

TECHNICAL NOTE

FIXED PROTECTION 2016 AND INDIVIDUAL PROTECTION 2016

Scottish Widows Platform

For Professional Advisers only

From 6 April 2016, the standard lifetime allowance was reduced from £1.25 million.

The Government recognised that some individuals would have been affected by the reduction 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 are able to apply for Fixed Protection 2016 and/or Individual Protection 2016.

Fixed Protection 2016

Fixed Protection can be applied for by individuals who do not have primary and/or enhanced protection. It will generally only be of interest to those individuals whose pension benefits have a value in excess of the standard lifetime allowance (or who anticipate that the value of their pension benefits will exceed the standard lifetime allowance by the time they are crystallised). It protects pension savings of up to £1.25 million from a lifetime allowance charge.

If the standard lifetime allowance increases in the future to more than £1.25 million, Fixed Protection will cease and the individual's benefits will become subject to the higher standard lifetime allowance.

Individual Protection 2016

Individual Protection 2016 will give an individual a personalised lifetime allowance of the value of their pension rights as at 5 April 2016, subject to a limit of £1.25 million.

This personalised lifetime allowance will be fixed and will not increase unless the standard lifetime allowance becomes greater than the individual's personalised lifetime allowance at some time in the future.

An individual with pension savings in excess of £1 million as at 5 April 2016 will be eligible to elect for Individual Protection 2016, provided they do not have primary protection or Individual Protection 2014. This means that Individual Protection 2016 may be elected by an individual who has elected for enhanced protection, Fixed Protection 2012, Fixed Protection 2014 or Fixed Protection 2016.

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 2016 level from the date on which enhanced or Fixed Protection is lost.

Valuation of benefits for Individual Protection 2016

Accrued benefits are valued as at 5 April 2016. 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 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

If an employer auto-enrols an employee into a new pension scheme, the employee will have one month to opt out of the scheme. Regulations then allow that employee to be treated as though they had never been a member of that pension scheme and Fixed Protection will be 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. However they may wish to consider revoking Fixed Protection to restart contributions/benefit accrual to rebuild their pension rights after a divorce.

The amount of an individual's personalised lifetime allowance under Individual Protection 2016 may be reduced or lost altogether if the individual's rights are subject to a pension sharing order made on or after 6 April 2016. Individuals must notify HMRC of any pension debit so that their Individual Protection certificate can be amended or revoked.

Pension Commencement Lump Sums (PCLS)

The PCLS permitted maximum is 25% of the protected lifetime allowance, i.e. £1.25 million for Fixed Protection 2016 or the member's personalised lifetime allowance for Individual Protection 2016. However, where a member is also entitled to 'scheme specific' lump sum protection, their protected lifetime allowance will be used in place of the standard lifetime allowance when revaluing their A-day fund as part of the two-stage maximum permitted 'scheme specific' lump sum protection calculation.

Applying for Fixed and/or Individual Protection 2016

There is no application deadline for Fixed Protection 2016 or Individual Protection 2016. However, individuals will need to apply online for protection before they take their benefits as they will need the HMRC reference number if they want to rely on the protection.

Individuals will no longer receive a lifetime allowance protection certificate, instead once they have successfully applied for protection the online service will provide them with a reference number which they will need to keep.

Key point summary

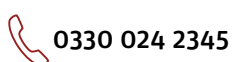
Fixed Protection 2016 is most likely to be of interest to those individuals who do not have primary and/or enhanced protection, Fixed Protection 2012 or Fixed Protection 2014, but who:

- already have pension benefits with a value exceeding the standard lifetime allowance, or
- who expect the value of their benefits to exceed the standard lifetime allowance by the time they are crystallised, or
- are utilising drawdown pensions and have concerns over the growth between crystallising and the age 75 Benefit Crystallisation Event (i.e. 5A), or
- want to retain a higher available portion of PCLS i.e. 25% of up to £1.25 million.

Individual Protection 2016 will interest anyone who:

- had pension benefits exceeding £1 million on 5 April 2016, and
- has pension benefits that exceed (or expects to exceed by the time they are crystallised) the standard lifetime allowance, and
- wishes to, potentially, make further pension contributions/accrue additional pension benefits on or after 6 April 2016.

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



Every care has been taken to ensure this information is correct and in accordance with our understanding of the law and HM Revenue & Customs practice, which may change.

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