INDIVIDUAL PROTECTION 2016 (IP16)

1. The Government lowered the standard Lifetime Allowance (LTA) on 6 April 2016 from £1.25 million to £1 million.

2. The LTA is the maximum amount of pension savings/benefits you can have in your pension pot without incurring an additional income tax charge. Pension savings and benefits are counted from all sources other than the national state pension (e.g. from the Local Government Pension Scheme (LGPS), returning officer (RO) pensions, occupational pensions from previous employments, private pensions, Additional Voluntary Contributions (AVCs), Additional Pension Contributions (APCs), awards of additional pension etc.). If the value of your pension benefits when you draw them (not including any state retirement pension, pension credit or any partner's or dependant's pension to which you may be entitled) is more than the LTA, or more than any LTA protections you may have, you will have to pay tax on the excess benefits – 55% if the excess is taken as a lump sum; 25% on top of your marginal rate of income tax if taken as a pension.

3. Whenever the Government has lowered the standard LTA it has given those who have already accrued large pension pots the opportunity to apply for protections to give them a higher personal LTA than the new standard one. These protections can often save individuals six figure sums in tax charges. It is important therefore, if you are eligible to apply for these protections, that you seriously consider doing so.

4. To ameliorate the effect of the latest reduction in the LTA the Government has introduced two new versions of existing LTA protections –
   a) Fixed Protection 2016 (FP16) and
   b) Individual Protection 2016 (IP16).

a) Fixed Protection 2016 (FP16)

5. Although other forms of Fixed Protection (Fixed Protection 2012 (FP12) and Fixed Protection 2014 (FP14)) have previously proved useful to members, it has always been easy to lose FP if the growth in one's total pension pot in any one financial year exceeded the percentage growth in the CPI in the September of the previous financial year. Changes to the LGPS in the last year, coupled with the negative CPI percentage in September 2015, have meant that there is no benefit to most members in applying for the new FP16. Indeed, unless members left the LGPs by 5 April 2016 (5 April 2015 in Scotland and Northern Ireland) they will automatically have lost their FP. It is important to tell HMRC that fixed protection has been lost as soon as possible.

6. If you did leave the English and Welsh LGPS before 6 April 2016 in order to retain your FP12 or FP14, and if the percentage increase in the CPI for September 2016 is positive, it may be possible for you to re-join the Scheme in 2017-2018 and still retain your FP12 or FP14 by then coming out of the Scheme before the growth in your pot exceeds the September 2016 CPI figure. (This would not, however, be possible in the Scottish and Northern Irish Schemes.) This procedure could also be followed in future financial years if inflation continues to be positive. If, however, you did this you would still be affected by the revised regulations that mean only any pension earned after you re-joined the Scheme would be protected from actuarial reduction if you were retired early compulsorily on redundancy or efficiency grounds, so this route would probably not be attractive to most people.

7. Some members who applied for earlier forms of FP appear to remain unaware that they have lost it. Anyone who is now not sure that they have retained their FP (12, 14 or 16) should get in touch with our consultants, Cheryl Miller at cherylmiller@hotmail.co.uk or Pete Morris at p.morris1957@hotmail.com, who will be happy to help them check their position and explain the next steps they need to take.

8. Anyone who has lost their FP should, however, consider applying for Individual Protection (see below).

b) Individual Protection (IP)

9. Since it was so easy to lose FP, ALACE suggested to its members a couple of years or so ago, that those who held it should consider taking out **Individual Protection 2014 (IP14)**, if they were eligible to apply for IP14, as an insurance policy should they lose their FP. To be eligible to apply for IP14 the value of your pension pot from all sources (see para. 2 above) had to be worth at least £1.25 million as at 5 April 2014. If it was, then IP14 could give you a personally protected LTA equivalent to the value of your pot on that date up to a maximum of £1.5 million. The protected LTA figure could not increase further, but you could continue to accrue pension benefits into your pension pot, albeit that it is likely that you would have to pay additional tax charges on the excess pension over your personally protected LTA when you retired.

