



Enhanced and primary protections

Introduction

Both protections were introduced to help individuals move from the pre-6 April 2006 pensions rules to the current system. The pension protection rules are very complicated. We recommend that you speak to an adviser if you're affected.

Features

- Summary of the lump sum allowance (LSA) and lump sum and death benefit allowance (LSDBA)
- How does protection work?
- Lump sum protection
- Valuing pension rights for protection purposes

Enhanced and primary protections

Summary of lifetime allowance

The lifetime allowance was introduced to limit the amount of 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.

For those individuals whose pension funds were in excess of £1.5m as at 5 April 2006, or believed their funds may increase beyond the standard lifetime allowance (SLA), HMRC introduced both 'primary' and 'enhanced' protection as options to help limit the impact of the lifetime allowance. Registration for both had to be made before 6 April 2009. Registration after that date is possible only where HMRC is satisfied that the individual has a reasonable excuse for not registering before that date and registers without unreasonable delay.

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 protection work?

The two different types of protection have different eligibility criteria and different features.

Enhanced Protection

To qualify for enhanced protection, pension benefits immediately prior to 6 April 2006 (A day) must have been within the HMRC limits that applied at that time. Anyone could apply for enhanced protection, regardless of the value of their pensions. However, only benefits which were accrued prior to 6 April 2006 could be protected.

Where an application for protection is made on or after 15 March 2023, certain events would prevent a successful application being made or cause enhanced protection to be lost. For example, 'relevant benefit accrual'. Whether or not relevant benefit accrual occurs depends on the type of arrangement.

For money purchase arrangements that are not cash balance arrangements, relevant benefit accrual occurs when a relevant contribution is made after 5 April 2006.

In the case of cash balance and defined benefit arrangements relevant benefit accrual occurs when the value under such an arrangement exceeds the appropriate limit. The test for relevant benefit accrual is carried out at a benefit crystallisation event or when funds are transferred to a money purchase arrangement that is not a cash balance arrangement.

Other events that cause the loss of enhanced protection are set out in page [PTM092420](#) of the Pensions Tax Manual.

For protection applications made before 15 March 2023, the loss of protection rules, as from 6 April 2023, no longer apply.

Features

Members who have enhanced protection with lump sum protection are entitled to a higher Pension Commencement Lump Sum (PCLS), however the value of the lump sum will be limited based on their pension value on 5 April 2023.

For clients who have enhanced protection but no lump sum protection, the entitlement is £375,000 less any lump sums already taken.

Primary Protection

To apply for this form of protection an individual must have had over £1.5m in pension funds at 5 April 2006.

Pensions that were in payment at 5 April 2006 are valued differently to uncrystallised funds – see 'Valuing pension rights for protection purposes' below.

Features

- Those with primary protection are entitled to a higher LSA. Following abolition of the LTA, if you have lump sum entitlements are also protected, this will be a monetary figure on your protection certificate which is increased by 20% then reduced by any lump sums previously taken.
- If you don't have lump sum protection included on your protection certificate, the maximum lump sum available will be 25% of the pension value up to a limit of £375,000 (less any lump sums taken).
- Additionally, if you have Primary protection, you're entitled to a higher LSDBA equivalent to £1.8m plus £1.8m multiplied by their primary protection factor.
- $\text{£1.8m} + (\text{£1.8m} \times \text{primary protection factor}) = \text{LSDBA}$ pension funds do not attract a lifetime allowance charge.
- Individuals can still continue to accrue benefits under their uncrystallised pensions.

Lump sum protection

Both primary and enhanced protection have the feature to protect the available pension commencement lump sum (PCLS) provided pension lump sum rights were in excess of £375,000 at 5 April 2006.

It was not possible to apply solely for lump sum protection; it had to be applied for in conjunction with either primary or enhanced protection.

What happens if an individual has lump sum protection?

- With enhanced protection, the tax free lump sum allowable across all of the individual's uncrystallised pension funds as at 5 April 2006 is expressed as a percentage of those funds. This percentage is quoted on the protection certificate and is applied to each arrangement that is crystallised on or after 6 April 2006. From 6 April 2023, the maximum payable is limited to the amount which could have been paid on 5 April 2023.

- With primary protection the individual has protection for the monetary value of the tax free lump sum allowable across all of their uncrystallised pension funds as at 5 April 2006. This figure is quoted on the protection certificate and is indexed each year in line with the SLA. From 6 April 2012, £1.8m, or the SLA if greater, is used for the purpose of indexing.

What happens if the individual couldn't protect their lump sum?

A maximum PCLS entitlement of 25% of the amount crystallised capped by the available portion of the individual's lump sum allowance or such higher amount as may be provided by scheme specific lump sum protection, would be applicable. From 6 April 2014, the available portion of the individual's lump sum allowance is defined as follows:

- $(\text{CSLA} - \text{AAC})/4$
- CSLA is the greater of £1.5m and the SLA
- AAC is the aggregate of the amounts crystallised at previous BCEs adjusted accordingly

Valuing pension rights for protection purposes

How pension rights were valued for protection purposes depended on whether or not they were in payment prior to A day.

Valuing uncrystallised other money purchase rights

- Where no benefits had been taken prior to 6 April 2006 the market value of assets held in respect of these rights as at 5 April 2006.
- The value of the lump sum (for lump sum protection) was either 25% of the market value of the assets as at 5 April 2006 or the amount of lump sum to which the individual would have been entitled as at 5 April 2006 assuming it could have been paid on that date.

Valuing crystallised other money purchase rights

- Pensions in payment on 5 April 2006 were valued as follows:
 - For pensions in drawdown, maximum income available at 5 April 2006 multiplied by 25 = A day value
 - For annuities, the annual pension payable (at 5 April 2006) multiplied by 25 = A day value
- The value for lump sum protection purposes was 25% of the A day value calculated above.

Valuing uncrystallised defined benefits rights

- The annual rate of scheme pension as at 5 April 2006 multiplied by 20 plus the amount of any lump sum entitlement on that date (otherwise than by way of commutation of pension). It was assumed that benefits could have been taken on 5 April 2006 without any reduction because of age.

- The value for lump sum protection purposes was the amount of lump sum to which the individual would have been entitled as at 5 April 2006 assuming it could have been paid on that date.

Valuing crystallised defined benefit rights

- The annual rate of scheme pension in payment on 5 April 2006 multiplied by 25 = A day value.
- The value for lump sum protection purposes was 25% of the A day value calculated above.

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