

ADVISER GUIDE

Testing pension benefits

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IMPORTANT

The legislation on the rules for testing pension benefits is found in Finance Act 2024. This Act (as amended by Finance Act 2026) also contains provisions for The Treasury to amend the rules by regulations until 30 June 2026. The information in this guide is based on our current understanding of pension tax rules at the time of writing but is subject to change as further regulations and HMRC guidance are released. This is provided for information only; we do not provide advice.

Tax rules may change in the future and the tax treatment depends on personal circumstances. This guide and the included case studies are provided for professional advisers' use only.

Overview

From 6 April 2024 only pension lump sums are tested when pensions are accessed. There are no tests for taking income or for reaching age 75.

There are two main allowances:

- **Lump Sum Allowance (LSA)** set at £268,275; and
- **Lump Sum and Death Benefit Allowance (LSDBA)** set at £1,073,100.

In addition, there is a separate **Overseas Transfers Allowance (OTA)** also set at £1,073,100.

How benefits are tested in the member's lifetime

When the member takes a lump sum in their lifetime, the tax-free element is tested against the LSA. These lump sums are relevant benefit crystallisation events (RBCEs).

The LSA is set at £268,275. This amount is fixed in legislation with no provision for index-linking or other increases.

Tax-free lump sums that are tested against the LSA are:

- pension commencement lump sums (PCLS); and
- the tax-free part of uncrystallised funds pension lump sums (UFPLS).

Trivial commutation lump sums, winding-up lump sums and small lump sums are not tested against the LSA, but there must be "some" LSA available for the trivial commutation and winding-up lumps sums to be taken.

Serious ill-health lump sums are not tested against the LSA, only the LSDBA (see below).

The PCLS and the tax-free part of UFPLS are also tested against the LSDBA of £1,073,100. In practice this is unlikely to be a relevant factor, as LSA will be used up before LSDBA. The only exception would be if someone took a SIHLS first, followed by (for example) a PCLS from another scheme.

Pension Commencement Lump Sum (PCLS)

The permitted maximum PCLS that can be taken is the lower of the 'applicable amount', the available LSA or available LSDBA. In practice this will be the lower of the applicable amount and the LSA unless a SIHLS has been taken.

The applicable amount will be one third of the amount used to provide an income.

For example if £75,000 is designated for drawdown, or used to purchase a lifetime annuity, the applicable amount would be £25,000.

For scheme pensions, the amount used to provide an income is broadly the first year's income x20 plus the lump sum less any disqualifying pension credit, divided by four.

Pension Commencement Excess Lump Sum (PCELS)

The Finance Act 2024 introduced a new type of lump sum payment – a Pension Commencement Excess Lump Sum or PCELS. This allows schemes to pay lump sums where there is no LSA available, if they do not have an alternative way of making the lump sum payment. In practice they are likely to only be used by defined benefit (DB) schemes as under defined contribution (DC) schemes you can effectively take lump sums from flexi-access drawdown or take a fully taxed UFPLS payment (see below).

A PCELS is subject to income tax and does not use up any LSA or LSDBA.

Uncrystallised funds pension lump sums (UFPLS)

UFPLS can be paid with 25% tax-free up to the available LSA (or LSDBA if lower). Any amount above the available LSA (or LSDBA) can be paid as UFPLS but will be subject to income tax. Only the tax-free element is tested against the LSA and LSDBA.

For example, if available LSA is £100,000 and the individual wants to take £500,000 UFPLS this is possible. £100,000 will be tax-free and £400,000 will be subject to income tax. If they had all their LSA available (£268,275), then they could take the full £125,000 (25%) tax-free, and only £375,000 (75%) would be taxed. They would have £143,275 LSA available for future lump sums.

Serious ill-health lump sums (SIHLS)

If a member has less than 12 months to live then they may be able to take a serious ill-health lump sum from uncrystallised funds. If the member is under the age of 75 then this will be tax free up to the available LSDBA, with any excess taxed as income.

It is possible to take a SIHLS after the age of 75 but it will be subject to income tax, so there is little benefit of doing this over taking a drawdown payment.

