



Ministry
of Defence

Armed Forces Pension Scheme

The Lifetime Allowance

Abolition and Pension Remedy

AFPS Members' Guide to:

Lump Sum Allowance and Lump Sum Death Benefit Allowance

The 2015 Pension Remedy and Lifetime Allowance

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ABOLITION OF THE LIFETIME ALLOWANCE

Introduction

1. The Lifetime Allowance was the total value of your pension benefits that you could build up over a lifetime without incurring a tax charge. It was introduced in TY06-07 and initially set at £1.5m. LTA was increased over the next few years, reaching £1.8M in TY10-11. On 6 Apr 12 the LTA limit was reduced from £1.8m to £1.5m and following further adjustments was frozen in TY20-21 at £1,073,100. At various stages transitional protection was made available in the form of Primary and Enhanced Protection. The LTA charge was removed with effect from 6 April 23 and subsequently abolished from 6 April 24, this does not, however, mean that there are no limits on the amount of pension savings that can be taken tax free.

2. On 6 Apr 24, new tests on pension tax free lump sums were introduced. If the total of all lump sums you take from UK pensions is more than one of these limits, you will have to pay a tax charge. Tax on any excess is charged at your marginal rate. The new allowances relevant to the AFPS are:

	Description	Limit
Lump Sum Allowance (LSA)	The total amount of tax-free lump sum an individual member can receive across all pension schemes at retirement, set at 25% of the current LTA.	£268,275*
Lump Sum and Death Benefit Allowance (LSDBA)	The overall limit on the amount of tax-free lump sum paid out during an individual's lifetime.	£1,073,100*

*If you have lifetime allowance protection in place this may allow for a higher amount. If you have taken payment of a pension prior to 6 Apr 24 this will have used up some of your allowance.

3. In the AFPS the majority of members will not be affected because the maximum lump sums they can generate from their AFPS pension are normally lower than the limits, but those who have built up large pension benefits, or who have pension benefits in other schemes may be affected. There are also transitional rules for those who have previously taken pension benefits.

4. The scheme must check your lump sum allowance when you take a pension commencement lump sum from the AFPS, this is known as a Relevant Benefit Crystallisation Event (RBCE). If you have taken a lump sum from another private or other workplace pension, you must notify the scheme of this on your Pension Form 1 or 8, when you claim your AFPS pension. The scheme will have a record of any payment you have taken from the AFPS. Under HMRC rules the scheme must assume you took the maximum lump sum allowed so it is important that you do declare other interests.

When do I need to calculate whether I have exceeded the LTA or the lump sum allowances?

5. Although the LTA was abolished from 6 April 24, any tax free lump sum you take from your pension will be measured against the new lump sum allowances. This is because the new allowances provide an upper limit to the tax-free cash that can be typically accessed from pension benefits.

6. Any event which resulted in payment of benefits (e.g., pension and /or lump sum) prior to 6 April 24 is known as a Benefit Crystallisation Event (BCE). When a BCE took place the value of the pension plus lump sum was tested against the individual's LTA. For those who had a BCE, transitional rules will apply to calculate the available LSA and LSDBA.

7. A Relevant Benefit Crystallisation Event (RBCE) occurs when you become entitled to a relevant lump sum or your beneficiary is paid a relevant lump sum death benefit from any pension scheme after the 6

April 24. When a RBCE takes place, prior to payment, the value of the relevant pension lump sum will be tested against the LSA and LSDBA availability.

What are the relevant pension lump sums?

8. A relevant lump sum for the purposes of the LSA under AFPS is a pension commencement lump sum. This is either the automatic lump sum payable under legacy schemes, or the commuted lump sum payable under AFPS 15. It does not include the Resettlement Grant, any lump sums payable under EDP arrangements (including any Tier 1 ill health awards) or lump sums payable under AFPS 75 Resettlement Commutation if taken after 6 April 2010.

9. A relevant lump sum death benefit for the purposes of the lump sum and death benefit allowance means any lump sum death benefit or serious ill health lump sum paid under the AFPS other than a trivial commutation lump sum death benefit.

