



Fixed and Individual Protection 2016

A guide for employees

Fixed and Individual Protection 2016

With effect from April 2016, the Lifetime Allowance will reduce from £1.25 million to £1 million. The Lifetime Allowance is the maximum amount you can accrue under all your pension arrangements during your lifetime. It is tested at certain events which are known as Benefit Crystallisation Events, the most common one being on drawing benefits from your pension or on death before drawing benefits. Anything in excess of the Lifetime Allowance will be subject to tax, usually at 55%.

More details on the Lifetime Allowance and when this will apply can be found in our guide to the Lifetime Allowance which you can access via:

<http://onepc.co.uk/guides/lifetime-allowance/>

Both Fixed and Individual Protection can be used by pension members to help protect their funds against the decrease in the Lifetime Allowance.

What is Fixed Protection?

With Fixed Protection you will effectively continue to have your benefits tested against the £1.25 million limit rather than the reduced Lifetime Allowance of £1 million. Benefits will be tested against the £1.25 million limit until such time as either Fixed Protection is lost or else the standard Lifetime Allowance increases above this limit.

One of the conditions applying to Fixed Protection is that all pension contributions and any pension accrual (under a Defined Benefit pension arrangement, such as a Final Salary pension) must cease with effect from 5th April 2016. If pension contributions or benefit accrual continues beyond this date then this protection will be lost.

Fixed Protection is not available to anyone who has previously applied for Primary or Enhanced Protection. These were different types of protection introduced in 2006 when the pension regime changed and the Lifetime Allowance was initially introduced.

What is Individual Protection?

With Individual Protection, you will effectively have a personalised Lifetime Allowance against which your benefits will be tested. This individual Lifetime Allowance will be somewhere between £1 million and £1.25 million and will be based upon the value of your total pension benefits as at 5th April 2016. In this respect, the value of your total pension benefits will be calculated as follows:

- For any Money Purchase or Defined Contribution pension arrangements (such as a Group Personal Pension) this will be value of the pot as at the 5th April 2016.
- For any Defined Benefit pension arrangements (such as a Final Salary Pension), the value is the accrued pension multiplied by a factor of 20 plus any tax free lump sum that is payable in addition.

Unlike with Fixed Protection, anyone who has applied for Individual Protection can, if they wish, continue to contribute towards a pension or accrue benefits under a pension arrangement.

How do I apply for protection?

You can register for protection online with effect from July 2016. Unlike with previous protections, a certificate will not be issued but at the time of applying you will be given a protection reference number which you must note. This reference number must then be given to your pension scheme when you want to take benefits using your protected Lifetime Allowance.

There is no deadline by which you must have applied for protection although you should bear in mind the following points:

- If you want to apply for Fixed Protection, pension contributions/accrual must cease by 5th April 2016 and so the decision will need to be made in advance of this date. If you are a member of a workplace pension, bear in mind that most employers will pay contributions the month following that in which they are deducted. This means that the last contribution deducted from your salary may need to be from your February pay as anything deducted in March may not be paid across until after the tax year end.
- You will need to have applied for protection before any Benefits Crystallisation Events take place, if you wish to rely on the protection.

What if I want to take my benefits before July 2016?

If you wish to take benefits before July 2016 and wish to utilise protection, you can apply for temporary protection by writing to HMRC. HMRC will then consider the application and confirm in writing that this has been granted. They will also provide you with a temporary reference number which again should be given to the pension scheme. This temporary reference number will only apply up until 31st July 2016. Anyone using this interim process must also apply for the relevant protection via the online portal once this goes live.

Can I apply for protection even if my fund is less than £1 million?

If your total funds are less than £1 million as at 5th April 2016 but you expect these to exceed this level in the future, you can still apply for Fixed Protection and there is no minimum fund value required in order to apply for this. You will not be able to apply for Individual Protection as this is only available for those with total funds in excess of £1 million. As noted previously, if you do apply for Fixed Protection you can no longer pay into any pension arrangements (or accrue benefits under any pension arrangements) after 5th April 2016.

Is applying for protection right for me?

If you are unsure as to whether protection is right for you, we would strongly recommend that you seek advice. However, some of the factors that may influence this decision are as follows:

- How much are your total pension funds worth? - This will help determine the protection options available to you.
- How old you are and how long until you intend to draw benefits from your pension? - The longer you have until you intend to draw benefits, the more difficult it will be predict the best option for you. If you are closer to retirement, it may be easier to estimate the value of your funds at retirement.
- Your attitude to risk and expected investment returns – The expected investment returns on your funds will have a big influence on your decisions.
- Does your employer pay into your pension? – If you stop paying into the pension, usually your employer will also stop paying in on your behalf. In some cases your employer may be

willing to re-direct their contribution elsewhere but there is no obligation on them to do so. This is a difficult decision and one that needs to be given serious consideration.

The information contained in this document is based on One Pension Consultancy's understanding of the legislation as at February 2016. This document is for information purposes only and does not constitute advice.

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