

Protection 2016

Overview

On 6 April 2016 the lifetime allowance was reduced from £1.25 million to £1 million.

Pension savers who are affected, or are likely to be affected, by the drop in the lifetime allowance may be able to protect some or all of their pension savings by applying for fixed protection 2016 and/or individual protection 2016.

The lifetime allowance has been reduced to £1 million – two forms of protection are now available.

What protection does fixed protection 2016 offer?

Anyone who holds fixed protection 2016 will retain a lifetime allowance of £1.25 million. Lump sum rights will be 25% of the value of their benefits, subject to a maximum of £312,500.

Where no protection is held the lifetime allowance will be £1 million, with maximum lump sum rights of £250,000.

What protection does individual protection 2016 offer?

Anyone who holds individual protection 2016 will retain a lifetime allowance equivalent to the value of their pension benefits on 5 April 2016, subject to a maximum of £1.25 million. Their lump sum rights will be 25% of the value of their benefits subject to a maximum of 25% of their personal lifetime allowance.

Where no protection is held the lifetime allowance will be £1 million with maximum lump sum rights of £250,000.

Who can apply for the new protections?

To be eligible for fixed protection 2016 all contributions must have ceased before 6 April 2016.

To be eligible for fixed protection 2016 no new contributions can be made, or relevant benefits accrued, on or after 6 April 2016.

To be eligible for individual protection 2016 pension savings as at 5 April 2016 must be valued at £1 million or more. It is possible to continue to accrue benefits/make contributions with individual protection in place.

There are also restrictions on applying for the new protections if one of the existing forms of protection is already in place.

Protection currently held ↓	Eligible for fixed protection 2016?	Eligible for individual protection 2016?
Primary protection	No	No
Enhanced protection	No	Yes*
Fixed protection	No	Yes*
Fixed protection 2014	No	Yes*
Individual protection 2014	Yes**	No
Fixed protection 2016	n/a	Yes*
Individual protection 2016	Yes	n/a

*Individual protection 2016 will be dormant until the other form of protection is given up or lost.

**Fixed protection 2016 will be dormant until individual protection 2014 is lost.

How are pension benefits valued for individual protection purposes?

To be eligible to apply for individual protection 2016 the total value of retirement benefits as at 5 April 2016 must have been in excess of £1,000,000.

Pension savings of at least £1 million are required to apply for individual protection 2016.

The total relevant amount for individual protection 2016 purposes is the sum of amounts A, B, C and D. These amounts must be provided to HMRC as part of the application process, and are defined as follows:

Amount A - the amount of pensions in payment before 6 April 2006 revalued as at 5 April 2016.

These are notionally valued using a factor of £25 to value each £1 p.a. of pension in payment (to allow for the notional value of any tax-free lump sum which may have been received).

For these purposes capped drawdown income is valued on the basis of 80% of the maximum available income, irrespective of whether the maximum income was being drawn or the size of the drawdown fund. For an individual that has now converted to flexi-access, drawdown income is valued on the basis of 80% of the maximum that could have been paid under capped drawdown rules in the pension year in which the fund converted to flexi-access.

Where there has been a benefit crystallisation event (BCE) since 6 April 2006, benefits in payment at this date are valued according to the deemed amount of lifetime allowance used up by them at the first BCE after 6 April 2006, re-valued in line with subsequent changes in the lifetime allowance.

Amount B - the amount of benefits crystallised between 6 April 2006 and 5 April 2016, valued as at 5 April 2016.

This is calculated by looking at the amount crystallised and re-valuing the amount in line with changes to the standard lifetime allowance. Previous BCEs are re-valued as: amount crystallised x (£1,250,000 / lifetime allowance at previous BCE).

Amount C - the amount of uncrystallised pension savings in UK-registered schemes, valued as at 5 April 2016.

Any benefits accrued under any defined benefits/final salary schemes as at 5 April 2016 are valued using a factor of £20 to value each £1 p.a. of accrued pension entitlement plus the value of any pension commencement lump sum rights.

Money purchase funds are simply valued as the uncrystallised fund value at 5 April 2016.

Amount D - the amount of uncrystallised pension savings in relieved non UK-registered schemes, valued as at 5 April 2016.

Individual protection will not be lost if any contributions are made by, or on behalf of, the member. The only event that can cause a reduction in, or loss of, individual protection is a pension debit being applied to an individual's pension rights as part of a divorce settlement.

Applying for the new protections from July 2016

It will be possible to apply for the new protections online via HMRC from July 2016. A reference number will be generated, and this must be passed on to the scheme administrator when taking benefits and relying on the protection. No certificate will be issued.

As yet HMRC has not issued a deadline for applications.

Applying for the new protections before July 2016

An interim application process has been put in place for people wanting to take benefits whilst relying on one of the new protections in the period April-July 2016. This is a paper-based process. HMRC has issued pro forma letters to apply and these can be found in [pension scheme newsletter 77](#).

These letters should be sent to:

Pension Schemes Services
Fitzroy House
Castle Meadow Road
Nottingham
NG2 1BD

Once the application has been accepted HMRC will issue a temporary reference number which must be supplied to the scheme administrator. Anyone using the interim application process will still need to register online once the system is available.

Using the new protections - case study

John is 56 and has £550,000 in his SIPP and £650,000 in a deferred final salary scheme, so total pension savings are valued at £1.2 million at 5 April 2016.

He decides to apply for both fixed and individual protection 2016.

In 2020, when John is 60, he takes the benefits from his final salary scheme and decides to access his SIPP benefits by taking all his pension commencement lump sum and designating the rest of his fund for drawdown to be taken at a later date. At this point the lifetime allowance is £1,050,625*.

Scenario 1

John's pension savings are now valued at £1.3 million. John uses his fixed protection of £1.25 million and has an excess fund of £50,000, which he opts to leave in his SIPP to provide an income after the 25% tax of £12,500 has been deducted.

Had John not had any protection the excess would have been £249,375 and the tax charge £62,343.75.

Scenario 2

John had invested in high-risk funds in his SIPP which have not all done well, and his total pension savings are now valued at £1 million. John decides to maximise his pension contributions and pays in £160,000 gross using his £40,000 annual allowance and each of the last three years' unused annual allowances, as he could not previously make contributions under his fixed protection. This is a combination of personal contribution and employer contribution as part of his retirement package and John does not have earnings above £110,000 so is not affected by the annual allowance taper. John informs HMRC that he has revoked his fixed protection 2016.

John then uses his individual protection 2016 of £1.2 million which allows him to access his full fund of £1,160,000 with no excess tax charge.

Had John not held individual protection 2016 he would only have been able to contribute £50,625 to bring his fund value up to the standard lifetime allowance without suffering an excess tax charge.

* The lifetime allowance is scheduled to rise from £1 million in line with the consumer price index (CPI) from 2018 onwards. This figure is an estimate based on CPI of 2.5%.

Individual protection 2014

It is still possible to apply for individual protection 2014.

To be eligible, pension savings as at 5 April 2014 must be valued at £1.25 million or more. It is possible to continue to accrue benefits/make contributions with individual protection in place.

Anyone holding individual protection 2014 will retain a lifetime allowance equivalent to the value of their pension benefits on 5 April 2014, subject to a maximum of £1.5 million. Their lump sum rights will be protected to a value of 25% of their personal lifetime allowance, so the maximum will be £375,000.

Applications for individual protection 2014 must be made online via www.hmrc.gov.uk by 5 April 2017. HMRC will email confirmation that it has received the application, and the protection certificate should be received within three months of the application.

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