Reporting LSA and LSDBA usage

Similar to how it worked under the lifetime allowance regime, scheme administrators are required to confirm at each RBCE how much LSA and LSDBA have been used. As mentioned above, RBCEs include PCLS, UFPLS and SIHLS. They also include all lump sum death benefits.

LSA usage and LSDBA usage will almost always be the same amount, and for a short while at the start of the 2024/25 our benefits statements only confirmed LSA usage. If your client received a benefits statement with only LSA usage mentioned, the LSDBA usage was also the same amount. For clients where the amounts were different, we sent an updated benefits statement.

How benefits are tested and taxed on death

When the member dies before the age of 75, the principle of only lump sums being tested continues. This means that only lump sum death benefits paid out to beneficiaries will be tested against the deceased's available LSDBA. Any death benefits paid as beneficiary's pension are not tested.

The LSDBA is set at £1,073,100. Like the LSA, this is fixed in legislation with no provision for index-linking or other increases.

Lump sums that are tested against the LSDBA include:

- defined benefit lump sum death benefits;
- pension protection lump sum death benefits;
- uncrystallised funds lump sum death benefits;
- annuity protection lump sum death benefits;
- drawdown pension lump sum death benefits; and
- flexi-access drawdown lump sum death benefits.

When calculating the amount of LSDBA available to pay out lump sum death benefits, any PCLS, SIHLS, and the tax-free part of any UFPLS paid out in the member's lifetime will reduce the available LSDBA.

In the most common scenario where the deceased had taken PCLS and drawdown only, then just the amount of PCLS taken will reduce the available LSDBA.

Where the lump sum death benefits exceed the available LSDBA, the excess will be subject to income tax. Any lump sums must be paid out within the relevant two-year period to remain free of income tax up to the LSDBA, otherwise the whole sum will be subject to tax. Similarly, funds must be designated for beneficiary's income within two years of knowledge of date of death in order to be passed on free of income tax.

Where the member dies on or after their 75th birthday death benefits will always be subject to tax regardless of how they are paid.

The table below shows the income tax treatment of death benefits.

		Beneficiary takes income	Beneficiary takes lump sum
Member dies before age 75	Up to LSDBA	No test – no income tax	No income tax
	Excess		Taxed
Member dies age 75+			Taxed

In addition to the above, where the member dies on or after 6 April 2027 the pension funds will be included in their estate for inheritance tax (IHT) purposes. This means that IHT may also apply when funds are above the available nil rate band and not being paid to an exempt beneficiary (such as a spouse, civil partner or charity).

Protection

For those with any of the Fixed or Individual Protections the protected PCLS and LTA amounts previously held are now the individual's LSA and LSDBA respectively.

Protection	LSA	LSDBA
Fixed Protection 2012	£450,000	£1,800,000
Fixed Protection 2014	£375,000	£1,500,000
Fixed Protection 2016	£312,500	£1,250,000
Individual Protection 2014	25% of fund value as at 5 April 2014 (max £375,000)	Fund value as at 5 April 2014 (max £1.5 million)
Individual Protection 2016	25% of fund value as at 5 April 2016 (max £312,500)	Fund value as at 5 April 2016 (max £1.25 million)

For those with Primary Protection, their LSA will be £375,000. Their LSDBA will be £1,800,000 increased by the primary protection factor.

For example if the protection factor is 0.2, the LSA will be £375,000 and their LSDBA will be £1,800,000 x 1.2 = £2,160,000.

The position for those with Enhanced Protection is more complicated.

If they have no lump sum protection specified on their certificate their LSA will be £375,000. If they do have lump sum protection (expressed as a percentage on their certificate), their LSA for PCLS purposes will be capped at the amount of PCLS they could have received on 5 April 2023.

Their LSDBA will be the value of their uncrystallised funds on 5 April 2024.

If Enhanced Protection, or any of the Fixed Protections, were held on 15 March 2023, from 6 April 2023 it has been possible to make contributions without losing these protections.

It's important to note that if Fixed Protection 2016 was applied for on or after 15 March 2023 it is still the case that making contributions will cause loss of this protection.

