CURTIS BANKS

FACT SHEET

PRIMARY PROTECTION

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The lifetime allowance protection rules are very complicated. We recommend that you speak to an adviser if you are affected. We have a separate fact sheet about the normal lifetime allowance rules which you may wish to read before this one.

Definitions

What is A-Day?

6 April 2006 is often known as A-Day. It was the date on which multiple existing pension tax systems were overhauled and replaced with a new, single set of rules. It was the date on which the annual allowance and lifetime allowance were originally introduced.

The problem with the lifetime allowance in particular was that many people had accrued larger pensions under the pre A-Day rules, and it would have been unfair for them to face a potentially significant charge simply because the rules changed. This principle has resulted in various forms of lifetime allowance protection.

What is primary protection?

Primary protection is one of the original forms of lifetime allowance protection. It was introduced at A-Day to help make sure that people weren't unfairly affected by the new pension rules.

Rules

Who was eligible to apply for primary protection?

You could apply for primary protection if the total value of your pensions on 5 April 2006, including ones you had already accessed, was more than £1.5m.

There was a special calculation for valuing pensions you had already accessed. You could also only protect pensions which were within pre A-Day limits.

Can I still apply for primary protection?

Probably not. The application window for primary protection was from 6 April 2006 to 5 April 2009. HMRC has a late application process for those with 'reasonable excuses' for missing the deadline; only very exceptional situations are likely to meet the criteria so many years later.

How does primary protection work?

People who applied for primary protection were given a 'primary protection factor', which gave them a higher lifetime allowance by acting as a multiplier of the standard lifetime allowance. For example, if your factor was 0.5, this meant that your lifetime allowance was the standard lifetime allowance, plus another 0.5 of the standard lifetime allowance (or 1.5 times the standard lifetime allowance).

From 2012, however, primary protection holders work out their lifetime allowance as a multiple of £1.8m, instead of the standard lifetime allowance. For example, if your factor was 0.5, your current lifetime allowance would be £2.7m.

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The factor was calculated based on the value of your pension rights on 5 April 2006. The idea was that if, for example, your benefits were worth twice the lifetime allowance when it was introduced, then you would be entitled to double the lifetime allowance going forward.

With primary protection, you can still face lifetime allowance charges if the benefits you take are worth more than your protected lifetime allowance.

Does primary protection increase PCLS (tax free cash) entitlement?

Primary protection will sometimes include higher PCLS entitlement. At A-Day, the lifetime allowance was introduced at £1.5m. Therefore standard PCLS entitlement was £375,000.

If, on 5 April 2006, you were entitled to more than £375,000 tax free cash, you could protect this as part of your primary protection. The protection certificate would give a protected PCLS amount expressed as a monetary figure.

If you weren't entitled to more than £375,000 tax free cash at A-Day, your primary protection certificate would not include any protection and you would have been subject to the normal PCLS rules. This was the case until 2014, when the standard lifetime allowance dropped below its original value for the first time. At this point, rules were introduced to say that clients in this position would be subject to the PCLS rules as though the lifetime allowance was still £1.5m, rather than the new lower amount.

Can I lose primary protection?

Primary protection can't be given up voluntarily but it can be lost or revalued.

If you get divorced or dissolve a civil partnership, your pension may be subject to a 'pension sharing order'. A pension sharing order is issued following a divorce or dissolution settlement so that funds can be transferred from one person's pension to the other's. If funds are taken from your pension (known as a 'pension debit') and you hold primary protection, your protection will need to be revalued. The value of your pensions as at 5 April 2006, which would have been calculated to find your primary protection factor in the first place, is reduced by the value of the pension debit. A new primary protection factor is then calculated using this new figure. Your pension debit may be large enough to cause you to lose primary protection altogether.

If your primary protection factor is reduced or lost due to a pension debit, your previous benefit crystallisation events (BCEs) aren't reassessed. You will be subject to your new lower lifetime allowance (or the standard lifetime allowance) for any BCEs you have after your pension sharing order takes effect.

Important points to consider

The value of pension funds may fall as well as rise. Your money is tied up until you take your benefits. Benefits can generally be taken any time after age 55, although this is due to increase to 57 in 2028.

Contact Details

If you'd like to speak to us about anything on this fact sheet, please contact us on:

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We may record and monitor calls. Call charges will vary.

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