Business Services Organisation
HSC PENSION SERVICE

Your Future In Our CARE
HSC Pension Service

Reduced Lifetime Allowance: How this affects members with Enhanced Protection, Primary Protection and Fixed Protection

The standard lifetime allowance (LTA) was reduced from £1.25m to £1m from 6 April 2016. HM Revenues & Customs (HMRC) recognize that some members may have already built up a total pension savings of more than £1.25m, and because of this they can apply for fixed protection.

Members who have a certificate of fixed protection must test for Benefit Accrual.

When to test for benefit accrual

It is important to note HSC Pension Service will not test benefits for benefit accrual. It is the member's responsibility to test for benefit accrual, which can occur at any time during a tax year.

The member must test for benefit accrual with sufficient regularity to ensure they meet their obligation see not 2 of the fixed protection certificate.

If benefit accrual has occurred members must inform HMRC of this within 90 days of it occurring. HMRC can impose fines on late notifications; these are an initial fine of up to

£300 and a further £60 for each day the notification is late.

Benefit Accrual

Benefit accrual was introduced from April 2012 where fixed protection will be lost if the capital value of the HSC benefits increase by more than the 'relevant percentage' at any time during a tax year. The member will lose their fixed protection at the date the relevant percentage was exceeded.

The capital value of HSC benefits is: 20 x pension + lump sum

The pension and lump sum are based on the benefits the member would have received if they had reached normal retirement age on that day. These benefits take no account of any enhancements due to ill-health or actuarial reductions due to early retirement. They do include any additional purchase, any doubled years due to Mental Health Officer status.

The relevant percentage in the HSC Pension Scheme is the percentage by which the Consumer Prices Index (CPI) increased in the year ending in September of the previous tax year.

If there is no increase, or a fall in CPI in this period, then the relevant percentage rate is nil.

When carrying out a benefit accrual test during a tax year, the relevant percentage to be used is always by reference to the annual rate, rather than a proportion of it. For tax year 2016/17 the relevant percentage is 0.0% and applies to increases in pension rights occurring in this tax year.

How to test for benefit accrual

To test for benefit accrual in the HSC Pension Scheme the member has to establish the capital value of their benefits payable on 6 April 2012 (and each subsequent year whilst they retain fixed protection). They must then calculate the growth of their benefits to confirm if there is benefit accrual. Where benefit accrual occurs they must establish the exact date that accrual occurred.

Example

On 5 April 2015 John who works full time has 42 years membership and pensionable pay of £90,967, giving him a pension of £47,757.68, a lump sum of £143,273.04 and a capital value of £1,098,426.64.

On 6 April 2015 John's pensionable pay rises to £95,333. At this point he can make a forecast that at 5 April 2016, with growth in membership of 1 year to 43 years, he will have potential benefits of a pension of £51,241.49, a lump sum of £153,724.47 and a capital value of £1,178,554.27.

The maximum growth allowed before benefit accrual occurs is the capital value at the beginning of the year plus CPI from the previous September.

£1,098,426.64 + 0.0% = £1,098.426.64

As this figure is lower than the capital value John thinks he will have on 5 April 2016 he knows that benefit accrual will occur at some point during the tax-year 2016/17. John knows he must inform HMRC within 90 days of benefit accrual occurring and must decide on the frequency of when to test for benefit accrual in order to establish the exact date it occurs.

John decides to test for benefit accrual at the end of each calendar month.

From 6 April 2015 to 30 November 2015 his membership has increased to 42 years 239 days while his pensionable pay has risen to £93825.84 (£90,967 x 126 / 365 + £95,333 x 239 / 365) giving him a pension of £50,026.52, a lump sum of £150,079.56 with a capital value of £1,150,609.96 – benefit accrual has not yet occurred.

From 6 April 2015 to 30 December 2015 his membership has increased to 42 years 270 days while his pensionable pay has risen to £94,196.64 (£90,967 x 95 / 365 + £95,333 x 270 / 365) giving him a pension of £50,324.23, a lump sum of £150,972.69 with a capital value of £1,157,457.29 – benefit accrual has occurred.

John then works out the date benefit accrual actually occurs – on 23 December 2015.

Practitioner members must establish the value of their benefits and their capital value on 5 April 2012, using dynamised pay and membership including any salaried Hospital/community pensionable membership and any additional purchases to that date. Again this capital value would be increased by the appropriate CPI amount for each subsequent year (0.0% for the tax-year 2016/17) to give the amount benefits can grow before benefit accrual occurs.

To establish the capital value of benefits at any particular date, the member would need to add the appropriate monthly dynamising figure and adjust for hospital/community pensionable membership.

Late retirement factors applied to the 2008 Section

Late retirement factors applied to the 2008 Section of the HSC Pension Scheme do not cause benefit accrual because they are a ‘relevant percentage’. This means a member must still test for benefit accrual in respect of the growth from the extra value added to their pension by the late retirement factors.

Where can members find out more about fixed protection?

Full guidance on how fixed protection works can be found in the Registered Pension Schemes Manual (RPSM), pages RPSM11101500 TO RPSM11101550, on HMRC’s website at:

http://www.hmrc.gov.uk/manuals/rpsmmanual/RPSM11101500.htm