Transitional arrangements

Where benefits have been taken before 6 April 2024, they will be subject to a standard transitional calculation that will reduce the amount of LSA and LSDBA available. This is based on the LTA previously used.

If 100% of the LTA has been used the available LSA will be nil. Otherwise, the LSA will be reduced by 25% of the LTA used.

For example, if 40% of the LTA has been used, the amount of LSA will be reduced by 10% (25% of 40%) of £1,073,100, i.e. £107,310. So available LSA reduces from £268,275 to £160,965.

For members who turned 75 before 6 April 2024, this LTA usage figure ignores the LTA used at their age 75 test, unless they have taken a lump sum from their pension between turning 75 and 5 April 2024. In these cases, the LTA used at their age 75 test will count, and those further lump sums will not (as they did not technically use any LTA due to happening after age 75).

The LSDBA will be reduced by an amount equal to the appropriate percentage of LTA used:

- 100% LTA used when the member has taken a SIHLS before age 75;
- 100% LTA used when a lump sum death benefit has been paid in relation to member who died before age 75; or
- 25% of LTA used in other cases.

In most cases where no SIHLS or death benefit lump sums have already been paid the reduction for the LSDBA will therefore be the same as for the LSA. So, using the example above, the LSDBA would also be reduced by £107,310 to leave £965,790 available.

On death after 6 April 2024, any lump sum death benefits paid from funds that were crystallised before 5 April 2024 will not be tested against the LSDBA.

Where the only benefits in payment started before 6 April 2006, and there has never been a test against the LTA then the LSA and LSDBA are reduced by 25% of the total capital value of the pension (capital value is defined as 25 x pension in payment, for those in drawdown it is 25 x 80% of the capped drawdown maximum).

The standard transitional calculation is used at the first RBCE on or after 6 April 2024.

Transitional certificates

It is possible to apply for a “transitional tax-free amount certificate” which uses an alternative calculation to the standard transitional calculation above. The certificate deducts the actual amount of tax-free lump sums taken from the available LSA and LSDBA. This may allow some individuals to take more PCLS under the new regime than previously. For example, if no PCLS was taken under a DB scheme, but 40% LTA was used, then using the standard transitional calculation the LSA would be reduced by 10%. Using the alternative calculation, based on no PCLS being taken, the LSA would not be reduced at all.

For more information on transitional certificates please see our adviser guide: [Transitional arrangements and transitional tax-free amount certificates](#).

Transfers to QROPS

Transfers to Qualifying Recognised Overseas Pension Schemes (QROPS) are not RBCEs so are not tested against either the LSA or LSDBA. Instead, they are tested against the Overseas Transfer Allowance (OTA). The OTA is an amount equal to the individual's LSDBA. Where individuals have accessed benefits prior to 6 April 2024, the OTA will be reduced by an amount equivalent to 100% of the LTA previously used, but ignoring any LTA used by designation to drawdown. For example, if 40% of the LTA had been used by a PCLS payment that used 10% and a designation to drawdown that used 30%, the OTA would only be reduced by 10% of £1,073,100, i.e. £107,310. So the available OTA reduces to £965,970. Any amount transferred above the available OTA will be subject to the Overseas Transfer Charge (OTC) of 25%.

Where the Overseas Transfer Charge (OTC) already applied (generally when transfers are made to a scheme where the member is not resident in the same country) this continues to apply to the whole transfer value.

Example scenarios

1. First accessing benefits after 6 April 2024

Michael has a DB pension plus a SIPP.

At age 60, in May 2024, he takes £50,000 PCLS from his DB pension and starts taking scheme pension.

This is Michael's first RBCE so he has his full £268,275 LSA and £1,073,100 available. His PCLS is tested against both allowances. After this RBCE his remaining balances are:

- LSA = £218,275 (£268,275 - £50,000)
- LSDBA = £1,023,100 (£1,073,100 - £50,000)

His scheme pension is not tested and does not use up any allowances.

