TECHNICAL NOTE
FIXED PROTECTION 2012 AND 2014 AND INDIVIDUAL PROTECTION 2014

Scottish Widows Platform

For Professional Advisers only

From 6 April 2012, the standard lifetime allowance was reduced from £1.8 million to £1.5 million and then to £1.25 million from 6 April 2014. Whilst the Lifetime Allowance was abolished on 6 April 2024 the protections are still relevant in relation to the new Lump Sum Allowances.

The Government recognised that some individuals would have been affected by these reductions in the standard lifetime allowance, such as those who planned their pension benefits in the expectation of a higher lifetime allowance. Therefore, individuals not registered for primary and/or enhanced protection were able to apply for Fixed Protection 2012 and for Fixed Protection 2014 and/or Individual Protection 2014.

Fixed Protection 2012

Fixed Protection could be applied for by individuals who did not have primary and/or enhanced protection. It was generally only of interest to those individuals whose pension benefits had a value in excess of £1.5 million (or who anticipated that the value of their pension benefits would have exceeded £1.5 million by the time they are crystallised). It protects pension savings of up to £1.8 million.

Fixed Protection 2014

Fixed Protection 2014 works in the same way as Fixed Protection 2012 but protects pension savings of up to £1.5 million.

Individual Protection 2014

An individual with pension savings in excess of £1.25 million as at 5 April 2014 was eligible to elect for Individual Protection 2014 by 5 April 2017, provided they did not have primary protection. This means that Individual Protection 2014 could have been elected by an individual who had elected for enhanced protection, Fixed Protection 2012 or Fixed Protection 2014.

Individual Protection 2014 gave an individual a personalised lifetime allowance of the value of their pension rights as at 5 April 2014, subject to a limit of £1.5 million. This personalised lifetime allowance is fixed and does not increase.

Where an individual also has a higher lifetime allowance provided by enhanced or Fixed Protection, it will take precedence. Where enhanced or Fixed Protection is lost, an individual's lifetime allowance will revert to the Individual Protection 2014 level from the date on which enhanced or Fixed Protection is lost.

Valuation of benefits for Individual Protection 2014

Accrued benefits are valued as at 5 April 2014. In summary:

- For uncrystallised benefits under money purchase schemes, it is the value of the fund.
- For uncrystallised benefits under defined benefit schemes, it is the value of accrued pension multiplied by a factor of 20 plus any pension commencement lump sum (PCLS) (unless this is paid by commutation of the pension).
- For pre A-day pensions or annuities with no post A-Day crystallisation events the value is the pension in payment multiplied by a factor of 25. If, however, there has been a post A-Day crystallisation, the annual pension or annuity would have been attributed a value at the time of the first crystallisation event (i.e. for testing against the lifetime allowance). That value would then be adjusted to reflect changes to the standard lifetime allowance.
- For pre A-day drawdown with no post A-Day crystallisation events the value is the maximum permitted withdrawal multiplied by a factor of 25. If, however, there has been a post A-Day

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crystallisation, the drawdown fund would have been attributed a value at the time of the first crystallisation event (i.e. for testing against the lifetime allowance). That value would then be adjusted to reflect changes to the standard lifetime allowance.

- Benefits crystallised on or after A-day will be valued at the amount tested against the lifetime allowance, adjusted to reflect changes in the standard lifetime allowance.

Transfers

Where the individual's benefits are transferred to a new scheme, Fixed Protection will only be retained where the transfer complies with the following:

- A transfer from a money purchase arrangement can only be made to another money purchase arrangement under a registered scheme or a recognised overseas pension scheme.
- A transfer from a defined benefit scheme/cash balance scheme can only be made either to:
  - A money purchase arrangement under a registered scheme or a recognised overseas pension scheme, or
  - Another cash balance scheme, but only if the transfer is made because:
    - The transferring scheme is winding up, or
    - The sponsoring employer of the transferring scheme has sold all or part of its business, and benefits are being transferred to the new employer's scheme.

Auto enrolment and Fixed Protection

Since 6 April 2023 and the announcement of the abolition of the Lifetime Allowance, individuals with Fixed protection 2012 and 2014 have been able to contribute to their pensions without losing their fixed protection. However prior to 6 April 2023 if an employer auto-enroled an employee into a new pension scheme, the employee had one month to opt out of the scheme. Regulations then allowed that employee to be treated as though they had never been a member of that pension scheme and Fixed Protection was retained.