10. Those eligible to apply for IP14 still have until 5 April 2017 to apply for it. So anyone who is eligible and who has not yet applied should seriously consider getting an application into HMRC quickly. This is certainly the case for anyone who held FP and has now discovered that they have, or may have, lost it, but also anyone else who didn't hold FP (or one of the earlier protections – Primary Protection or Enhanced Protection) but nevertheless had a pension pot worth more than £1.25 million on 5 April 2014. (Indeed, it is worth those who hold Enhanced Protection also applying for IP14 if their pension pots were worth more than £1.25 million on 5 April 2014 as an insurance policy should they lose their EP – which is possible).

11. IP14 is easy to apply for – just go onto the HMRC website, put "*Individual Protection 2014*" into the search engine and it will take you to a list which includes "*Pension schemes:protect your lifetime allowance*". Click on this and it will take you to the relevant guidance notes and form.

12. You will need an accurate figure for the total value of your pension pot as at 5 April 2014. The box on the fourth page of this update shows you how to calculate the value of your pension pot for LTA purposes. (Remember you have to include pension benefits from all sources, other than your national state pension, in the calculation.) The formula in the box will give you a rough idea of the value of your pot but, when you apply to HMRC for IP14, you will need an accurate figure for its value on 5 April 2014. You should be able to get this from your pension fund(s) and AVC provider.

13. As indicated earlier the Government has now introduced another version of Individual Protection – **Individual Protection 2016 (IP16)** to coincide with it lowering the standard LTA from £1.25 million to £1 million from 6 April this year. This has been introduced to give some protection to those whose total pension pots were worth more than £1 million on 5 April 2016.

14. Like IP14, IP16 gives an individual a personally protected LTA equivalent to the value of their pension pot on 5 April 2016 (rather than, as with IP14, its value on 5 April 2014). With IP16 the maximum protection is up to £1.25 million (whereas with IP14 it is £1.5 million.) Again, it is possible for someone with IP16 to continue accruing pension benefits into their pot without any fear of losing their IP16, although their protected LTA will remain at the figure for the value of their pot on 5 April 2016 no matter how large their pot grows.

15. To be eligible to apply for IP16 the total value of your pension pot has to be worth more than £1 million as at 5 April 2016. Again you can use the formula in the box at the end of this update to get a rough idea of the value of your total pension pot for LTA purposes, but you will need an accurate figure(s) for the total value of your pot on that date from your pension fund(s).

16. Unfortunately HMRC was not able to get its online application process for IP16 in place at the start of the current financial year but **its online application process is now available**. Those applying for IP16 should follow the process described in paragraph 11 above but type in "*Individual Protection 2016*" instead into the HMRC's search engine.

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How to calculate the value of your pension pot from the LGPS as at 5/4/14
[for 5/4/16 add in figures in square brackets]

The rough basis of the calculation is that you multiply your current earned pension value by 20, then add your lump sum.

The calculation formula is:

Current earned pension value(f) = (b/80 x a) + (c/60 x a) [+ (d/49)* + (e/49)*]

Lump sum value(g) = 3 x (b/80 x a)

Value of pension pot for LTA = (f x 20) + g

where

a is your annual pensionable pay for the last calendar year before the date for which you are doing the calculation (i.e. if doing the calculation for 5/4/14 use your pensionable pay for 2013/14; if for 5/4/16 use your pensionable pay for 2015/16)
b is your continuous service in years and days before 1 April 2008
(days being expressed in 365ths)
c is your service in years and days between 1 April 2008 and 31 March 2014
d is your pensionable pay in 2014-15
e is your pensionable pay in 2015-16
f is the value of your pension earned up to the date for which you are doing the calculation (remember if you have earned pension from sources other than the LGPS and your state pension these will also need to be multiplied by 20 and added into the final figure for the current value of your pension pot for LTA purposes)
g is the value of your lump sum in the LGPS in respect of service up to 31 March 2008.

*These figures need to be increased by the inflation increase figures as announced in September for each subsequent financial year. For example the figure for 2014-15 will need to be increased by the CPI% increase figure for September 2016 and every subsequent year’s pension increase.

ALACE
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