At age 65 Michael takes £200,000 PCLS from his SIPP and designates £600,000 to drawdown. This uses a further £200,000 of both his LSA and LSDBA. After this RBCE his remaining balances are:

- LSA = £18,275 (£268,275 - £50,000 - £200,000)
- LSDBA = £823,100 (£1,073,100 - £50,000 - £200,000)

Funds designated to drawdown are not tested and do not use up any allowances.

Michael dies aged 70. His DB pension pays out a spouse's pension to his widow. He has £1 million in his SIPP, which contains both drawdown and uncrystallised funds.

The spouse's pension will not be tested against any allowances. If his beneficiaries take his SIPP as income this will not be tested either, and it can be withdrawn tax-free provided it is designated within two years.

Should his beneficiaries take a lump sum then they will have to pay income tax on the excess over his available LSDBA. The excess will be £1,000,000 - £823,100 = £176,900

2. Benefits accessed before 6 April 2024

Michael's twin Matthew has a similar level of pension savings as Michael; however, his funds are all held in his SIPP. He first accessed his benefits at age 60 in March 2024.

When he took his PCLS and designated funds to drawdown this used up 20% of his LTA.

At age 65 Matthew decides to take further benefits. This is Matthew's first RBCE so the standard transitional calculation must be used.

As Matthew used 20% of his LTA when taking PCLS and designating to drawdown both his LSA and LSDBA will be reduced by 5% (25% of 20%). After the standard transitional calculation his remaining balances are:

- LSA = £214,620 (£268,275 - £53,655)
- LSDBA = £1,019,445 (£1,073,100 - £53,655)

Matthew now takes £200,000 PCLS from his SIPP and designates £600,000 to drawdown. After this RBCE his remaining balances are:

- LSA = £14,620 (£268,275 - £53,655 - £200,000)
- LSDBA = £819,445 (£1,073,100 - £53,655 - £200,000)

Funds designated to drawdown are not tested and do not use up any allowances.

Matthew also dies aged 70. At the time of his death he has £1 million in his SIPP, which contains both drawdown and uncrystallised funds.

If his beneficiaries take his SIPP as income this will not be tested against any allowances, and it can be withdrawn tax-free provided it is designated within two years.

Should his beneficiaries take a lump sum then they will have to pay income tax on the excess over his available LSDBA. However, the funds he designated to drawdown before 6 April 2024 will not be included as relevant death benefit lump sum for the purposes of the LSDBA test. Only the funds put into drawdown at age 65 (in 2029), and the uncrystallised funds will be tested.

At the time of his death, £200,000 of his fund related to pre 6 April 2024 drawdown, and £800,000 related to post 6 April drawdown and uncrystallised funds. As his available LSDBA is £819,445 the beneficiaries could receive this tax free whether taken as a lump sum or income.

Key planning points

1. Flexibility when taking PCLS where both DB and DC pensions are held

If an individual holds both DB and DC pensions they have some flexibility as to where they take PCLS.

a. Rita

Rita has a DB pot from which she can take a maximum of £100,000 PCLS. She also has a SIPP valued at £1.2 million.

If she takes the £100,000 PCLS from her DB scheme, she will have £168,275 LSA remaining so will be able to take this amount of PCLS from her SIPP.

However, she could choose not to take any PCLS from her DB scheme and use it all to provide a scheme pension. This would not use up any allowances, so she could take her full PCLS up to the LSA of £268,275 from her SIPP at a date after she has started her scheme pension.

b. Amir

Amir has a DB pot with an option of up to £200,000 PCLS. He also has a SIPP valued at £800,000.

If he takes full PCLS from his DB scheme he will have LSA of £68,275 remaining to take from his SIPP. Alternatively, he could commute just enough scheme pension to get £68,275 from his DB scheme and take £200,000 PCLS from his SIPP.

If he didn't take any PCLS from his DB scheme he would still only be able to take £200,000 PCLS from his SIPP. This is because PCLS is a maximum of a third of the amount used for drawdown. He would have £68,275 LSA remaining but could not use this unless he had pension funds elsewhere.

c. David

David, 60, has a DB pot valued at c£500,000, plus a SIPP valued at £700,000.

Like Amir above, he could take some PCLS from each of his pensions but does not have enough in his SIPP to take all his LSA from this alone.

