

# UPM-Kymmene (UK) Pension Scheme

## Lifetime Allowance

This announcement has been produced on behalf of the Trustee of the UPM-Kymmene (UK) Pension Scheme (the "Scheme") to provide you with some information relating to important potential elements of taxation regarding your pension benefits. It is very important that you consider the contents of this letter because more and more members are becoming subject to these taxation rules and it will be helpful to you to know the background to the rules and the options available to you as part of your retirement planning.

As you may be aware the Government has introduced limits which restrict the tax-efficient amount you can save into your pension plan. The overall limit is known as the Lifetime Allowance. If this limit is breached then there is the potential for a tax charge to be payable. Further details about this limit is provided below along with how the tax charges are payable.

## **Lifetime Allowance**

### **What is the Lifetime Allowance?**

The Lifetime Allowance is the maximum amount of benefits which can be drawn from all pension plans in your lifetime, without incurring a tax charge.

Any benefits above the Lifetime Allowance will be subject to a tax charge, known as a Lifetime Allowance Charge. The rate of tax charged will depend on how the benefits in excess of the Lifetime Allowance are taken.

If the excess benefits are taken as a lump sum then the tax charge on the excess benefits is 55%, and not further tax is payable. If the excess benefits are taken as a pension then the tax charge on the excess benefits is 25%, and the pension actually paid is subject to income tax at your marginal rate of tax.

### **What is the current Lifetime Allowance limit?**

The current limit is £1,073,000 and the Government has confirmed that it will remain at this level until April 2026.

### **When does the Lifetime Allowance limit come into effect?**

Each time you draw your benefits from any of your pension arrangements you use up a percentage of the Lifetime Allowance. There are various ways in which drawing your benefits triggers a Lifetime Allowance test. These include:

- Becoming entitled to a scheme pension or lifetime annuity;
- Designating funds to provide a drawdown pension;
- Becoming entitled to a relevant lump sum, e.g. a pension commencement lump sum (PCLS);
- A member reaching age 75 without crystallising funds/benefits;
- The payment of a relevant lump sum death benefit; and
- The transfer of benefits to a qualifying recognise overseas pension scheme.

### **How is the Lifetime Allowance calculated?**

If you have more than one pension, you have to add up the value of all your pension benefits. With a defined contribution plan, which also incorporates any of your additional contributions, it is the value of your pension pot. With a defined benefit plan the Lifetime Allowance is valued as your plan pension at the date payment commences multiplied by 20. If you give up part of your plan pension for a tax-free

lump sum, the value for measuring against the Lifetime Allowance is the lump sum received plus your subsequently reduced pension multiplied by 20.

### How do I pay the Lifetime Allowance charge?

Your Scheme benefits will be reduced to take account of the Lifetime Allowance charge and the charge itself will be paid by the Scheme Administrators (Capita).

The Scheme policy is for this Lifetime Allowance charge to be paid from the money held in your defined contribution fund. This applies if you are in the defined contribution section of the Scheme only and also if you have benefits in both the defined benefit section and the defined contribution section.

If you only have benefits in the defined benefit section of the Scheme then those benefits will be reduced to pay the tax charge.

### I am/will soon be close to the limit, what can I do?

If the value of all your pension funds already exceeds the Lifetime Allowance and you do not already have any existing form of protection from HM Revenue & Customs (HMRC), you may be subject to a tax charge in the future when you draw your benefits unless you take action to protect this higher value.

If the value of all your pension savings exceeds £1,073,000 you may be able to apply for protection, subject to a limit. To apply for LTA protection please follow the link below to the Government's website which allows you to apply for protection online:

<https://www.gov.uk/guidance/pension-schemes-protect-your-lifetime-allowance>

**Whether or not to apply for protection are both an individual and a complex decision. For these reasons, we would recommend consulting an Independent Financial Adviser before making a decision.**

## Information, guidance and advice?

### Information

Capita, the Scheme administrators, are able to provide you with information about your benefits, including the value of the Lifetime Allowance that your Scheme benefits has used up. Capita are not able to provide you with financial guidance, financial advice or tax advice.

If you would like to receive information about your Scheme benefits then please contact the Capita Administration Team using the following details:

Phone: 800 917 4552

Email: [upmpensions@capita.co.uk](mailto:upmpensions@capita.co.uk)

Address: UPM-Kymmene UK Pension Scheme, Capita, PO Box 555, Stead House, Darlington, DL1 9YT.

### Guidance

The Government has provided some free-to-use guidance services. Please follow the links to find out more:

<https://www.pensionwise.gov.uk/en>

<https://www.moneyadvice.service.org.uk/en/categories/pensions-and-retirement>

## **Advice**

We recommend that as part of your retirement planning you consider taking independent financial advice.

**Issued on behalf of the Trustee of the UPM-Kymmene (UK) Pension Scheme**

**December 2021**