Pensions BULLETIN 06

Lifetime Allowance Fixed Protection

If, as a member of a pension scheme, you think that you hold a form of fixed or enhanced protection from lifetime allowance charges, you must take action before 1 April 2022 if you want to avoid losing your protection.

What is the Lifetime Allowance and Fixed Protection?

The Lifetime Allowance (LTA) is the total value of all pension benefits you can have without triggering an excess benefits tax charge. If the value of your pension benefits when you draw them is more than the lifetime allowance, or more than any protections you may have, you will have to pay tax on the excess benefits.

The lifetime allowance was introduced in 2006 and was reduced in 2012, 2014 and again in 2016. Each time the lifetime allowance reduced, if you had already planned your pension savings on the basis of the higher lifetime allowance, you were able to protect your pension savings by **applying to HMRC for a lifetime allowance protection**.

Why could my protection be lost?

Lifetime allowance protection can be lost if you transfer to a new pension scheme.  Following the McCloud case, from 1 April 2022, all active members of public service schemes will accrue benefits under the reformed (career average) pension scheme.

To remedy the discrimination that was identified by the McCloud case, in 2023 schemes will return individuals to their legacy scheme for the period 1 April 2015 to 31 March 2022.  This will mean that individuals who originally lost their enhanced or fixed protection solely due to joining the reformed scheme will not have lost their protection.  However, they will lose their protection if they accrue benefits under the reformed scheme from 1 April 2022

To keep fixed or enhanced protection:

* individuals who have not yet joined the reformed scheme will need to opt out of joining that scheme by 1 April 2022.
* individuals already in the reformed scheme will need to stop accruing benefits from 1 April 2022.

Further guidance on what members need to do to reinstate their protection as a result of the 2023 McCloud remedy, will be provided at a later date.

Action required

If you think that you have a fixed protection arrangement in place with HMRC, please contact pensions@nifrs.org urgently.

Members should think carefully before taking a decision to opt out of the pension scheme and may wish to seek independent financial advice to help them to understand the impacts and decide the best course of action regarding protections from lifetime allowance charges.

Preparing for your future.

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