An alternative suggestion for him would be to start his scheme pension and use it to fund pension contributions to his SIPP. This would only be possible if he was still working and had sufficient UK relevant earnings of at least equal value to the contributions made.

If he took scheme pension of £25,000 a year and paid it all into his SIPP he would receive full tax relief on the contribution. Taking income from scheme pension does not trigger the money purchase annual allowance, so he would have the full annual allowance available (unless he was a very high earner and tapered). With 5% net growth this would give him a SIPP fund value of c£1.1 million by age 66. He could then take the full £268,275 PCLS from his SIPP.

2. Make sure nominations are up to date

Only lump sum death benefits are tested against the LSDBA on death. If beneficiaries take death benefits as income, be that as drawdown, annuity or scheme pension, there is no test. Where death occurs before age 75 and before 6 April 2027 unlimited funds can be passed on tax-free if paid as income. It is therefore more important than ever to ensure beneficiaries have the option of taking income.

It is always possible for dependants to receive income, but any other beneficiary must be nominated. Usually this will be by the member in their lifetime, but the scheme administrator can nominate in limited circumstances. Specifically there can be no dependants and no nominations made by the member.

Marina and Sanjay

Marina and Sanjay are a married couple with two adult children, Anya and Ajay. They have nominated each other on their expression of wish forms for their SIPP.

Sanjay dies suddenly age 73 in December 2024 with a pension fund worth £1.5 million. He had taken all his PCLS in June 2024 and used all his LSA. As Marina is his dependant, she has the option of taking the death benefits as a pension. However, Marina has over £1 million in her own pension, a mortgage-free property, and other assets, so doesn't need the money.

Marina is 74 and in good health, so expects to live past age 75. She asks if the pension can instead be shared between Anya and Ajay, as if they receive it on her death it will likely be taxed. The scheme administrator can exercise its discretion to do this, but as Marina is Sanjay's only dependant, and he did not nominate his children, they can only take the death benefits as a lump sum.

As Sanjay has already taken a lump sum of £268,275, the available LSDBA will be £804,825. The excess of £695,175 (£1,500,000 - £804,825) will be subject to income tax, most of which will be at 45%. If Sanjay had nominated his children they could have kept it in a pension tax wrapper for as long as they liked, and all withdrawals would have been tax free.

Please note – our AJ Bell Investcentre expression of wish form nominates “Eligible Benefit Recipients” as defined in the scheme trust deed and rules. If this has been completed then we can pay income to children, grandchildren and other relatives who are not specifically named. In this case study Anya and Ajay could take nominees' flexi-access drawdown if our form had been completed. Other providers may not have this provision

3. Rebuild funds depleted by pension debit where fixed or enhanced protection is held

Since 6 April 2023 it has been possible for those who hold enhanced or any of the fixed protections to make pension contributions without losing their protection. This applies on the condition that they held the protection, or had at least applied for it, before 15 March 2023. Under the new regime the protection gives them entitlement to a higher LSA and LSDBA.

If the individual is still working, then they may have the opportunity to make large contributions. Personal contributions can be made up to the level of UK relevant earnings and employer contributions are unrestricted provided the usual “wholly and exclusively” rules are met. The annual allowance for most people in 2024/25 onwards is £60,000 and carry forward may also be available.

Where someone who holds protection has had a pension debit applied to their fund following a pension sharing order on divorce, there is now an opportunity to rebuild this fund and benefit from higher levels of PCLS.

Fred

In 2012 Fred had total pension savings valued at £1.7 million. He applied for and was granted fixed protection 2012 at £1.8 million. This gave him a maximum PCLS entitlement of £450,000.

In June 2020 Fred got divorced, and a pension debit was applied to his fund. After the pension debit the fund was valued at £1 million. As Fred was still close to the LTA he didn't make any contributions to break his protection.

Fred is still working so can now make personal contributions, supported by his earnings, and his employer can make contributions to his pension. He has full carry-forward available so can potentially make contributions of up to £200,000 in 2024/25 and £60,000 each following year without an annual allowance charge (assuming he's not subject to the tapered annual allowance and hasn't flexibly accessed his pension). If he rebuilds his pension fund to £1.8 million or more he will be able to take his maximum PCLS of £450,000.