10. A relevant lump sum death benefit does not include a lump sum death benefit if it is paid in respect of rights that were crystallised before the 6 April 24. The payment of a lump sum death benefit prior to the 6 April 24 therefore does not reduce an individual's available lump sum and death benefit allowance.

11. The payment of a trivial commutation lump sum and small lump sums (which only occur under very specific conditions) do not reduce a member's available lump sum allowance, or lump sum and death benefit allowance. Individuals are required, however, to have available lump sum allowance for trivial commutation lump sums, but they do not reduce the available allowance.

What happens if I used up some of my lifetime allowance before 6 April 24 (transitional rules)?

12. If you have had a BCE prior to 6 Apr 24 and have, therefore, previously used a percentage of your LTA then your LSA and LSDBA are calculated by deducting the 'appropriate percentage' of the LTA used prior to 6 April 24. If prior to 6 Apr 24 you used all of your LTA, then you will be subject to income tax at your marginal rate on any relevant lump sums subsequently paid.

13. The 'appropriate percentage' is 100% if:

- you became entitled to take a serious ill health lump sum before 6 April 24 and were under the age of 75 when it was paid, or
- the member died before 6 April 24 and was under the age of 75 at the time of their death, and a person was paid a lump sum death benefit in respect of the member before 6 April 24.

Note: A serious ill health lump sum is a special lump sum paid that can be paid from a deferred pension when life expectancy is less than 12 months, this is not the same as, and should not be confused with, a lump sum paid following a medical discharge.

Otherwise, the appropriate percentage is 25%.

14. To assess the amount of LTA previously used by your Armed Forces Pension you need to:

- First determine any automatic pension lump sum (3 x Annual Pension) on retirement,
- Then calculate the size of your pension pot. This is conducted by multiplying the amount of your annual Pension on retirement by a factor of 20 and adding the Lump Sum.

If you were paid an Armed Forces Pension prior to 6 April 24, your award letter will show the value and the percentage of LTA you have used which would inform the transitional calculation.

15. The following examples outline transitional arrangements but do not apply to those who hold a Transitional Tax Free Amount Certificate (TTFAC) or have LTA protections in place. A Transitional Tax Free Certificate allows for an alternate calculation that can benefit some individuals by increasing their LSA or LSDBA (See Para 17).

**Example: Calculating the LSA for a member who has used some of their LTA prior to the 6 April 24
The member had a RBCE on the 7 April 24 after they decided to commute their AFPS 15 pension.**

Commutation entitles them to a pension commencement lump sum of £50,000.

To work out the available lump sum allowance a percentage of the value of any BCEs that occurred prior to the 6 April 24 must be deducted.

The member on 12 August 23, received payment of another pension (valued at £500,000) and received a pension commencement lump sum of £75,000*.

Previously used % LTA = $\frac{£575,000}{£1,073,100} = 53.58\%$

LSA used = $25\% \times 53.58\% \times £1,073,100 = £143,741.75$

The remaining LSA Balance is therefore £124,533.25 (£268,275-£143,741.75)

This amount is more than the £50,000 being claimed so the lump sum can be paid with no additional tax charge.

The amount of the RBCE occurring on 7 April 24 then needs to be deducted from the members available LSA

$£124,533.25 - £50,000 = £74,533.25$

The member's remaining LSA on 7 April 24 is now £74,533.25

*This lump sum is less than 25% of the overall value of the pension so in this example this member may benefit from a Transitional Tax Free Amount.

**Example: Calculating the LSA for a member who has used some of their LTA prior to the 6 April 24
when the LTA was lower than £1,073,100**

The member had a RBCE on the 7 April 24 after they decided to drawdown £50,000 from their private pension.

To work out the available lump sum allowance a percentage of the value of any BCEs that occurred prior to the 6 April 24 must be deducted.

