

# Fixed Protection 2012 and 2014 and Individual Protection 2014



Between 6 April 2006 and 5 April 2024, there was a Lifetime Allowance (LTA) that served as a cap on the total amount of pension benefits that could be taken without incurring additional tax consequences. On three occasions during that period, the LTA was reduced. Fixed Protection 2012 (FP12), Fixed Protection 2014 (FP14) and Individual Protection 2014 (IP14) were introduced to provide protection against the LTA reductions that took effect on 6 April 2012 and 6 April 2014 for FP12 and FP14/IP14 respectively.

**Note:** Although the LTA has now been abolished (5 April 2024), FP12, FP14 and IP14 continue to be relevant for the purposes of the new Lump Sum Allowance (LSA) and the Lump Sum and Death Benefit Allowance (LSDBA) effective from 6 April 2024, which cap the amount of tax-free lump sums that can be paid during the member's lifetime and on death.

The standard LSA and LSDBA are currently £268,275 and £1,073,100 respectively

## **Fixed Protection 2012 (FP12) and Fixed Protection 2014 (FP14)**

FP12 and FP14 could be applied for by individuals who did not have Primary and/or Enhanced Protection. It was generally only of interest to those individuals whose pension benefits either had a value, or were anticipated to have a value by the time they were crystallised, in excess of £1.5 million (for FP12) or £1.25 million (for FP14).

### **FP12**

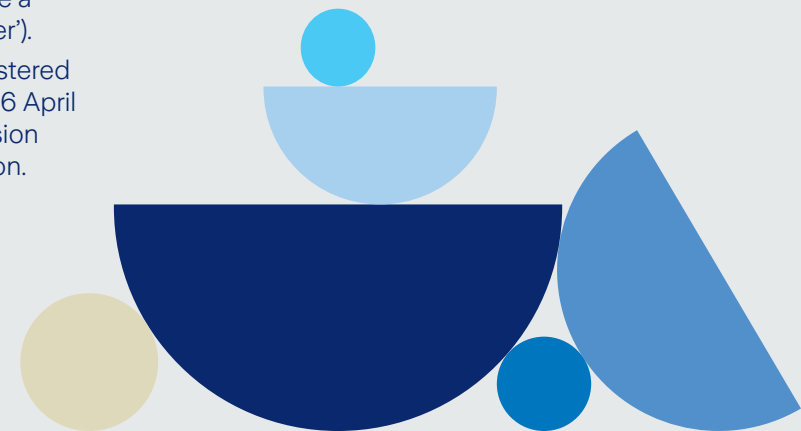
This had to be applied for before 6 April 2012 and, since 6 April 2024, gives a higher LSA of £450,000 and a higher LSDBA of £1.8 million. Please note that these are the maximum amounts that can be paid; the amounts that can be paid tax-free will be reduced if any tax-free lump sums have been taken before 6 April 2024.

### **Losing FP12**

Before 6 April 2023, FP12 was lost if:

- further payments were made to a registered pension scheme by, or on behalf of, the individual between 6 April 2012 and 5 April 2023 (except for a pension term policy set up before 6 April 2006), or
- the individual built up new pension rights under an occupational pension scheme between 6 April 2012 and 5 April 2023, or
- the individual set up a new registered scheme on or after 6 April 2012 unless that scheme was solely to receive a transfer of existing benefits (i.e. a 'permitted transfer').

However, since 6 April 2023, for those who had registered FP12 by 15 March 2023 (and which was still valid on 6 April 2023), further payments can be made and new pension benefits can be accrued without losing this protection.



## FP14

This had to be applied for before 6 April 2014 and, since 6 April 2024, gives a higher LSA of £375,000 and a higher LSDBA of £1.5 million. Please note that these are the maximum amounts that can be paid; the amounts that can be paid tax-free will be reduced if any tax-free lump sums have been taken before 6 April 2024.

### *Losing FP14*

Before 6 April 2023, FP14 was lost if:

- further payments were made to a registered pension scheme by, or on behalf of, the individual between 6 April 2014 and 5 April 2023 (except for a pension term policy set up before 6 April 2006), or
- the individual built up new pension rights under an occupational pension scheme between 6 April 2014 and 5 April 2023, or
- the individual set up any new registered scheme on or after 6 April 2014 unless that scheme is solely to receive a transfer of existing benefits (i.e. a 'permitted transfer').