Pension credits under a pension sharing order

Providing a pension credit is transferred to an existing money purchase arrangement, Fixed Protection will be retained.

If a pension credit is transferred into an existing defined benefit/cash balance scheme, it's likely that Fixed Protection would be lost under the 'relevant benefit accrual' test.

If a pension credit is transferred into a new arrangement or a pension credit is received from a non registered pension scheme, Fixed Protection will be lost.

Pension debits under a pension sharing order

The 'donor' will not lose Fixed Protection as a result of a pension debit.

The amount of an individual's personalised lifetime allowance under Individual Protection 2014 may be reduced or lost altogether if the individual's rights are subject to a pension sharing order made on or after 6 April 2014. Individuals must notify HMRC of any pension debit so that their Individual Protection certificate can be amended or revoked.

Example (Fixed Protection 2012)

Charles is an active member of a defined benefits scheme accruing 1/80th of pensionable salary for each year of service and a lump sum of three times his pension.

He has applied for Fixed Protection and continues to build up benefits after 5 April 2012.

From 2012/13 tax year he will need to check on a regular basis to see if he has lost Fixed Protection. He does this by testing whether or not the value of his pension rights have gone up by more than the CPI increase, as above.

On 5 April 2012 Charles has 30 years of service and a pensionable salary of £150,000. He has built up a pension of:

30/80 × £150,000 = £56,250 pa, and a lump sum of:
3 × £56,250 = £168,750.

The value of Charles' pension rights on 5 April 2012 is therefore

(£56,250 × 20) + £168,750= £1,293,750.

The annual increase in CPI to September 2011 is 5.2 per cent. This means that to keep Fixed Protection Charles' pension rights on 5 April 2013 cannot be more than:

£1,293,750 × 105.2/100 = £1,361,025

At 5 April 2013 Charles' pensionable salary has increased to £155,000. His annual pension on 5 April 2013 is:

31/80 × £155,000 = £60,062.50 pa

Charles' has also built up a lump sum of:

3 × £60,062.50 = £180,187.50

This means the value of Charles' pension rights at 5 April 2013 is:

(£60,062.50 × 20) + £180,187.50 = £1,381,437.50

During the 2012/13 tax year Charles' pension rights have increased by more than the CPI increase. Charles' has lost Fixed Protection from the date on which the value of his benefits exceeded £1,361,025.

Lump Sum Allowances

The Lifetime Allowance was abolished from 6 April 2024 and replaced with the Lump Sum Allowance and the Lump Sum & Death Benefit Allowance.

Lump Sum Allowance

For Lump Sum Allowance Fixed Protection 2012 and 2014, the Lump Sum Allowance is 25% of £1.8 million (£450,000) and £1.5 million (£375,000) respectively.

For Individual Protection 2014, the Lump Sum Allowance is 25% of the member's personalised lifetime allowance. The Lump Sum Allowance will be reduced by any previous PCLS payments or the tax-free portion of any Uncrystallised Funds Pension Lump Sum (UFPLS) payments.

Lump Sum & Death Benefit Allowance

For Fixed Protection 2012 and 2014 the Lump Sum & Death Benefit Allowance is £1.8 million and £1.5 million respectively.

For Individual Protection 2014 it is the lower of £1.5 million or the value of benefits on 5 April 2014.

The Lump Sum & Death Benefit Allowance will be reduced by the value of any previous tax-free lump sums taken from the pension.

Key point summary

Fixed Protection 2012/2014 was most likely to have been of interest to those individuals who did not have primary and/or enhanced protection, but who:

- already had pension benefits with a value exceeding £1.5 million (Fixed Protection 2012) or £1.25 million (Fixed Protection 2014), or
- who expected the value of their benefits to exceed £1.5 million (Fixed Protection 2012) or £1.25 million (Fixed Protection 2014) by the time they are crystallised, or
- were utilising drawdown pensions and had concerns over the growth between crystallising and the previous age 75 Benefit Crystallisation Event (although this test has now been abolished), or
- wanted to retain a higher available portion of PCLS i.e. 25% of up to £1.8 million (Fixed Protection 2012) or 25% of up to £1.5 million (Fixed Protection 2014).
- Individual Protection 2014 may have been of interest to anyone who:
- had pension benefits exceeding £1.25 million on 5 April 2014, and
- Did not have Primary Protection

For more information on the Scottish Widows Platform, please contact your Business Development Manager. We may record or monitor calls to improve our service.

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