

HSC Pension Scheme: The Lifetime Allowance (LTA) and Fixed Protection

HMRC (Her Majesty's Revenue and Customs) have announced that from 6 April 2012, the lifetime allowance (LTA) will be reduced from £1.8 million to £1.5 million. There will be a new form of protection in relation to this reduction, called 'fixed protection'.

Is fixed protection available to everyone?

Fixed protection is available to all members except those who have existing primary or enhanced protection. Members do not need to have built up pension rights of more than £1.5m to apply

How do members apply for fixed protection?

Applications must be made directly to HMRC. An application form APSS227 can be found on HMRC's website at: www.hmrc.gov.uk. The APSS application must be received at HMRC before 6 April 2012, and HMRC have confirmed that they will not accept late applications. **Important note:** To apply members **do not** require any form of valuation from HSC Pensions.

The effect of fixed protection on the LTA.

A member who has been accepted for fixed protection will have their lifetime allowance 'fixed' at £1.8 million, rather than the reduced standard LTA of £1.5 million. Fixed protection conditions

To retain fixed protection, the member must not break any of HMRC's restrictions.

The member:

- Cannot pay any contributions to a Money Purchase arrangement (such as the HSC AVC Scheme), after 5 April 2012
- Cannot start a new arrangement other than to accept a transfer of existing pension rights
- Cannot have 'benefit accrual' (see below)
- Will be subject to restrictions on whether and how the member can transfer their benefits

Benefit Accrual

It is the member's responsibility to test for benefit accrual each year. Benefit accrual will occur if in a tax year, from 2012/13 onwards, the value of the member's HSC Pension Scheme rights over the tax year increase by more than the percentage by which the Consumer Price Index (CPI) increased in the year ending in September of the previous tax year.

So for the tax year 2012/13 it will be the percentage increase in the CPI for the 12-month period ending September 2011. If there is no increase, or a fall in CPI in this period, then the percentage rate is nil.

Members should take professional advice on their own individual circumstances if they believe that remaining an active member of the Pension Scheme could cause a future breach of benefit accrual. Members should also consider how a future election to purchase additional pension could affect any fixed protection.

If members have other money purchase pension arrangements, for example Money Purchase AVC's, Personal Pensions, Stakeholder Pensions, then fixed protection will be lost if a contribution is received in their arrangements on or after 6 April 2012. However, contributions may continue to a life assurance policy providing death benefits that started before 6 April 2006.

Opting Out of the HSC Pension Scheme

If a member decides to opt out of the HSC Pension Scheme, the opt-out applies at the end of the pay period that the SD502 is received by their employer. Therefore members should ensure that their employer receives the SD502 before 31 March 2012.

Professional Advice

Decisions about continuing in the HSC Pension Scheme, retirement or leaving the HSC Pension scheme should be taken carefully; while tax is definitely one consideration, it is not the only one. HSC Pensions is unable to provide advice to members on whether they should consider fixed protection and members should consider taking professional financial advice on this matter before making a decision.

Transfers

Members will normally lose fixed protection if they transfer to:

- a scheme that **is not** a money purchase arrangement under a registered pension scheme or a recognised overseas pension scheme
- a scheme that **is** a defined benefit or cash balance scheme.

Permissible transfers

Members can transfer from the HSC Pension Scheme to the following schemes and retain their fixed protection:

- a money purchase arrangement under a registered pension scheme - as long as no contributions are paid into the new money purchase arrangement and
- a recognised overseas pension scheme

Loss of fixed protection

If a member loses fixed protection then it is the member's responsibility to notify HMRC of this.

Further Information

More detailed information can be found at: www.hmrc.gov.uk and members considering this option should carefully read the HMRC information published on Fixed Protection. Members seeking a financial adviser can obtain more information at: www.unbiased.co.uk . It is advisable for members to check that any company they choose is authorised with the Financial Services Authority at: www.fsa.gov.uk

