

Fixed Protection 2016 and Individual Protection 2016

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 2016 (FP16) and Individual Protection 2016 (IP16) were introduced to provide protection against the LTA reduction that took effect on 6 April 2016.

Note: Although the LTA has now been abolished (5 April 2024), FP16 and IP16 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.

Fixed Protection 2016 (FP16)

FP16 could be applied for by individuals who didn't 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 £1.25 million.

The standard LSA and LSDBA are currently £268,275 and £1,073,100 respectively. But, FP16 gives a higher LSA of £312,500 and a higher LSDBA of £1.25 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 FP16

Before 6 April 2023, FP16 was lost if:

- further payments were made to a registered pension scheme by, or on behalf of, the individual between 6 April 2016 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 2016 and 5 April 2023, or
- the individual set up a new registered scheme on or after 6 April 2016 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 FP16 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.

Note: If a successful late application was made for FP16 on or after 15 March 2023 then FP16 will work differently to what is described above and the previous rules of where it can be lost apply.

Application deadline

The application deadline for FP16 was 5 April 2025, although protection will work differently for those individuals who applied on or after 15 March 2023. For example, the previous rules of where it can be lost apply.

Where an application was accepted, protection applied retrospectively from 6 April 2016, and HMRC provided the individual with a reference number which will need to be given to their 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 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.

Note: For those with valid FP16 applied for before 15 March 2023, any contributions the member makes from 6 April 2023 can be included for the purposes of calculating their tax-free lump sum.

Individual Protection 2016 (IP16)

IP16 gives an individual a personalised LSA of the lower of £312,500 or 25% of the protected amount and a LSDBA of the lower of £1.25 million or the value of benefits on 5 April 2016.

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.

An individual with pension savings in excess of £1 million as at 5 April 2016 was eligible to elect for IP16, provided they didn't have Primary Protection or Individual Protection 2014 in place. This means that IP16 could have been elected by an individual who had Enhanced Protection, Fixed Protection 2012, Fixed Protection 2014 or FP16.

Where an individual also has higher allowances provided by Enhanced or Fixed Protection (2012, 2014 or 2016), it will take precedence. Where Enhanced or Fixed Protection is lost, an individual's allowances will revert to the IP16 level from the date on which Enhanced or Fixed Protection is lost.

Application deadline

The application deadline for IP16 was 5 April 2025.

Where an application was accepted, protection applied retrospectively from 6 April 2016, and HMRC provided the individual with a reference number which will need to be given to their 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 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.

Note: For those with valid IP16 applied for before 15 March 2023, any contributions the member makes from 6 April 2023 can be included for the purposes of calculating their tax-free lump sum.

Pension debits under a pension sharing order

The 'protected value' under IP16 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 IP16 can be amended or revoked.

Key point summary

FP16 and IP16 was/is most likely to be of interest to those individuals who didn't have Primary and/or Enhanced Protection, Fixed Protection 2012 or Fixed Protection 2014, but who wished to protect their pension savings from the LTA reduction to £1 million from 6 April 2016.

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 and Individual Protection 2016. 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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