



Pensions Tax - Pensions Protections

This factsheet provides a summary of the current rules in relation to HMRC pensions protections.



The information was updated
and is current as at August 2023.

This factsheet is for members of the Co-op Section of Pace. If you're a member of The Co-operative Bank Section, you should visit the Bank's pensions website at www.co-operativebank.co.uk/pensions for pension information that's relevant to you.

The Lifetime Allowance and pensions protections: an overview

- The Lifetime Allowance is the total value of pension savings you can build up over your lifetime before you have to pay a tax charge, known as the Lifetime Allowance tax charge. The Government removed the Lifetime Allowance tax charge from 6 April 2023. This was a one-off tax charge of 55% where pension savings above the Lifetime Allowance were taken as a lump sum, or 25% where they were taken as pension.

The Government has also announced its intention to remove the Lifetime Allowance completely from 6 April 2024. We're still waiting for details on how this will be implemented and will update this factsheet once further information becomes available.

- The Lifetime Allowance is still in place for the 2023/2024 tax year and is currently £1,073,100.
 - If you take your pension savings this tax year, any pension savings you take above the Lifetime Allowance will now be taxed at your marginal rate of income tax and will not be subject to the Lifetime Allowance tax charge. This means all your pension savings, apart from any tax-free cash, will be taxed as earned income under PAYE, including any pension savings above the Lifetime Allowance and there will be no additional Lifetime Allowance tax charge.
 - For 2023/2024, the amount of tax-free cash you can take from your benefits is limited by reference to the Lifetime Allowance to £268,275 (i.e. 25% of £1,073,100). The maximum amount of tax-free cash is expected to remain frozen at this level for future tax years.
- Since its introduction in 2006, the Lifetime Allowance has changed on several occasions. HMRC has put a number of Lifetime Allowance protections in place to help people who've built up significant amounts of pension savings. These protections have allowed

individuals to maintain their pension savings, including any potential entitlement to a higher tax-free lump sum, when the Lifetime Allowance has reduced from time to time. Although the Government is intending to remove the Lifetime Allowance completely from 6 April 2024, some of these pensions protections will still allow you to take a tax-free lump sum at retirement which is higher than the standard tax-free lump sum limit of £268,275. This will depend on the type of protection you hold.

- You can still apply for certain HMRC protections in some circumstances if the value of your pension benefits exceeds the current Lifetime Allowance. This factsheet provides more information about pensions protections and how you can apply for protection.

More detailed information about the Lifetime Allowance can be found in the Lifetime Allowance Factsheet at coop.co.uk/pensions

This factsheet provides you with details about the HMRC protections and reflects the changes to pensions tax relief which were announced by the Government in the Budget of 15 March 2023. However, the draft legislation needed to implement the changes does not fully align with the announcement, and the details of the changes were in the process of being finalised by HMRC at the time this factsheet was published. Accordingly, the position summarised in this factsheet reflects the pensions industry's general understanding of the changes as at April 2023 but may be subject to change.

The law and tax rates relating to pensions may change in the future and will depend on your individual circumstances.

Dealing with your personal pension tax position is your responsibility. The Co-op, The Pace Trustees and the Co-op Pensions Department are unable, by law, to provide you with advice. Pension tax legislation is complicated and we recommend you seek financial advice when deciding what action to take. You can find an adviser in your area who is regulated by the Financial Conduct Authority (FCA) by searching for 'retirement adviser' on the MoneyHelper website, www.moneyhelper.org.uk (the website offers contact options of live webchat, enquiry form and social media channels). You should check the specialist advice areas of any adviser, as well as the cost of their advice, before appointing them.

If I exceed the Lifetime Allowance, can I protect the value of my pension benefits?

Yes, potentially. The Government introduced two types of protection in April 2016, when the Lifetime Allowance was reduced from £1.25 million to £1 million. These are called Individual Protection (2016) and Fixed Protection (2016). The protections only help those individuals who had pension savings at April 2016 which were affected by the reduction in the Lifetime Allowance to £1 million at that time, or are likely to be affected by this reduction by the time they come to access their pension savings.

What is Individual Protection (2016)?

If the value of your total pension benefits was more than £1 million as at 5 April 2016, you may be able to apply for Individual Protection (2016).

In the event that your total pension benefits exceed the standard Lifetime Allowance of £1,073,100 at retirement, Individual Protection (2016) will give you a personalised Lifetime Allowance equal to the value of your total pension benefits at 5 April 2016, up to a maximum of £1.25 million. **Importantly**, the cap on the amount of the tax-free lump sum that you could take would be the greater of the standard cap of £268,275 (i.e. 25% of the standard Lifetime Allowance of £1,073,100) and 25% of your personalised Lifetime Allowance.

If you apply for Individual Protection (2016), you may continue to make further pension savings, but any benefits that you have over your personalised Lifetime Allowance when you start to take them will be taxed at your marginal rate of income tax and will not be subject to the Lifetime Allowance tax charge. This means all your pension savings, apart from any tax-free cash, will be taxed as earned income under PAYE, including any pension savings above your personalised Lifetime Allowance, and there will be no additional Lifetime Allowance tax charge.

Example

- Greg had benefits valued at £1.1 million at 5 April 2016.
- He applied for Individual Protection (2016) and received a personal Lifetime Allowance of £1.1 million.
- Greg is a 45% tax payer. He has continued to make pension savings and considers retiring in 2023 when his benefits are valued at £1.15 million. If he did, he would have to pay tax at his marginal income tax rate (45%) on the excess benefits of £50,000 (£1,150,000 - £1,100,000) amounting to £22,500 (45% x £50,000).