The member on 24 April 2017, received payment from the AFPS (valued at £822,008.20) and received a pension commencement lump sum of £123,301.23. The LTA limit at the time was £1m

Previously used % LTA = $\frac{£945,309.43}{£1,000,000} = 94.53\%$

LSA used = $25\% \times 94.53\% \times £1,073,100 = £253,600.35$

The remaining LSA Balance is therefore £14,674.65 (£268,275-£253,600.35)

This amount is less than the £50,000 being claimed so only £14,674 could be paid tax free, the remaining £35,326 would be taxed at the member's marginal rate.

Example: Calculating the LSDBA for an individual who has used some of their LTA prior to 6 April 24

Member died age 70 on 9 May 24.
They previously used 40% of their lifetime allowance

The individual did not become entitled to a serious ill-health lump sum or die before 6 April 24. The appropriate percentage is therefore 25%

LTA previously used is 40%

LSDBA used = 25% x 40% x £1,073,100 = £107,310

The remaining LSDBA Balance is therefore £965,790 (£1,073,100-£107,310)

Pre-commencement Pensions

16. A pre-commencement pension is a pension that was put into payment before 6 April 2006. Members with pensions in payment before this date will also have their LSA and LSDBA reduced by 25% of the value of that pension. The calculation to determine this value is $P \times 25$, where P is the annual pension in payment at the date of the RBCE (not the value at time of payment). The calculation takes into account any lump sum that may have been paid at the time of the pension award. This calculation will not apply if a BCE has occurred between 6 April 2006 and 5 April 2024. Where a BCE has occurred in this period then they will have had a 'deemed BCE' in respect to their pre-commencement pension which would have attributed an LTA percentage and value.

What is a Transitional Tax-Free Amount Certificate?

17. A transitional tax-free amount certificate (TTFAC) is a certificate that confirms the amount of an individual's lump sum allowance and lump sum and death benefit allowance that has been used up by events prior to 6 April 24. Under standard transitional calculations (shown in previous examples) it is always assumed that the maximum 25% of tax free cash was taken.

Am I eligible for a TTFAC?

18. You are not eligible for a TTFAC if you have had an RBCE event since 6 April 24. You are also ineligible for certificate if you have a pre-commencement pension and have not had a BCE in the period between 6 April 2006 and 5 April 2024. Applications for a transitional tax-free amount certificate must be made before the first RCBE occurs on or after 6 April 24.

Will I Benefit from a TTFAC?

19. If you have not taken any pension benefits prior to 6 Apr 24, or you took benefits when the LTA was higher than £1,073,100 (tax year 2006/07 to 2015/16) or took the full 25% of tax free cash available then TTFAC is not likely to be beneficial to you. Where you have taken less than 25% of your tax free lump sum or you took benefits when the LTA was lower than the £1,073,1000 (i.e. between years 2016/17 to 2019/20) you may benefit from a TTFAC. Before applying for a certificate you should seek independent advice or read the online resources¹.

To check whether a TTFAC is relevant, you should use the HMRC tool available here:

<https://www.tax.service.gov.uk/guidance/Check-if-you-can-apply-for-a-Transitional-tax-free-amount-certificate/start>

¹ <https://www.gov.uk/guidance/find-out-the-rules-around-individual-lump-sum-allowances>

Where can I apply for a TTFAC?

20. An individual (or the individual's personal representatives if the individual is deceased) may apply for a certificate to any registered pension scheme which they are a member of. Individuals may wish to apply to the AFPS if they crystallised their pension benefits prior to 6 April 2024 under AFPS, or they expect to have their first RBCE with the AFPS (such as AFPS 15 coming into payment). If benefits are being crystallised in another scheme they may wish to apply to that scheme. Applications for a TTFAC from the AFPS are to be made on AFPS Form 22 (which is available here <https://www.gov.uk/guidance/veterans-uk-armed-forces-pensions-forms>). This form outlines the information a member must provide when applying for a certificate, this includes 'complete evidence' which must account for the total percentage of the lifetime allowance.

What Happens When I have Applied?

21. On application of a TTFAC DBS will assess the evidence provided and if satisfied will issue the individual a transitional tax-free amount certificate within 90 days of the application. Where the scheme is not satisfied with the evidence provided or no evidence is provided the application will be rejected.

