



FIXED PROTECTION DEADLINE 5TH APRIL 2012

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In this article, Mark Eedy, Managing Director of Thomas, Carroll Independent Financial Advisers, the **UK Chartered Financial Planning Firm of the Year***, highlights the need to consider fixed protection before 5th April 2011.

From 6 April 2012, **the lifetime allowance (LTA)** for pension savings, currently £1.8 million, will be reduced to £1.5 million. Although legislation still allows for future increases to the LTA, most commentators believe this won't happen for quite some time.

Benefits above the LTA incur a tax charge of 55% if paid as a lump sum or 25% if paid as an income, which itself is then taxable under PAYE rules. It's important to remember that the LTA tax charge aims to recover the tax relief received during the accumulation period, leading to a theoretical tax-neutral position for benefits in excess of the LTA.

Broadly speaking, tax neutrality places excess pension saving on a par with other non-pension forms of saving. Nevertheless some people may view the reduction in LTA as a blow to their plans. However, this

blow may be softened if they register for fixed protection.

Essentially, fixed protection could help anyone who believes that, when they come to crystallise their pension arrangements after 6 April 2012, the LTA won't have increased sufficiently above £1.5 million to cover the projected value of the benefits.

So it doesn't just have an impact on people whose pension arrangements are already around £1.5 million. It may also affect those who are building up pension arrangements that are projected to go beyond that level in future when they take benefits. However the more distant that date is, the more difficult it is to determine whether fixed protection conveys any benefit.

WHAT IS FIXED PROTECTION?

Those who apply for fixed protection retain a Lifetime Allowance of £1.8 million but only if the individual accepts that they can have no further benefit accrual. This means stopping all contributions to a money purchase pension plan after 5 April 2012.

Final salary accrual may continue but is limited to CPI increases (or other increase covered in the scheme rules by 9 December 2010) on the pension accrued at the start of the year.

Submissions for fixed protection must reach HMRC by 5 April 2012.

ENHANCED AND/OR PRIMARY PROTECTION

Fixed protection is not available to individuals who have valid primary or enhanced protection (the A-Day protection mechanisms). It is therefore important for these individuals to review their circumstances before the deadline next year.

NEST and AUTO-ENROLMENT

Under the auto-enrolment rules due to come into effect from October 2012, individuals with fixed protection will need to take action during the one month opt-out window. If they don't they will lose their protection.

If opt-out occurs within that one month period then individuals are deemed never to have been a member of the pension scheme and they will keep fixed protection.

SUMMARY

- Fixed protection offers a limited degree of protection. At best, benefits are likely to be transitory, and could become less relevant over the longer term, particularly where the value of future benefits given up exceeds the tax saved.
- Fixed protection works best for those individuals without other forms of protection, who expect to finish crystallising all benefits in excess of £1.5 million in the reasonably short term.
- Fixed protection may also help those with longer timescales. But, the longer the timescale, the more difficult it becomes to evaluate the benefits (if any) of fixed protection on purely financial grounds.
- The position for members of defined benefit (DB) schemes is particularly complex.
- The 5 April 2012 deadline is tight given the complexity of the issues for many individuals.
- However it's worth bearing in mind that fixed protection can be revoked later if circumstances dictate. So, if more time is needed, it may be best to register in the meantime.
- A hasty decision to opt out of a generous pension scheme may not be so easy to unwind. However continued active membership after 5 April 2012, no matter how short, may lead to benefit accrual and invalidate fixed protection.
- Individuals with primary protection need do nothing except consider whether a reduced LTA adversely affects their maximum tax-free cash.

- Individuals with enhanced protection, as well as considering the tax-free cash position, may wish to consider whether fixed protection would now be more suitable for them.

Fixed protection will be an important consideration when giving advice on pension transfers, divorce, automatic enrolment and NEST. It is important to identify individuals who may be affected and take action before the opportunity is lost.

Why Thomas, Carroll?

We have the honour of being named '**The Chartered Financial Planners of the Year**¹' the Personal Finance Society – the body which grants Chartered status to IFA firms and individuals.

Our title demonstrates the excellence, commitment to professionalism, training and development of our people which our clients and professional colleagues have come to expect from us.

We have also recently been awarded **Retirement Planning Firm of the Year**² by Bankhall Group, the UK's largest supplier of IFA compliance and support services.

Contact us

If you wish to discuss the content of this brief in more detail please contact Mark directly on 02920 855 245 or e-mail mark.eedy@thomas-carroll.co.uk

¹ Awarded by the PFS in 2010

² Awarded by Bankhall Group in 2010

Tax and legislation are liable to change. This information is based on our current understanding of UK law and HM Revenue & Customs practise and legislation we believe may apply in the future.

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