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Lifetime Allowance to be reduced.

For the third time under the Coalition Government the Lifetime Allowance for pension savings is to be reduced, the Chancellor George Osborne confirmed in his 2015 Budget.

The allowance will fall from £1.25 million to £1million from April 2016, after being cut from £1.8 million to £1.5 million in April 2012 and then to £1.25 million in April 2014.

It means that after savers have pulled together total pension savings of £1million, tax is paid at a rate of up to 55%.

The Chancellor said that fewer than 4% of pension savers currently approaching retirement will be affected. And from 2018 the allowance will rise in line with inflation.

Critics said the news was disappointing and will in fact affect a significant number of savers, as well as creating further overall uncertainty around pension savings.

A £1m pension pot may seem huge, but with improvements in health and life expectancy, people who retire at 60 may need to use their pension income to cover their costs for 30 years or more.

"If you want your pension to continue to your partner and rise with inflation, £1m will buy you less than £30k a year. Many people aspire to more than that. As people live longer, Government should be encouraging them to build up adequate savings for longer lives including paying for very expensive long-term care. Reducing the amount that can be saved in pensions is, in our view, a move in the wrong direction."

Tax-relief on pension savings encourages workers to put away money for retirement. If you're a basic rate tax-payer for every 80p you pay into a pension, you receive 20p from the government. If you're a high-rate taxpayer the saving becomes more substantial; for every 60p you pay, you get 40p from the government.

But by limiting the total amount of cash that people can put away, the government risks discouraging savers, say experts.

Philip Smith, head of defined contribution pensions at PwC, said: "A long-serving senior civil servant or teacher could now hit the revised LTA around five years earlier than today. We are now effectively looking at a maximum pension of £50,000 per annum from employer-sponsored Defined Benefit (DB) schemes."

"For Defined Contribution (DC) savers, in the current low interest environment, a £1m pension

pot will purchase an inflation-linked income of around £28,000 per year. The level of inequality between DB and DC savers is startling, and today's announcement makes it more difficult for DC savers to plan for the future."

How much do you need to save for a £1 million pension pot?

This is how much you would need to put away a monthly basis to pull together a £1 million pension (in today's terms) at the age of 65, according to Hargreaves Lansdown.

Age When Contributions Start	Required Monthly Contribution (increasing by National Average Earnings)	Required Monthly Contribution (not increased)
30	£1,145	£2,015
40	£1,925	£2,950
50	£3,800	£4,980

The Chancellor also used the Budget to confirm that Pension freedoms introduced in last year's Budget will be extended to people who already have an annuity.

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