums they expected to receive.

This doesn't just affect high earners with benefits that exceed tax relievable allowances. It impacts many members with the right to take more than 25% of the value of their benefits as a tax-free lump sum. This scheme-specific lump sum protection is a valuable right, and it is vital that the legislation works as intended in all scenarios.

Questions over tax-free sums

There are also problems for members who want to take part of their benefits as a tax-free lump sum.

If someone can show that less than 25% of the benefits they took before LTA abolition were tax-free lump sums, they can ask their pension scheme for a transitional tax-free amount certificate. This can be used to determine their lump sum allowance and lump sum and death benefit allowance.

Gaps in LTA regulation mean that members whose pensions began paying out before 6 April 2006 and who haven’t crystallised their benefits between then and LTA abolition can’t apply for one of these certificates.

But people who have pre-2006 pensions in payment and who crystallised benefits between 6 April 2006 and 6 April 2024 can apply. As things stand, members without a certificate may just have to accept a less favourable position.

And annuity providers cannot currently provide a certificate. This is a real problem given the growing number of members with bought-out benefits.

Respond quickly to help your members

For people with benefits that exceed the three new allowances, there are questions to consider when paying excess benefits as a taxable pension commencement excess lump sum (PCELS). This is despite a statutory override for paying PCELS that doesn’t appear to work as intended.

For the time being, administrators must check with trustees whether their scheme allows a PCELS. It’s important that as trustees that you respond quickly to requests from administrators to minimise delays and member complaints.

The good news is that, on the whole, applications are being dealt with and benefits paid promptly. At Aptia, we’ve adapted our systems, processes and forms to make sure the correct information is requested from and provided to members. And we've made sure that any relevant events are reported to HMRC.

In time, we expect matters to be clarified. But for now, we all need to work together to make sure members' benefits are settled correctly and on time.

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LTA abolition



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