



Protections from 2012 onwards

The lifetime allowance limit has varied since its introduction in April 2006, increasing gradually from £1.5 million to £1.8 million by April 2010, before reducing back to £1.5 million two years later.

Before 5 April 2012, an individual could have applied for fixed protection to maintain their lifetime allowance as £1.8 million.

The lifetime allowance was further reduced in April 2014 to £1.25 million and in April 2016 to £1 million. Individuals who wanted to protect the pension benefits they had built up could choose from fixed protection or individual protection (the lifetime allowance has since increased to £1,055,000 for the 2019-20 tax year).

This factsheet gives more details on these protections, how they work and when they could be used.

Fixed protection

Fixed protection was introduced to allow individuals to protect the pension benefits they had built up against a reduction in the lifetime allowance to £1.5 million. A different form of fixed protection was introduced for the reduction in the lifetime allowance in 2014 before changing again for the reduction in the lifetime allowance in 2016.

By opting for fixed protection the individual is able to keep their lifetime allowance at the previous higher level. In return, no further contributions can be paid into defined contribution plans and there can only be further accrual within strict limits in defined benefits schemes.

Type of protection	Fixed lifetime allowance	Date contributions and accrual had to stop
Fixed protection	£1.8 million	5 April 2012
Fixed protection 2014	£1.5 million	5 April 2014
Fixed protection 2016	£1.25 million	5 April 2016

Individuals who opt for fixed protection cannot already have primary, enhanced or an earlier form of fixed protection. There is no requirement to have a certain amount of pension savings to apply for fixed protection.

Fixed protection is likely to be suitable for individuals whose pension savings are expected to be above the new lower standard lifetime allowance when they take benefits, as any benefits they take would be tested against higher previous lifetime allowance rather than the standard lifetime allowance.

Losing fixed protection

Fixed protection can be lost if:

- further contributions are paid to defined contribution schemes, or if there is further accrual in defined benefits schemes after 5 April of the relevant year (see the table opposite);
- a new pension arrangement is set up for an individual other than to accept a transfer of their existing pension benefits; or
- any transfer is made out of an individual's existing pension arrangements that is not a 'permitted transfer' (these usually are transfers between money purchase arrangements, or transfers from a defined benefit scheme to a money purchase scheme).

If fixed protection is lost, the member needs to notify HMRC within 90 days.

Divorce

Fixed protection won't be lost on pension credits on divorce being paid into an individual's existing money purchase arrangement, as long as it's from a registered pension scheme. But if a pension credit is transferred into a new arrangement for the member, then fixed protection will be lost (because the setting up of a new arrangement will trigger loss of fixed protection).

The deduction of a pension debit from an individual's pension arrangement will not result in the loss of fixed protection. But if an individual decides to make further pension savings to build up their funds again after the debit then fixed protection would be lost.



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Automatic enrolment

If they are automatically enrolled into a pension scheme, individuals will have to opt out within the time limits, if they want to keep their fixed protection

From 1 April 2015, if an employer has reasonable grounds to believe a jobholder has fixed protection, then they are no longer required to automatically enrol the individual. The onus is on the individual to tell them though – for example by showing them a copy of the HMRC certificate or giving them the HMRC protection reference number.

Individual protection

Individual protection was introduced in 2014 for the reduction in the lifetime allowance to £1.25 million, and a further change was introduced in 2016 when the lifetime allowance reduced to £1 million.

Individuals who have already built up savings of more than the new reduced lifetime allowance can opt for individual protection, and if so then their lifetime allowance (the 'relevant amount') is fixed at:

- For individual protection 2014 – the value of their benefits at 5 April 2014 (as long as these were more than £1.25 million, but protection is limited to £1.5 million);
- For individual protection 2016 – the value of their benefits at 5 April 2014 (as long as these were more than £1 million, but protection is limited to £1.25 million).

From April 2018, the lifetime allowance has started to increase each in year in line with CPI. The lifetime allowance is £1,055,000 for the 2019-20 tax year. In future, if the standard lifetime allowance rises to more than £1.25 million then individual protection 2016 will cease, and the individual's lifetime allowance will be the higher standard lifetime allowance. (The same thing will happen to individual protection 2014 if the lifetime allowance rises above £1.5 million.)

Holding two forms of protection

It's possible to hold both fixed protection and have individual protection as a back-up if fixed protection is broken (for example by paying a contribution), either as:

- Fixed protection 2014 with individual protection 2014; or
- Fixed protection 2016 with individual protection 2016.

It's also possible for someone with individual protection 2014 to take out fixed protection 2016 as a back-up. In this situation individual protection 2014 takes precedence, and fixed protection only applies if individual protection 2014 is lost. It's unlikely individual protection will be lost – only on a pension sharing order being made on divorce and the pension debit reduces the value of the member's benefits to below £1.25 million.

Retrospective protection on death

If the individual dies before applying for protection, then the individual's legal personal representatives (LPRs) can apply retrospectively for fixed protection or individual protection 2016. LPRs may choose to take this action if the payment of death-in-service benefits have to be tested against the lifetime allowance, and results in a potential lifetime allowance charge.

Applying for 2016 protections

Individuals wanting to rely on protection can apply online to HMRC. To do so they need to have an HMRC Online Services Account.

HMRC will issue a protection reference number, and an individual will have to give this number to a pension scheme each time benefits are being taken. As part of the new online process, HMRC will no longer issue any paper protection certificates.

There was a period of three months between April 2016 and July 2016, before the online system became available, where an interim process had to be followed for those wanting to rely on fixed or individual protection. Those using this interim process would have been given a temporary reference number by HMRC, and now they have to make a full application for protection using the online application process. They will then be given a permanent reference number, which will replace any temporary reference issued.

A protection reference number for fixed protection 2016 was not issued by HMRC if it was being applied for as back up to individual protection 2014. HMRC instead informed individuals if their application for fixed protection 2016 as a back up had been successful.

However, individuals without a UK national insurance number, who wish to apply for 2016 protections, need to contact HMRC by telephone as the online system does not cope with these exceptional cases.

Deadlines

People wishing to rely on individual protection 2014 had until 5 April 2017 to apply to HMRC using the online application.

There is no deadline for people wishing to rely on individual protection 2016 or fixed protection 2016 to apply to HMRC. However, at the moment scheme administrators have to provide values for savings as at 5 April 2016, but this requirement only applies for four years. After 6 April 2020, scheme administrators may be unwilling or unable to provide this information.

Although there is no deadline, it's advisable for individuals to apply to HMRC for protection before they take their pension benefits so that any benefit crystallisation event can be calculated assuming the correct level of lifetime allowance. Anyone wanting to rely on fixed protection had to have stopped contributions or accrual by 5 April 2016.



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If you only read one thing read this

- Fixed and individual protections were introduced to help individuals protect their benefits from falls in the standard lifetime allowance.
- By opting for fixed protection, individuals can opt to keep their lifetime allowance at the higher level. However, fixed protection can be lost if contributions are paid or if further benefit accrual happens. It can also be lost if a new pension arrangement is set up for the individual (unless it is to accept a transfer of benefits).
- Individual protection is suitable for those who have built up benefits of above the new lifetime allowance, but are unable to stop contributing or building up further accrual.
- People can hold both types of protection, with individual protection usually being used as a back-up if fixed protection fails.
- There is no deadline for people applying for the 2016 protections. They can apply for protection by using the HMRC online process and they will receive a protection reference number.

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