What is Fixed Protection (2016)?

If you expect your total pension benefits to be worth more than £1,073,100 (the current standard Lifetime Allowance) by the time you take your benefits, due to inflation and/or investment returns, then you may wish to apply for a form of protection called Fixed Protection (2016).

Fixed Protection (2016) allows you to retain a Lifetime Allowance at the level of £1.25 million, meaning that the maximum tax-free lump sum that you could take would be 25% of the value of your pension benefits (subject to a maximum of £312,500, i.e. 25% of £1.25 million). This is greater than the standard limit of £268,275 (which is 25% of the standard Lifetime Allowance of £1,073,100).

If you hold Fixed Protection (2016) which was applied for before 15 March 2023, you can make further pension savings to Pace (or another scheme), join a new pension arrangement (including Pace) and transfer money between pension schemes from 6 April 2023 without losing your Fixed Protection (2016). However, if any of these events occurred between 6 April 2016 and 5 April 2023, you'll lose your Fixed Protection (2016) and your Lifetime Allowance will revert to the standard Lifetime Allowance of £1,073,100 for the tax year 2023/2024 unless you have another form of protection in place.

If you hold Fixed Protection (2016) which was applied for after 14 March 2023, please be aware that any increase in the value of your benefits must be due to investment returns and/or inflation only. You must not have made any pension savings, joined a new pension arrangement (including Pace) or transferred money between pension schemes since 5 April 2016 and you must not make any further pension savings, join a new pension arrangement (including Pace) or transfer money between pension schemes in the future. If you do, you'll lose your Fixed Protection (2016) and your Lifetime Allowance will revert to the standard Lifetime Allowance of £1,073,100 for the tax year 2023/2024 unless you have another form of protection in place.

Example One

- Hannah had benefits valued at £950,000 at 5 April 2016.
- In 2019, she successfully applied for Fixed Protection (2016) and retained a personalised Lifetime Allowance of £1.25 million or the future standard Lifetime Allowance, if higher.
- She opted out of all pension savings between 5 April 2016 and 10 April 2023, when she joined a new pension arrangement.
- Although she is paying into a new pension arrangement, Hannah won't lose her Fixed Protection 2016 because she didn't make any pension savings between 6 April 2016 and 5 April 2023.
- She considers retiring in 2023 when her benefits are valued at £1,090,000. If she did, her benefits are below her personalised Lifetime Allowance.

Example Two

- George had benefits valued at £980,000 at 5 April 2016.
- George hasn't made any pension savings since 5 April 2016. He made a successful application for Fixed Protection (2016) on 1 May 2023 and retained a personalised Lifetime Allowance of £1.25 million.
- George must make sure he doesn't take any action in the future which will lead to him losing his Fixed Protection 2016. This means he must not make further pension savings, join a new pension arrangement or transfer money between different pension schemes. If any of these events occur, he will lose his Fixed Protection 2016.

What happens if I already hold an alternative type of HMRC Protection which is not Fixed Protection 2016 or Individual Protection 2016?

If you hold valid Enhanced Protection, Fixed Protection (2012) or Fixed Protection (2014), you may make further pension savings to Pace (or another scheme), join a new pension arrangement (including Pace) and transfer your money between pension schemes from 6 April 2023 without losing your protection. However, if any of these events occurred before 6 April 2023, you'll lose your protection and your Lifetime Allowance will revert to the standard Lifetime Allowance (which may be lower).

If you hold Enhanced Protection which includes personalised tax-free lump sum protection and the protected lump sum exceeds £375,000, your maximum lump sum amount will be limited to the maximum lump sum which could have been paid to you had you taken your benefits on 5 April 2023.

If you hold Individual Protection (2014), you may continue to make further pension savings after 6 April 2023, although the value of any pension savings above your personalised Lifetime Allowance will be liable to an income tax charge at your marginal rate.

If you hold Primary Protection with lump sum protection, you continue to have the lump sum protection stated on your certificate.

Pension protections are very complicated and you may inadvertently lose any protection you hold if you make any changes to your pension planning or if a pension debit is applied to your pension savings on divorce or the dissolution of a civil partnership. We strongly recommend you seek financial advice before taking any action.

Removal of Lifetime Allowance from April 2024

The Government is planning to abolish the Lifetime Allowance from April 2024. If this takes place, and you hold a form of protection, only the protected tax-free cash element (if any) of your protection will be maintained from April 2024. However, the restrictions mentioned on pages 5 to 7 of this Factsheet relating to making further pension savings, joining a new pension scheme or transferring money between pension schemes, will still apply.



How can I apply for HMRC protection?

You must apply for the protections before you take any benefits.

An online system is available from HMRC to enable applications to be made. Please visit www.gov.uk/guidance/pension-schemes-protect-your-lifetime-allowance

There is currently no deadline for applications, so long as your application is accepted before you take your benefits.

Dealing with your personal pension tax position is your responsibility. The Co-op, the Pace Trustees and the Co-op Pensions Department are unable, by law, to provide you with advice. You're strongly recommended to seek independent financial advice before making any pension planning decisions. You can find an adviser in your area who is regulated by the Financial Conduct Authority (FCA) by searching for 'retirement adviser' on the MoneyHelper website, www.moneyhelper.org.uk. You should check the specialist advice areas of any adviser, as well as the cost of their advice, before appointing them.

This factsheet should not be treated as an authoritative statement of the law on any particular aspect or in any specific case. It should not be taken as financial advice and action should not be taken as a result of this factsheet alone. Individuals are recommended to seek independent financial advice in respect of their own personal circumstances, and before making any pension planning decisions.

