CURTIS BANKS

FACT SHEET

ENHANCED 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 enhanced protection?

Enhanced 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 enhanced protection?

Anyone could apply for enhanced protection, regardless of the value of their pensions. However, only benefits which were within pre A-Day limits could be protected.

Can I still apply for enhanced protection?

Probably not. The application window for enhanced 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 enhanced protection work?

Enhanced protection works differently from all of the other protections. The other protections give an individual a higher lifetime allowance; instead, enhanced protection exempts the holder from paying lifetime allowance charges.

This isn't the same as the holder being exempt from the lifetime allowance. All of the normal rules associated with the lifetime allowance still apply, including the provider having to complete lifetime allowance tests. However, if or when a lifetime allowance charge would normally arise, a person with enhanced protection does not have to pay.

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

Enhanced 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 enhanced protection. The protection certificate would give a protected PCLS percentage based on the values as at 5 April 2006. For example, if your pension had been worth £2m and your tax free cash entitlement was £400,000, your certificate would show protected PCLS of 20%. Starting in the 2023/24 tax year, those with enhanced protection that provides protected PCLS were limited to the amount of available tax free cash as at 5 April 2023. Anything in excess of this amount would be taxed as income when withdrawn.

If you weren't entitled to more than £375,000 tax free cash at A-Day, your enhanced 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 lifetime allowance dropped below its original value for the first time. At this point, rules were introduced to say that individuals 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. However, these rules don't always work in practice unless you crystallise all of your pension benefits at the same time. We strongly recommend that you speak to an adviser to make sure that you don't accidentally lose any of your PCLS entitlement.

Can I lose enhanced protection?

Enhanced protection can be given up voluntarily, and it can also be lost.

Prior to the 2023/24 tax year you could lose your enhanced protection if you began to accrue new pension benefits. You could also lose your protection if you didn't opt out of your employer's auto-enrolment scheme within the statutory window each time you were enrolled. Enhanced protection was intended to protect pension funds which had already been built up under the pre A-Day rules and any subsequent investment growth. It wasn't intended to allow people to build up further pension benefits after A-Day without having to worry about lifetime allowance charges. From the 2023/24 tax year, those who applied for enhanced protection prior to the 15 March 2023 would no longer lose their protection if they contributed to, joined or transferred to a registered pension scheme.

A detailed list of the ways you can lose enhanced protection is beyond the scope of this fact sheet. However, you can find more information by searching "enhanced protection cessation" (including the quotation marks) on www.gov.uk We strongly recommend that you speak to a financial adviser before making any changes to your pension arrangements if you hold enhanced protection.

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.

This information is based on our understanding of current legislation, including (but not limited to) FCA, PRA and HMRC regulation. It does not constitute any form of advice.

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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