Transitional Protection and Transfers

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Between 6 April 2006 and 5 April 2024 the standard lifetime allowance (LTA) restricted the amount of tax-privileged benefits that could be drawn from a registered pension scheme without incurring an LTA charge. The level of LTA has changed over the years, and since it was introduced a number of measures have been made available that enable members to take pension benefits of more than the standard LTA and either pay no LTA charge or have a reduced charge. These measures are known as LTA protections.

As of 6 April 2024 there is no longer an LTA. The LTA has been replaced by a Lump Sum Allowance (LSA) and Lump Sum and Death Benefit Allowance (LSDBA). These allowances restrict the amount of tax-free lump sums that can be paid from a registered pension scheme during the member's lifetime and on death. The standard LSA is currently £268,275 and the standard LSDBA is £1,073,100.

From 6 April 2024, an individual with valid protections is entitled to have their LSA and LSDBA protected.

Set out below is a summary of the impact a transfer of pension savings to another registered pension scheme could have on such forms of protection. This summary also covers two scheme-specific types of protection where a member has scheme-specific lump sum protection and/or a protected low pension age.

Primary Protection

Individuals who had pension rights worth more than £1.5 million on 5 April 2006 could have registered with HMRC for Primary Protection before 6 April 2009.

From 6 April 2024 an individual with primary protection has an LSA of £375,000 except where the individual also had entitlement to a Pension Commencement Lump Sum (PCLS) in excess of £375,000 at 5 April 2006 in which case their LSA will instead be their protected PCLS amount multiplied by 1.2. Any PCLS taken before 6 April 2024 will reduce the available LSA.

The LSDBA for all individuals with primary protection is £1,800,000. For some types of tax-free lump sum their LSDBA will also be increased by their primary protection factor. Any Benefit Crystallisation Events (BCEs) that took place before 6 April 2024 will reduce the available LSA and LSDBA.

Primary Protection, including any associated PCLS protection, is maintained on transfer to another registered pension scheme.

Enhanced Protection

Individuals who had certain rights at 5 April 2006 could apply to HMRC for Enhanced Protection to protect them from the LTA charge when those rights came into payment after 5 April 2006.

Individuals could claim Enhanced Protection regardless of their value of their pension rights at 5 April 2006. An individual could protect their pension rights plus any separate PCLS rights.

From 6 April 2024, for members with Enhanced Protection, their LSA is £375,000, except where their PCLS rights at 5 April 2006 exceeded £375,000 in which case their LSA will instead be the maximum PCLS that could have been paid to the member under the arrangement on 5 April 2023, minus the total of any previous PCLS that the member has become entitled to under the arrangement on or after 6 April 2023.

The LSDBA for all individuals with Enhanced Protection will be the value of their uncrystallised rights as at 5 April 2024.

Note: If a successful late application is made for Enhanced Protection on or after 15 March 2023, the protection will work differently to what is described here.

In return for Enhanced Protection, broadly speaking, no new benefits could be built up after 5 April 2006 (i.e. no 'relevant benefit accrual'), but this limitation was removed.

Since 6 April 2023, Enhanced Protection, including any associated PCLS protection, can continue on transfer between registered pension schemes. Even before 6 April 2023, Enhanced Protection would normally be unaffected by transferring provided the transfer counted as a permitted transfer. For instance:

- Transfers between money purchase arrangements count as permitted transfers.
- Transfers from defined benefit arrangements to money purchase arrangements can count as permitted transfers provided the value of the sums received by the money purchase arrangement is actuarially equivalent to the rights being transferred.
- Transfers from money purchase arrangements to defined benefit arrangements are not permitted transfers.
- Transfers between defined benefit arrangements can count as permitted transfers under certain circumstances.

Any transfer that was not a permitted transfer would automatically cause Enhanced Protection to be lost from the date of the transfer. If Enhanced Protection is lost and the individual also has Primary Protection, then that will apply instead.