22. Once an individual has applied for a transitional tax-free amount certificate the result is binding and cannot be cancelled. It is, therefore, the member's responsibility to check whether a TTFAC is beneficial for them before applying. If the use of a TTFAC results in a lower available allowance than the amount calculated under the standard calculation members could be subject to more pensions saving taxation. Members should assess risks and their own position before applying for a TTFAC. The scheme cannot advise you.

23. Where an individual fraudulently or negligently makes a false statement, or a pension scheme administrator assists in providing a statement they know to be inaccurate, HMRC can issue a penalty of £3,000.

24. A TTFAC may only be revoked where it is found to be erroneous. If an RBCE has occurred before the revocation of the certificate any RBCE affected will be recalculated based on the actual transitional tax-free amounts. This may result in a liability to pay further tax. However, where the revocation of a certificate reveals that no lump sum allowance was available these lump sums will not be treated as unauthorised payments (which results in higher level of tax) but they will still be fully taxable at the individual's marginal rate.

Example of a standard and TTFAC calculation where less than 25% of tax free cash was originally taken:

This example shows where a TTFAC is beneficial: A member took benefits from the AFPS in 2021/22 tax year. They took a tax-free lump sum of £128,772 and used up £987,252 – 92% of their £1,073,100 LTA.

They now wish to commute their AFPS 15 pension and can generate a Lump Sum of £75,000.

Standard calculation:

Their remaining LSA = £268,275 – (25% x 92% x £1,073,100) = £21,462.

This would allow them to take £21,462 tax free and the remainder, £53,538, would be taxed at their marginal rate.

Alternative calculation if TTFAC held:

The crystallised value of the total benefits is £987,252, the tax free lump sum of £128,772 is less than 25% of this value. 25% of £987,252 is £246,813.

Therefore £268,275 - £128,772 = £139,503

This would allow the £75,000 to be taken tax free and leave an LSA of £64,503.

LTA Protections

25. LTA Protections were introduced to protect pension savings when reductions in the standard LTA occurred. Since the abolition of the LTA these protections, if held, may permit a higher tax free lump sum.

26. Members can still apply for Individual Protection 2016, the application window closes on 5 April 2025. Further details can be found at this website <https://www.gov.uk/guidance/pension-schemes-protect-your-lifetime-allowance>.

27. Members should also be aware that if they hold LTA protections they can also be lost. Details on losing your protected LTA can be found here <https://www.gov.uk/guidance/losing-your-lifetime-allowance-protection>.

28. Where protections are held, the standard LSA does not apply. Values are outlined in the table below. Where a BCE has occurred prior to 6 Apr 24, the standard transitional calculations will apply.

Type of protection	LSA Amount	LSDBA Amount
Fixed protection 2016	£312,500	£1.25M
Individual protection 2016	The lesser of: 25% of the individual's relevant amount* £312,500	The lower of: the individual's relevant amount* £1.25M
Fixed protection 2014	£375,000	£1.5M
Individual protection 2014	The lesser of: 25% of the individual's relevant amount* £375,000	The lesser of: the individual's relevant amount* £1.5M
Enhanced protection	£375,000 (with no lump sum protection)	The value of uncrystallised benefits on 5 April 2024

A relevant amount is the total value on 5 Apr 14 (IP14) or 5 Apr 16 (IP16) of a member's registered pension schemes.

The 2015 Pension Remedy and the Lifetime Allowance

29. Prior to 6 April 2023, if the value of your pension benefits were over either the standard lifetime allowance (LTA) or a higher protected lifetime allowance, you would have to pay a LTA tax charge on the excess amount when drawing those benefits. This was known as a benefit crystallisation event (BCE). Further details on the changes that have occurred to the LTA are available in the LTA booklet available on the Pension Savings Tax Section of the AFPS webpage.

30. If you have had a BCE which resulted in a LTA tax charge because of a pension benefit paid from your Armed Forces Pension Scheme, the amount of this charge might be affected by the 2015 pension remedy. This will only affect immediate choice members.

