Enhanced and primary protections

For most people the standard lifetime allowance applies, but some have transitional protection or a personal lifetime allowance that is higher than the standard lifetime allowance.

People might have chosen to protect their lifetime allowance when pensions simplification was introduced in April 2006 for pension benefits of over or approaching £1.5 million. Or they may have decided to opt for protection when the lifetime allowance was reduced in 2012, 2014 and 2016.

This factsheet discusses primary and enhanced protections introduced for pensions simplification in 2006. Please take a look at our other factsheets which discuss individual and fixed protections.

If you only read one thing…

- Primary and enhanced protections were introduced from April 2006 to allow individuals to protect their pension benefits against the new lifetime allowance of £1.5 million. Individuals then had until 5 April 2009 to claim protection.
- Individuals could choose primary protection if they had benefits of £1.5 million or over at 5 April 2006. At a future BCE their benefits would be tested against their personal lifetime allowance (worked out using a lifetime allowance enhancement factor). They could continue to contribute or accrue benefits under their pension.
- Individuals could choose enhanced protection if they had benefits of up to or over £1.5 million at 5 April 2006. If they kept enhanced protection there wouldn't be a test against the lifetime allowance. However, they could lose enhanced protection by paying contributions, accruing benefits above a certain level, setting up a new arrangement (with some exceptions), or on certain transfers.
- Individuals could opt for both enhanced and primary protection. And if they 'broke' enhanced protection they could still rely on primary protection.

Primary protection

When pensions simplification was introduced in 2006, people had the option to protect their pension benefits against the new lifetime allowance (of £1.5 million) by choosing either primary or enhanced protection. They had until 5 April 2009 to claim protection.

If an individual had pension benefits of £1.5 million or above at 5 April 2006, they could opt for primary protection. If they did, they could continue to make contributions or accrue benefits after that date. They would receive their own personal lifetime allowance – based on a lifetime allowance enhancement factor.

Individuals chose primary protection where they were unable to negotiate a different remuneration arrangement with their employer (for example giving up pension membership in return for a higher salary). These individuals may still incur a lifetime allowance charge if the value of their pension benefits is above their personal lifetime allowance, but they still benefit from pension scheme membership.

Up to 2012, their personal lifetime allowance was increased by the same rate as the increase in the standard lifetime allowance. After that date, a personal lifetime allowance is adjusted by reference to £1.8 million.

Example – James

At 5 April 2006, James had benefits worth £1.8 million. At that time, his employer wasn't offering any other remuneration options if he opted out of the pension scheme, so he decided to continue with his membership. He received a lifetime allowance enhancement factor of 0.2 (£1.8m - £1.5m / £1.5 m).

On 6 May 2019, James decides to crystallise his pension benefits, now worth £2 million. Despite the lifetime allowance now being £1.055 million, his personal lifetime allowance is valued at:

£1.8 million increased by a factor of 0.2 = £2.16 million

This is more than the value of James' benefits, and so there is no lifetime allowance tax charge. He will use up 92.59% of his lifetime allowance.

Primary protection and divorce

Primary protection can be reduced or lost if, following divorce, a pension debit is applied to the individual's benefits. The individual's lifetime allowance enhancement factor is recalculated to take into account the value of the benefits 'given up'.

The way this is done is to recalculate the lifetime allowance enhancement factor assuming the pension debit wasn't included in the value at 5 April 2006. If the reduced value of the benefits, taking account of the pension debit, is more than £1.5 million then a new lifetime allowance enhancement factor is worked out – as shown in the example below.

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Example – James (again)

In our example for James, his lifetime allowance enhancement factor is 0.2. But if we assume a pension debit of £200,000 is made in September 2008, then his new lifetime allowance enhancement factor is:

£1.8 million - £200,000 = £1.6 million - £1.5 million / £1.5 million = 0.07

However, if taking into account the pension debit, the recalculated value of the member's benefits is lower than £1.5 million, then the member will lose primary protection and will revert to the standard lifetime allowance.

The individual has to tell HMRC of the pension debit. HMRC will issue a new certificate with the details of the new lifetime allowance enhancement factor or confirming the member is only entitled to the standard lifetime allowance.

Enhanced protection

Someone could opt for enhanced protection if they had pension benefits of below or above £1.5 million at 5 April 2006. However, they weren't allowed to make any further contributions or have benefit accrual above a certain limit. If they followed this rule then they would never have to pay a lifetime allowance charge, regardless of the value of the benefits when they crystallised them.

