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Adviser factsheet

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Individual protection

Introduction

For the first six years after the lifetime allowance was introduced, it increased each year. However, from April 2012 it began to decline: it dropped in 2012 (from £1.8m to £1.5m), 2014 (from £1.5m to £1.25m) and again in 2016 (from £1.25m to £1m).

When the first drop happened in 2012, fixed protection was made available which allowed individuals to keep a higher lifetime allowance but prevented them from making any further pension savings. When the lifetime allowance dropped again in 2014, individual protection was introduced. It still allowed individuals to protect some of their pension savings from the drop, but gave them more flexibility to make further pension savings in the future.

There are two versions of individual protection: one for 2014 and one for 2016.

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 individuals 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.

Who was eligible to apply for individual protection?

Individuals could apply for individual protection 2014 as long as they didn't already have primary protection, and the value of their pensions on 5 April 2014 was more than £1.25m. They could apply for individual protection 2016 as long as they didn't already have primary protection or individual protection 2014, and the value of their pensions on 5 April 2016 was more than £1m.

Can individuals still apply for individual protection?

No, they can no longer apply for individual protection 2014 or 2016.

How does individual protection work?

Individual protection gives a protected allowance based on the value of their pensions at the point the lifetime allowance dropped. There are specific rules for how to value pensions for this purpose.

For individual protection 2014 the protected amount can be between £1.25m and £1.5m, and for individual protection 2016 it can be between £1m and £1.25m. These maximums make sure individuals can't protect funds which already would have been above the lifetime allowance before it dropped.

For example, if the value of a pension on 5 April 2014, according to the special valuation process, was £1.4m, then the individual protection certificate would give a protected lifetime allowance of £1.4m.

Does individual protection increase PCLS (tax free cash) entitlement?

Yes. If an individual has individual protection, they will be entitled to the lower of:

- 25% of the value of their pension at the point that they take benefits or;
- 25% of the individual protected amount.

Additionally, if they have this type of protection, they're entitled to a higher LSDBA equivalent to the protected amount.

Can an individual lose individual protection?

Individual protection can't be given up voluntarily, but it can be lost or revalued.

If an individual gets divorced or dissolves a civil partnership, their pension may be subject to a 'pension sharing order'. A pension sharing order is issued following a divorce or dissolution so that funds can be transferred from one person's pension to the other's. If funds are taken from a pension (known as a 'pension debit') and they hold individual protection, their protection will need to be revalued.

Firstly, the value of the pension debit itself is revalued: it's reduced by 5% for every complete tax year since the protection took effect. The new value of the pension debit is then deducted from the value of the pensions as at 5 April 2014 or 2016, which would have been used to find the original individual protection amount. A new individual protection amount is then issued using this new figure. The pension debit may be large enough to cause the individual to lose their individual protection altogether.

We have a separate factsheet about the lump sum allowance (LSA) and lump sum and death benefit allowance (LSDBA) which you may wish to read.

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