



Individual protection 2014 and 2016

Introduction

Individual protection 2014 and 2016 limits the impact of the reduction in the standard lifetime allowance (SLA) that took effect from 6 April 2014. The lifetime allowance was abolished on 06 April 2024. This factsheet provides a brief overview of individual protection 2014 and 2016.

Features

- Summary of the Lump Sum Allowance (LSA) and the Lump Sum and Death Benefit Allowance (LSDBA)
- Pension commencement lump sum (PCLS) entitlement
- How does the protection work?

Summary of the lifetime allowance

The lifetime allowance was introduced to restrict the tax advantages that can be gained by individuals saving for retirement through registered pension schemes. Any pension savings in excess of the lifetime allowance attracted a lifetime allowance charge.

Individual protection 2014 was aimed at individuals with pension rights as at 5 April 2014 valued in excess of £1.25m who did not have primary protection (see the Enhanced and Primary Protections factsheet). Note that individuals who hold either enhanced protection, fixed protection or fixed protection 2014 may also hold individual protection 2014 provided the value of their pension rights as at 5 April 2014 exceeded £1.25m. In such circumstances the other form of protection takes precedence meaning that individual protection 2014 is dormant and will only apply if the other form of protection is lost. The deadline for applying for this form of protection was 5 April 2017. HMRC can in exceptional circumstances, accept an application after 5 April 2017 by exercising its discretion under the relevant legislation.

The lifetime allowance was abolished on 6 April 2024. In its place, two new allowances were introduced:

Lump Sum Allowance: This limits the amount most people can take as a tax-free lump sum during their lifetime.

Lump Sum and Death Benefit Allowance (LSDBA): This limits the amount which can be taken as a tax-free lump sum during lifetime or following death before age 75.

How does the protection work?

It is not possible for individuals to hold both individual protection 2014 and primary protection and the value of their pension rights, calculated in a manner prescribed by legislation, must have exceeded £1.25m on 5 April 2014.

Benefit accrual post 5 April 2014 does not invalidate the protection. However, where an individual holding this form of protection is subject to a pension debit post 5 April 2014 by virtue of the operation of a pension sharing order on divorce, then there is potential for the individual's personalised lifetime allowance (see below) to be reduced or for individual protection 2014 to be lost.

Features

- Gives the holder a personalised lifetime allowance equal to the greater of the relevant amount and the SLA where the relevant amount is less than £1.5m, otherwise it will be the greater of £1.5m and the SLA. The relevant amount is the value of their pension rights as at 5 April 2014.
- The personalised lifetime allowance replaces the SLA in all areas of the relevant legislation. This means that the PCLS permitted maximum is affected (see below for more details).
- At a benefit crystallisation event prior to 6 April 2023, the value of any pension rights in excess of the personalised lifetime allowance suffered a lifetime allowance charge. From 6 April 2023, any pension rights in excess of the personalised lifetime allowance do not attract a lifetime allowance charge.

PCLS entitlement

If you have individual protection, you will be entitled to the lower of:

- 25% of the value of your pension at the point that you take benefits or;
- 25% of the individual protected amount

Additionally, if you have this type of protection you are entitled to a higher LSDBA equivalent to their protected amount.

If, under a scheme, a member is entitled to scheme specific lump sum protection, while also being entitled to individual protection 2014, the PCLS permitted maximum under the scheme is also affected. It is calculated as follows:

- a. The amount of the scheme specific protected lump sum as at 5 April 2006, re-valued, using a factor of £1.8m/£1.5m, plus
- b. An additional lump sum amount. This is calculated using the following formula:

25% of (the value of crystallised benefits less the indexed value of the fund as at 5 April 2006)*

Individual protection 2016 is aimed at individuals with pension right as at 5 April 2016 valued in excess of £1m who do not have primary protection or individual protection 2014. Note that individuals who currently hold either enhanced protection, fixed protection (2012, 2014 or 2016) may apply for individual protection 2016 provided the value of their pension rights as at 05 April 2016 exceeded £1m. In such circumstances the other form of protection takes precedence meaning that individual protection 2016 is dormant and will only apply if the other form of protection is lost.

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