

## Industry Update

### Reduction in lifetime allowance – options for protection

#### Information for Trustees and Employers

If an individual's pension savings exceed the Lifetime Allowance (LTA) then tax charges apply. Consequently, pensions savings above the LTA are much less tax efficient, and individuals may then need to consider other forms of savings/remuneration. The LTA started at £1.5million in 2006/7 and had increased to £1.8million by 2010/11. But the Government reduced the LTA back to £1.5million in 2012/13 and then £1.25 million in 2014/15, and in last year's Budget it confirmed that the LTA will further reduce to £1million from 2016/17. For members in a defined benefit scheme, a LTA of £1million is broadly equivalent to a pension of £50,000 p.a.

Recognising that some people will clearly be close to the old LTA, or will have planned their pension savings based on the pre-2016/17 limit, the Government is introducing two forms of transitional protection to be made available to anyone who thinks they may be affected.

- Fixed Protection 2016 (FP2016)
- Individual Protection 2016 (IP2016)

In addition, an earlier form of protection, Individual Protection 2014 (IP2014), is still available for some individuals.

## Key Features

There are significant differences between the various forms of protection available:

	FP2016	IP2014 & IP2016
Availability	Regardless of size of existing pensions savings.	Only to those whose pensions savings exceeded £1.25m at 5 April 2014 (IP2014); only those whose savings exceed £1m at 5 April 2016 (IP2016).
Personal LTA if Claimed:	£1.25m	Value of pension savings on 5 April 2014 or £1.5m if less (IP2014); value of pension savings on 5 April 2016 or £1.25m if less (IP2016).
Can accrue further benefits after 5 April 2016?:	No. Must cease all pensions saving by 5 April 2016.	Yes.
Deadline for claiming:	Before benefits taken.	5 April 2017 (IP2014); before benefits taken (IP2016).
Potentially attractive to:	Individuals whose existing pensions are likely to grow to exceed £1m by the time they draw benefits.  Those whose Employer will provide alternative remuneration if pensions savings cease.	Individuals who want to continue pensions savings after 5 April 2016.  Those who would not be eligible for any alternative remuneration.

## Applying for protection

Applications for IP2014 can be made online via the HMRC website. HMRC is introducing a new different online system for applications for IP2016 and FP2016 which is due to be available in July.

Because this new system will not be available until July, a member who has pension savings of £1m or more with no other protection and who wishes to draw benefit between April and July 2016 will be able to make an interim application for either IP2016 or FP2016 or both on paper from April 2016. The application must be made on or after 6 April 2016 and before benefits are drawn and must be followed by an online application for IP2016 or FP2016 (or both) if the protection is to be maintained.



**If the scheme member fails to make a full online application, their interim application for IP2016 or FP2016 will not be valid and they will be liable to a lifetime allowance tax charge on their pension savings above the new lifetime allowance of £1million.**

Members granted interim protection will be given a temporary reference number valid until 31 July 2016. A permanent reference number will be given when the online application is finalised.

A member who wants to take benefits after the online system is in operation only needs to make one online application.

### Trustee role in supporting members who have or are applying for protections

#### Member of your scheme applying for IP2014 or IP2016

A Member of your scheme who is applying for protection may ask you for details of the value of their benefits under the scheme as at 5 April 2014 or 5 April 2016 in order to make their application.

You should ask your pension administrator to provide the valuation urgently if benefits are to be drawn in the near future. There is less urgency if benefits are not to be drawn for some time as the applications may be made for some time into the future.

#### Member of your scheme applying for FP2016

A Member applying for FP2016 may not ask you for any information. Application for FP2016 requires confirmation that certain other protections are not operating, but no valuation is required. However, you may wish to remind members that FP2016 is lost if they accrue benefit or pay contributions after 5 April 2016.

#### Trustee record keeping for those with IP2016 and FP2016

Trustees will need to be aware of the protections held by members in order that benefits are calculated and taxed correctly.

Members granted IP2016 and/or FP2016 by HMRC will not have certificates to prove their entitlement to a higher Lifetime Allowance. Instead they will be given reference numbers (including temporary ones if drawing benefits before the end of July). Trustees should record the reference numbers so they can prove to HMRC that benefits have been taxed correctly and also pass it /them on to their administrator.

Both the temporary and permanent reference numbers (when available) are needed by the administrator for members drawing benefits before the end of July, as HMRC reports cannot be made with the temporary number.

Members with IP2014 and IP2016 may continue to accrue benefit and make pension contributions without prejudicing that protection.

In order to retain FP2016, members must not accrue further benefit and should have withdrawn from the scheme prior to 6 April 2016.

It is therefore important for Trustees and administrators to know who has the protection and, in the case of IP2016 and IP2014, what level of benefit is protected.

### Employer record keeping for those with FP2016

As members with FP2016 must not accrue further benefit or participate in the scheme, it is important for the Employer to know about the protection. If the scheme is being used for auto enrolment, members with FP2016 should not be auto enrolled or re-enrolled. There is an exemption from the Employer's auto enrolment duty for these individuals.

If you would like to discuss this further, please get in touch with your usual contact at Cartwright Group:

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