Fixed Protection

There are three variants of Fixed Protection, namely:

- Fixed Protection 2012 - Individuals with this protection have a LSA of £450,000 and a LSDBA of £1,800,000
- Fixed Protection 2014 - Individuals with this protection have a LSA of £375,000 and a LSDBA of £1,500,000
- Fixed Protection 2016 - Individuals with this protection have a LSA of £312,500 and a LSDBA of £1,250,000

In return for Fixed Protection, broadly speaking, no new benefits could be built up afterwards (i.e. no 'relevant benefit accrual'), but this limitation was removed from 6 April 2023.

Individuals who registered for Fixed Protection by 15 March 2023 and still held it on 6 April 2023 can now transfer their pension rights to another registered pension scheme from 6 April 2023 and maintain their protection.

But for those individuals who register for Fixed Protection after 15 March 2023, their protection can be lost on transfer to a new scheme if it doesn't meet certain conditions. The application deadline for anyone still wanting to benefit from Fixed Protection 2016 was 5 April 2025.

Individual Protection

There are two variants of Individual Protection, namely:

- Individual Protection 2014 - Individuals with this protection have an LSA of the lower of £375,000 and 25% of the value of their pension savings as at 5 April 2014. Their LSDBA will be the lower of £1,500,000 and the value of their pension savings as at 5 April 2014

- Individual Protection 2016 - Individuals with this protection have an LSA of the lower of £312,500 and 25% of the value of their pension savings as at 5 April 2016. Their LSDBA will be the lower of £1,250,000 and the value of their pension savings as at 5 April 2016.

Under Individual Protection, individuals are, and always have been, able to make further pension savings.

Individual Protection (and any associated PCLS protection) is also maintained on transfer to another registered pension scheme.

The application deadline for anyone still wanting to benefit from individual protection 2016 was 5 April 2025.

Scheme-specific PCLS protection

If, as at 5 April 2006, an individual had a PCLS entitlement under a scheme (occupational scheme or deferred annuity contract) of more than 25% of the value of their pension fund, those rights are automatically protected provided certain conditions are met. Assuming no other form of protection is held, their LSA will still be £268,275 with the LSDBA being £1,073,100.

As the protection is scheme-specific, it will generally be lost if the benefits are transferred to another pension scheme after 5 April 2006 unless the transfer is made:

- as part of a block transfer (see 'Block transfer' section) to another registered pension scheme, or
- to a deferred annuity contract (buy-out contract) as part of the winding up of an occupational pension scheme

Low pension age protection

If, as at 5 April 2006, an individual had a right to take their benefits under a scheme before the normal minimum pension age (currently 55), that right is automatically protected provided certain conditions are met. Although, note that an individual whose protected pension age is below 50 will have a reduced LSA and LSDBA if tax-free cash benefits are taken (via a relevant benefit crystallisation event), other than on ill-health grounds, before the normal minimum pension age. In these circumstances, the allowances are reduced by 2.5% for every complete year below the normal minimum pension age.

The protected pension age is scheme-specific and on transfer to another pension scheme would be lost unless the transfer is made:

- as part of a block transfer (see 'Block transfer' section) to another registered pension scheme, or
- to a deferred annuity contract (buy-out contract) as part of the winding up of an occupational pension scheme, or
- or to another registered pension scheme that also has a protected low pension age.

Block transfer

A block transfer is the transfer of more than one member of the transferring scheme to the same registered pension scheme at the same time. The transfer must represent the members' total rights under the scheme and cannot be split across more than one receiving scheme. Block transfer protection will not apply if the member has been a member of the receiving scheme for more than a year before the transfer.

The block transfer requirements were temporarily amended by the Finance Act 2014 so that if a transfer took place between 19 March 2014 and 6 April 2015 and the member took all their benefits before 6 October 2015, they could transfer as a single transfer.

Partial transfer from a scheme with scheme specific PCLS protection or low pension age protection

If there are any existing entitlements to a protected pension age or scheme-specific PCLS, these would be lost on the sum being transferred out.

However, any funds remaining in the original scheme will retain their protection although the PCLS protection would need to be reduced by 25% of the transfer value.

This represents Zurich's understanding of transitional protection on transfer. This is subject to change and Zurich does not accept responsibility for any action taken or refrained from, by any person relying on this information.

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Zurich Assurance Ltd.
Registered in England and Wales under company number 02456671.
Registered Office: Unity Place, 1 Carfax Close, Swindon, SN1 1AP.

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