LTA and the Remediable Service Statement

31. All immediate choice members will be sent a remediable service statement, this will include revised figures including the percentage change in the LTA for the alternative choice. This may mean that you have a:

- new lifetime allowance charge.
- increased lifetime allowance charge.
- decreased lifetime allowance charge.

If because of your election there are changes to your LTA, you must notify HMRC of these changes.

If your lifetime allowance charge decreased

32. If, because of your election, your LTA charge decreased and your original BCE occurred between 6 April 2015 and 5 April 2019, you can claim compensation for the difference. If your charge decreased and the BCE was between 6 April 2019 and 5 April 2023, HMRC will refund the difference.

33. Depending on who paid it, it will either be refunded:

- Directly to you, if you originally paid the charge (only applicable to dependant members who may have settled an LTA charge directly); or,
- To your scheme administrator (applies to the majority of AFPS members). The scheme administrator will request the refund and adjust your benefits accordingly.

34. If as a result of the remedy, you have a decrease in your LTA tax charge between 6 April 2019 and 5 April 2023, HMRC will work out repayment interest based on the tax year which the charges relate to.

If you have a new or increased lifetime allowance charge

35. If you have a new or increased LTA tax charge, because of your election, and the original BCE occurred between 6 April 2015 and 5 April 2019, you will not have to pay any additional tax owing to the remedy.

36. If you have a new or increased charge and the BCE occurred between 6 April 2019 and 5 April 2022, you will be jointly liable for this charge with your scheme administrator.

Reporting and Extended time limits and deadlines

37. The time limits have been extended where LTA tax charges have occurred as a result of the remedy, for the period between 6 April 2019 and 5 April 2023.

38. Where there are changes to a LTA tax charge liability these are to be reported using the [Calculate your public service pension adjustment service](#) available on gov.uk. This is the same tool used to report changes in Annual Allowance.

39. You must report any charges or changes to previous charges by 31 January 2027 if you are affected by the remedy and you were a pensioner or the beneficiary of person who had died before 1 October 2023.

LTA protections

40. Different LTA protections have been introduced since 6 April 2006. They protect you from reductions in the standard LTA. If you have or previously had LTA protection, it might have been affected by the remedy.

41. You can [apply for individual protection 2016](#) if after the remedy the value of your pension pot on 5 April 2016 is above £1 million.

42. If you have fixed protection 2016, you will not lose this protection from an increase in benefits as a result of the remedy if you choose new scheme benefits. If you hold Fixed Protection 2016, this transfer will be ignored when considering if it is a permitted transfer, and so will not affect your protection.

43. You can ask for your one of the following [lifetime allowance protections to be reinstated](#) if the reason you lost it no longer applies:

- enhanced protection
- fixed protection
- fixed protection 2014
- fixed protection 2016

44. You can also ask for your protection to be reinstated if the original reason that you lost your protection no longer applies, but you have since done something to lose your protection. You will need to [tell HMRC about the change in the date of loss](#) of your protection. This will only be relevant for you if you have had a benefit crystallisation event between the two dates.

LTA - Pension Sharing Orders

45. If you have a pension sharing order and are a pension debit or pension credit member of the AFPS, how your pension debit or credit is treated may be impacted.

46. For the pension debit member, if your pension sharing order includes pension rights related to remediable service, the amount of the debit will be determined by your chosen benefits. This means that as a pension debit member, your entitlement could increase or decrease.

47. For the pension credit member, if the pension sharing order includes pension rights related to remediable service, you will receive pension rights based on the higher value between the cash equivalent transfer value for legacy scheme accrual or new scheme accrual. If your pension credit benefits are in payment and the amount of your pension credit changes, your original BCE will not be changed.

Update other pension schemes about changes in your lifetime allowance

48. If you have had a BCE under another pension scheme after your AFPS benefits came into payment, you will need to share any updated BCE information with the scheme administrator of that scheme.

49. If the amount of LTA used has increased and you have a new or increased LTA charge in a non-public service pension scheme, the scheme administrator can apply for the charge to be discharged, meaning you are solely liable for the charge. If the charge occurred because of the public service pensions remedy, you can get the AFPS to pay this charge and your AFPS benefits will be adjusted accordingly.

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