Individuals chose enhanced protection where they thought that there was a chance they would exceed the lifetime allowance – or their personal lifetime allowance – either through investment returns or increases in their salary used to work out defined benefits. Often these people were able to renegotiate a different remuneration package – so they gave up their pension membership but may have received an increased salary from their employer.

Losing enhanced protection

Individuals can choose to give up enhanced protection at any time – either by notifying HMRC, or by 'breaking' it by paying a contribution or accruing benefits above a certain level. They could also lose it if a new arrangement is set up for them (except in the case of certain transfers).

- Transfers of pensions benefits have to be a 'permitted transfer' or enhanced protection will be lost. Permitted transfers are ones where:
- All of the individual's pension rights under that scheme (not arrangement) are transferred;
- The transfer is to a registered money purchase arrangement or a recognised overseas scheme;
- The transfer is to a defined benefit or cash balance arrangement but only if the transfer is from a defined benefit or cash balance arrangement which was winding up;
- The transfer is to an insurance company and buys a scheme pension as a result of the scheme winding up; and
- The transfer is from a defined benefit or cash balance scheme to a money purchase arrangement and the rights in the new scheme are actuarially equivalent to the rights being transferred.

An individual can also lose an enhanced transfer if an 'impermissible transfer' is made into an arrangement. These are transfers into a money purchase arrangement where the transfer is from an arrangement not relating to the individual (except for pension credits), the transfer is from a non-registered scheme, or it is the payment of a transfer lump sum death benefit into the individual's arrangement.

The individual can't reinstate enhanced protection later on. If they do lose it, they must tell HMRC within 90 days (or be liable to a penalty of up to £3,000).

Example – Michael

On 5 April 2006, Michael had £1.35 million in his Sipp. He chose to stop paying contributions, as he believed he would exceed the lifetime allowance when he took the benefits through increases from investment returns.

Michael did not pay in any further contributions. And when he crystallised his benefits (now worth £1.7 million) in January 2019 by taking out a drawdown plan, he had no lifetime allowance tax charge.

Defined benefit accrual

Enhanced protection is lost if benefits are accrued above a certain level – 'relevant benefit accrual'.

The test to see if relevant benefit accrual has happened is made at a benefit crystallisation event (BCE) or when a transfer is made to a money purchase arrangement.

The amount crystallised or the transfer value paid is compared to the 'appropriate limit', which is the greater of:

- the value of the benefits at 5 April 2006 increased by greater of 5% or RPI; or
- the value of the benefits at 5 April 2006 recalculated using post 6 April 2006 earnings.

Enhanced protection and divorce

The way pension debits (following divorce) affect the individual's protection depends on the type of pension plan.

For defined benefit or cash balance arrangements, the individual may be able to rebuild their pension rights without losing enhanced protection because the accrual is based on an increase in benefits, not contributions made. It's only when a BCE arises (or transfer) that the appropriate limit is tested.

However, it's not possible for people who are members of money purchase arrangements to rebuild their pension rights following pension debit, as making contributions will lose enhanced protection.

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If someone receives a pension credit (in respect of a pension sharing order after 5 April 2006) then enhanced protection will be lost if a new arrangement is established to accept the pension credit transfer. But if the pension credit is transferred into an existing money purchase arrangement, then this is not counted as a 'relevant contribution', and the member doesn't lose enhanced protection.

If the pension credit is transferred into an existing defined benefits or cash balance arrangement, then enhanced protection may be lost at a later stage if relevant benefit accrual happens.

Automatic enrolment

If an individual has enhanced protection and is automatically enrolled into a pension plan, then they have to opt out within the first month to avoid losing enhanced protection. In April 2015, new rules were introduced allowing employers to choose whether to automatically enrol an employee if they have reasonable grounds to believe they have enhanced or fixed protection.

However, it's up to the employee to let the employer know they have the protection, and it's up to the employer to decide whether to automatically enrol the employee or not based on the evidence (such as a copy of a HMRC certificate) they have.

Summary

If someone had benefits of over £1.5 million at A-day, they could have applied for both enhanced and primary protection at the same time. That way if they 'broke' enhanced protection (for example by paying a contribution) then they could still rely on primary protection.

	Value of benefits	Further contributions or benefit accrual?	Lifetime allowance
Primary protection	Had to be £1.5m or above	Yes	Lifetime allowance enhancement factor
Enhanced protection	Any value – above or below £1.5m	No	No lifetime allowance charge regardless of value of benefits

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