CASE STUDY 3

ASSESSING THE IMPACT OF THE 2023 BUDGET CHANGES

LIFETIME ALLOWANCE - DEFINED BENEFIT TRANSFERS

The removal of the Lifetime Allowance (LTA) is welcome news for pension savers. For those with large assets already accrued, it aids tax efficiency, and for those earlier in their saving journey it allows them to save and pursue investment growth without a cap on tax efficiency distorting their saving behaviour.

One area of decision making which the LTA may have distorted for some individuals over recent years is the decision as to whether to transfer their built-up Defined Benefit (DB) pensions into a Defined Contribution (DC) plan, often a SIPP.

Deciding whether to transfer DB pensions is one of the biggest financial decisions you can make, and in giving up guaranteed incomes the safest starting point is to assume that this is unlikely to be in your best interests. This is because of the risks involved in giving up valuable guaranteed incomes, and any other linked benefits from the scheme. However, for some the downsides of transferring are outweighed by the advantages of being able to access more flexible income and inheritance options within a SIPP. That is why it's crucial to take advice prior to transferring, and mandatory by law for those with DB transfer values over £30,000.

However, when formulating advice around the suitability of DB transfers, one of the factors advisers have to consider is the impact of the LTA. DB and DC pensions are valued differently for LTA purposes. DC pensions are valued based on their actual value. DB pensions are valued at 20x the value of the pension income figure.

George has a deferred DB pension worth £45,000 per annum at retirement. He has been quoted a transfer value of £1.35m from his scheme trustees.

	LTA Value	LTA Charge
£45,000 p.a. DB Pension	£900,000	Nil
£1.35m transfer value (pre-April 23 Budget)	£1.35m	£152,295
£1.35m transfer value (post-April 23 Budget)	£1.35m	Nil

In recent years while transfer values have been high, essentially that has meant that someone that would never have been liable to an LTA charge within their DB scheme could crystallise an LTA liability on transferring. The resulting advice would likely have been not to transfer.

For individuals that have previously received advice not to transfer solely based upon LTA considerations, it may now be worth them sense-checking whether that advice would remain the same now that the LTA charge is no more.

For more information please contact
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