However, since 6 April 2023, for those who had registered FP14 by 15 March 2023 (and which was still valid on 6 April 2023), further payments can be made and new pension benefits can be accrued without losing this protection.

### **Tax-free cash**

Tax-free cash up to 25% of the value of the crystallised benefits can normally be taken, provided that amount does not exceed their available LSA and LSDBA.

However, where a member is also entitled to 'scheme-specific' lump sum protection, a higher amount of tax-free cash may be taken. The basic 'scheme-specific' lump sum protection calculation is as follows:

Tax-free cash @ 5 April 2006 x 1.2 (i.e. £1.8 million/£1.5 million)

plus

an additional amount which reflects any increase in the value of the individual's rights to benefits that has occurred since 6 April 2006.

### **Individual Protection 2014 (IP14)**

An individual with pension savings in excess of £1.25 million as at 5 April 2014 was eligible to elect for IP14 by 5 April 2017, provided they did not have Primary Protection in place. This means that IP14 could have been elected by an individual who had elected for Enhanced Protection, FP12 or FP14.

IP14 gives an individual a personalised LSA of the lower of £375,000 or 25% of the protected amount and a LSDBA of the lower of £1.5 million or the value of benefits on 5 April 2014. Any amount above their available allowances will be subject to a tax charge which, from 6 April 2023, will be an income tax charge at the individual's marginal rate.

Further payments can be made and new pension benefits can be accrued without losing this protection.

Where an individual also has higher allowances provided by Enhanced or fixed protection, it will take precedence. Where Enhanced or fixed protection is lost, an individual's allowances will revert to the IP14 level from the date on which Enhanced or fixed protection is lost.

### **Application deadline**

You had to apply for IP14 before 6 April 2017. Once accepted, HMRC provided the individual with a certificate which has to be presented to a pension scheme when benefits are taken.

### **Tax-free cash**

Tax-free cash up to 25% of the value of the crystallised benefits can normally be taken, provided that amount does not exceed 25% of their available LSA and LSDBA.

However, where a member is also entitled to 'scheme-specific' lump sum protection, a higher amount of tax-free cash may be taken.

The basic 'scheme-specific' lump sum protection calculation is as follows:

Tax-free cash @ 5 April 2006 x 1.2 (i.e. £1.8 million/£1.5 million)

plus

an additional amount which reflects any increase in the value of the individual's rights to benefits that has occurred since 6 April 2006.

### **Valuation of benefits for Individual Protection 2014**

Accrued benefits are valued as at 5 April 2014. In summary:

- For uncrystallised benefits under money purchase schemes, it is the value of the fund.
- For uncrystallised benefits under defined benefit schemes, it is the value of accrued pension multiplied by a factor of 20 plus any pension commencement lump sum (tax-free cash) (unless this is paid by commutation of the pension).
- For pre A-day pensions or annuities with no post A-Day crystallisation events the value is the pension in payment multiplied by a factor of 25. If, however, there has been a post A-Day crystallisation, the annual pension or annuity would have been attributed a value at the time of the first crystallisation event (i.e. for testing against the LTA). That value would then be adjusted to reflect changes to the standard LTA.
- For pre A-day drawdown with no post A-Day crystallisation events the value is the maximum permitted withdrawal multiplied by a factor of 25. If, however, there has been a post A-Day crystallisation, the drawdown fund would have been attributed a value at the time of the first crystallisation event (i.e. for testing against the LTA). That value would then be adjusted to reflect changes to the standard LTA.
- Benefits crystallised on or after A-day will be valued at the amount tested against the LTA, adjusted to reflect changes in the standard LTA.

### ***Pension debits under a pension sharing order***

The 'protected value' under IP14 may be reduced or lost altogether if the individual's rights are subject to a pension sharing order. Individuals must notify HMRC of any pension debit so that their IP14 certificate can be amended or revoked.

#### **Key point summary**

FP12, FP14 and IP14 were most likely to have been of interest to those individuals who did not have Primary and/or Enhanced Protection, but who wished to protect their pension savings from the LTA reductions in 2012 and 2014.

Note that since 6 April 2024, the chosen protection applies to an individual's LSA and LSDBA.

**This represents Zurich's understanding of HMRC regulations governing Fixed Protection 2012 and 2014 and Individual Protection 2014. 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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