Glossary of pension abbreviations

Finance Act 2024 introduced some new acronyms in addition to an already long list that we use in relation to pension benefits. This glossary contains terms, new and old, that are commonly used.

AA – Annual Allowance

The Annual Allowance is the maximum amount of pension savings an individual can have each year that benefits from tax relief and is set at £60,000. It applies to both member and employer contributions.

BCE – Benefit Crystallisation Event

Between 6 April 2006 and 5 April 2024 when a scheme member became entitled to any form of benefits under a registered pension scheme, they were tested against their lifetime allowance. These testing points were known as benefit crystallisation events (BCEs).

DB – Defined Benefit

A defined benefits arrangement is one where the level of benefits payable is calculated by reference to the member's earnings, length of service with the employer or any other similar factor other than the amount available to provide benefits.

DC – Defined Contribution

A defined contribution arrangement (also known as a money purchase arrangement) is one where the level of benefits payable to a member will depend on the value of the fund when they take those benefits. A SIPP is a type of defined contribution pension scheme.

EP – Enhanced Protection

Individuals who had certain rights at 5 April 2006, when the lifetime allowance was introduced, could apply to HMRC to protect them from the lifetime allowance charge when those rights come into payment. From 6 April 2024 enhanced protection gives entitlement to a higher LSA and LSDBA.

FAD – Flexi-Access Drawdown

Flexi-access drawdown allows a member to withdraw income directly from their pension fund. There are no limits on the amount they can take.

FP – Fixed Protection

In 2012, 2014 and 2016 the standard lifetime allowance was reduced. On each occasion individuals could apply for fixed protection at the level of lifetime allowance applying immediately before the reduction. They are also entitled to PCLS of 25% of the amount they crystallise, up to their protected allowance.

Prior to 6 April 2023 making any contributions to pensions would break fixed protection. From 6 April 2023 this no longer applies provided the protection was applied for before 15 March 2023. From 2024/25 onwards the individual's LSA is the level of protected PCLS held previously, and LSDBA will be at the level of their protected LTA.

iLSA – Individual Lump Sum Allowance

(see LSA)

iLSDBA – Individual Lump Sum and Death Benefit Allowance

(see LSDBA)

IP – Individual Protection

An individual with pension savings of more than £1.25 million on 5 April 2014 could apply for IP 2014, or with more than £1 million on 5 April 2016 could apply for IP 2016. If someone has IP 2014 their lifetime allowance is fixed at an amount which is the lower of the value of their pension savings on 5 April 2014 and £1.5 million, for IP 2016 it is the lower of pension savings on 5 April 2016 and £1.25 million.

From 2024/25 onwards the individual's LSA will be the level of protected PCLS held previously, and LSDBA will be at the level of their protected LTA.

LSA – Lump Sum Allowance

From 6 April 2024 the standard lump sum allowance is £268,275, which limits the amount of tax-free lump sums the member can receive during their lifetime. When an RBCE occurs in the member's lifetime the amount of the tax-free lump sum will be tested against the available LSA (with the exception of SIHLS). Once the LSA is used up, any excess is subject to income tax.

LSDBA – Lump Sum and Death Benefit Allowance

From 6 April 2024 the standard lump sum and death benefit allowance is £1,073,100, which limits the total amount of tax-free lump sums paid to the member and their beneficiaries. When an RBCE occurs on death, or a SIHLS is taken, the lump sum will be tested against the available LSDBA. The LSDBA will also be reduced by RBCEs in the member's lifetime. Once the LSDBA is used up, any excess is subject to income tax.

LTA – Lifetime Allowance

There is no limit on the total amount of authorised benefits a registered pension scheme can provide to its members. However, between 6 April 2006 and 5 April 2024 an individual had a single lifetime allowance in relation to the value of tax-privileged benefits they can draw from such schemes. Up to 5 April 2023 any excess was subject to the LTAC.

