

Budget 2021 freezes lifetime allowance for pension saving



What you **need to know**

- The 2021 Budget, given by Chancellor Rishi Sunak on Wednesday 3 March, focussed on further measures in response to the COVID-19 pandemic.
- It included one significant change for pensions – the maximum amount of tax-relieved pension saving that can be made during an individual's lifetime (the 'lifetime allowance', or LTA) was frozen at its current level of £1,073,100 (2020/21 tax year) for the next five tax years (i.e. 2021/22 to 2025/26).
- In recent years, the lifetime allowance has increased in line with price inflation (using the Consumer Price Index, CPI). The freeze will, in time, bring more pension savers into the scope of the LTA.
- There will also be a consultation shortly on whether the way the charge cap for defined contribution (DC) schemes operates limits schemes from investing in a broader range of assets. This is to support Government encouraging pension schemes to invest in the country's economic recovery.



Actions you can take

- **Identify whether any employees are now more likely to be caught by the lifetime allowance** and support them in understanding possible actions
- **Look out for and consider the impact of the consultation on charging caps** if you are a trustee of a DC arrangement.

Illustrative impact* of the LTA freeze if CPI is broadly 2% each year

Tax year	2020/21	2021/22**	2022/23	2023/24	2024/25	2025/26
Expected LTA pre freeze	£1,073,100	£1,078,500	£1,100,100	£1,122,200	£1,144,700	£1,167,600
LTA post freeze	£1,073,100	£1,073,100	£1,073,100	£1,073,100	£1,073,100	£1,073,100
Impact*	–	£5,400	£27,000	£49,100	£71,600	£94,500

* Impact on the amount of pension savings that can be accrued tax free by an individual

** Published CPI of 0.5% used to calculate previously expected 2021/22 LTA



For further information, please get in touch with **William Fitchew** or speak to your usual XPS Pensions contact.



01483 330 100



@xpsgroup



william.fitchew@xpsgroup.com



xpspensionsgroup