

## **HSC Pension Scheme Reduced Lifetime Allowance: How this affects members with Enhanced Protection, Primary Protection and Protected Lump Sum**

The standard LTA reduces to £1.5m from the 6 April 2012.

For members who hold a certificate of protection of Enhanced Protection (EP), Primary Protection (PP) or a Protected Lump Sum (PLS), the reduction to the standard LTA affects each type of protection differently.

Having EP or PP can protect against all or part of a LTA charge where the following HSC pension benefits crystallise:

- a retirement pension,
- a serious ill health lump sum,
- a death benefit lump sum,
- a transfer value to a Qualifying Recognised Overseas Pension Scheme (QROPS).

Having a PLS can protect against all or part of a LTA charge where the following HSC pension benefit crystallises:

- a retirement lump sum.

### **Enhanced Protection**

Where a member retains EP there is no liability to a LTA charge if the capital value of their HSC pension exceeds the standard LTA.

The percentage of LTA used by the HSC pension benefits is based on the standard LTA at the date of the Benefit Crystallisation Event (BCE); up to and including 5 April 2012 this will be £1.8m and from 6 April 2012 this will be £1.5m.

From 6 April 2012 the maximum amount of tax-free lump sum is £375,000, dependant on HMRC's Pension Commencement Lump Sum rule (PCLS). (Please see the section below about PCLS).

### **Primary Protection**

Members with PP have a personal LTA greater than the standard LTA. This personal LTA is set by reference to the total value of their pension rights on 5 April 2006 which is converted to a PP factor by HMRC. An LTA charge will apply only to benefits paid after their personal LTA has been used up. Until 5 April 2012, personal LTA under PP is adjusted annually in the same way as the standard LTA.

From 6 April 2012, the personal LTA is adjusted by reference to £1.8m (whilst this figure is greater than the standard LTA). The available personal LTA is calculated as follows:  
Personal LTA = £1.8m + (£1.8m x PP factor)

The percentage of LTA used by HSC pension benefits is based on the standard LTA at the date of the BCE; up to and including 5 April 2012 this will be £1.8m and from 6 April 2012 this will be £1.5m.

From 6 April 2012 the maximum amount of tax-free lump sum is £375,000, subject to HMRC's PCLS rules. (Please see the section below about PCLS).

### Pension Commencement Lump Sum

The PCLS is the amount of lump sum that can be paid tax-free. HMRC restrict this amount to the **lower** of:

- 25% of the capital value of the benefits to be paid; or
- 25% of the available standard LTA.

This means for any member whose benefits crystallise on or after 6 April 2012 the maximum tax-free lump sum that they may be entitled to is £375,000 unless they hold a PLS (see below).

### Protected Lump Sum

Members who on 6 April 2006 had a lump sum of more than £375,000, from all their pension providers, could have their lump sum protected.

#### *PLS and Enhanced Protection*

A member who has a PLS with their EP, then the PLS is quoted as a % on the EP certificate. There is no change in the calculation of the maximum PCLS as a result of the reduction in standard LTA. A member is allowed to take a PCLS that does not exceed the PLS % of the capital value of the benefits to be paid.

#### *PLS and Primary Protection*

For members who have PP and a PLS, which takes the form of a monetary amount. Up to 5 April 2012 the PLS quoted on the PP certificate is revalued by multiplying the PLS by the standard LTA for that tax-year divided by £1.5m.

From 6 April 2012 the PLS is increased by 20%.

#### *Example:*

*In the tax year 2012/13 a PLS of £400,000 is revalued to £480,000 (£400,000 + 20%).*

The above information is HSC Pension Services' current understanding of the legislation and guidance issued by HMRC. More information about the protection of pension rights can be found in the Registered Pension Schemes Manual (RPSM) located on HMRC's website at <http://www.hmrc.gov.uk/manuals/rpsmmanual/rpsm11101000.htm>.