LTAC – Lifetime Allowance Charge

Up until 5 April 2023 the value of any authorised benefits paid out in excess of the LTA was subject to a tax charge known as the lifetime allowance charge. The amount of the tax charge was 55% when paid as lump sum, and 25% where funds were used to provide income.

LTAEF – Lifetime Allowance Enhancement Factor

If funds were transferred to a UK registered pension scheme from an overseas scheme where they have not benefitted from UK tax relief, or where a disqualifying pension credit was received following a pension sharing order, it was possible to apply for a LTAEF. From 6 April 2024 this no longer applies, and the deadline for applying for transfers prior to this date was set at 6 April 2025. The LTAEF increases an individual's LSDBA from 6 April 2024 onwards.

MPAA – Money Purchase Annual Allowance

The MPAA is triggered when a member takes pension benefits using the flexibilities introduced by pension freedoms. It reduces the future pension savings the individual can make under their money purchase (otherwise known as defined contribution) pension schemes by reducing the annual allowance available to that member. The MPAA is currently set at £10,000.

OTA – Overseas Transfer Allowance

A member's overseas transfer allowance is an amount equal to their LSDBA. Pension benefits are tested against the OTA when there is a recognised transfer from a UK registered pension scheme to a QROPS.

OTC – Overseas Transfer Charge

The OTC arises when there is a transfer to a QROPS and no exclusion applies or if the amount transferred exceeds the available OTA. The OTC is set at 25% of the applicable value.

PCELS – Pension Commencement Excess Lump Sum

A PCELS can only be taken when there is no LSA available. It must be taken in connection with pension income and is subject to income tax. It is likely to only be relevant to DB schemes, and is broadly meant to replace the circumstances where an LTA excess lump sum could have been paid out previously.

PCLS – Pension Commencement Lump Sum

When a member takes certain pension benefits under a registered pension scheme they can also take a tax-free lump sum.

A pension commencement lump sum can be taken up to the permitted maximum, which is defined as the lowest of one third of the amount used to provide an income, the available LSA or the available LSDBA.

PP – Primary Protection

Individuals with rights valued over £1.5 million as at 5 April 2006 could apply to HMRC to protect those rights from the lifetime allowance charge when those rights come into payment.

Protection is achieved by applying an additional factor to the standard lifetime allowance at the date that benefits are taken. From 6 April 2024 the factor applies to the LSBDA which will be set at £1.8 million for those with primary protection. LSA is set at £375,000.

QROPS – Qualifying Recognised Overseas Pension Scheme

These are overseas pension schemes recognised by HMRC that broadly follow UK pension rules and scheme managers report to HMRC as required. Transfers to QROPS are recognised transfers, and if certain conditions are met will not face tax charges on transfer.

RBCE – Relevant Benefit Crystallisation Event

RBCEs occur when certain tax-free lump sums are taken from a pension on or after 6 April 2024. These are tested against the LSA and LSDBA.

SIHLS – Serious Ill Health Lump Sum

If a member has less than 12 months to live then a SIHLS can be paid out from uncrystallised pension funds. All uncrystallised funds under the arrangement must be taken at the same time. A SIHLS is tax free if it is paid before the age of 75 and under the member's available LSA, or LSDBA. Any excess above the allowance is subject to income tax.

SIPP – Self-Invested Personal Pension

A type of personal pension where the member chooses the investments.

SSAS – Small Self-Administered Scheme

A type of occupational pension scheme set up by the employer for the benefit of less than 12 members who are usually all trustees of the scheme.

TAA – Tapered Annual Allowance

The annual allowance is reduced for high income individuals and tapering applies to those with adjusted income of over £260,000 in the tax year and threshold income of over £200,000. Where tapering applies every £2 of adjusted income above £260,000 reduces the annual allowance by £1, to a minimum allowance of £10,000 for those with adjusted income of £360,000 or above.

UFPLS – Uncrystallised Funds Pension Lump Sum

An uncrystallised funds pension lump sum can be paid in respect of funds that have not, as yet, been used to provide that member with a benefit under the scheme. 25% of an UFPLS will be tax free up to the available LSA. Anything above this will be subject to income tax.