



STIRLING HOUSE A-DAY PREPARATION

Before 6th April 2006, Individuals who have built up significant benefits will be able to protect their pre A-Day entitlement against the Lifetime Allowance Charge.

Transitional Protection: Key Facts

- There are two options for transitional protection from the Lifetime Allowance charge~
 - **Primary Protection** — where the capital value of the individual's pre A-Day pension benefits will be registered and protected to the extent of the percentage increase in the standard lifetime allowance.
 - **Enhanced Protection** — provides full protection for the value of the whole of an individual's pension rights accrued prior to 6th April 2006, regardless of any subsequent growth.
- To be eligible for Primary protection, the value of an individual's pension rights at 5 April 2006 must be more than the initial standard lifetime allowance of £1,500,000.
- Pension rights will be valued on the following basis:
 - For benefits which have not yet been paid:
 - For money purchase arrangements, the fund value will be used.
 - For defined benefit schemes, the accrued pension at that date multiplied by 20.
 - For benefits which are already in payment:
 - the annual rate of pension payable on that date multiplied by 25.
 - The Primary Protection factor is calculated by:
$$\frac{\text{Total value of benefits at 5th April 2006 -£1,500,000}}{£1,500,000}$$
- Whenever a Lifetime Allowance test is required, the factor is applied to the relevant standard lifetime allowance to calculate the individual's enhanced lifetime allowance. Only benefits in excess of the enhanced lifetime allowance will be subject to a lifetime allowance charge.
- Enhanced Protection is available whether or not the total value of pension rights on 5th April 2006 exceeds £1,500,000. For Enhanced Protection to apply, the individual must cease active membership of all approved money purchase pension schemes from A-Day.
- Defined benefit/final salary scheme members can opt for enhanced protection without having to leave their scheme.
- If the tax-free cash entitlement under, an existing occupational scheme, assigned contract, or S.32 buy-out plan is greater than 25% of the fund; it will also be possible to protect this from 6th April 2006. Protection is normally provided automatically by the scheme/plan provider, who will hold details of the pre 6th April 2006 tax-free cash sum. The protected tax-free cash sum will be increased by the corresponding Increase in the Lifetime Allowance between 6th April 2006 and the date benefits are first taken. To apply, all scheme or plan benefits must be taken at the same date.



Transitional Protection: Questions & Answers

Q: Can Enhanced Protection be revoked?

A: Yes. Enhanced Protection will be revoked at any time before you reach age 75 if you:

- resume active membership of a registered scheme
- become a new member of a registered scheme
- arrange a transfer that is not a permitted transfer'

You must inform the Revenue within 90 days of the revocation, or face a fine of up to £3,000.

Q: Can I apply for both Enhanced and Primary protection?

A: Yes, however you must stop active membership of the pension scheme to be eligible for Enhanced Protection. Remember that Primary Protection is only available if the combined value of all your pension benefits exceeds £1.5m at A-Day.

TRANSITIONAL PROTECTION: CASE STUDY 1

David's pension fund value on 5th April 2006 is £4.5 million. He wishes to continue contributing to his pension after 6th April 2006, but wishes to minimise any lifetime allowance charge, so he applies for primary protection. This gives him an enhanced lifetime allowance equivalent to 300% (i.e. 3 x standard lifetime allowance of £1.5 million).

When David decides to take benefits on 1st October 2010, his fund is valued at £5.7 million. The standard lifetime allowance has increased to £1.8 million. This means David's enhanced lifetime allowance is £5.4 million, i.e. 300% of £1.8 million. The fund over £5.4 million will be subject to the lifetime allowance charge of 55% if taken as a lump sum, or 25% if taken as income. Any income will then be taxed at David's highest marginal rate.

If David had opted for enhanced protection, the whole fund would have been protected, although he would not be able to make any payments on or after 6th April 2006.

TRANSITIONAL PROTECTION: CASE STUDY 1

Susan has a defined contribution fund valued at £1.3 million just before 6 April 2006, and decides to opt for enhanced protection. She makes a decision not to make any further payments to the plan or to any other pension arrangement.

When she decides to take her benefits on 1 October 2010, its value has increased to £2 million, while the standard lifetime allowance has increased to £1.8 million. Although her fund exceeds the standard lifetime allowance, she will not be subject to the lifetime allowance charge.

On the other hand, if Susan had decided to start making payments post 6 April 2006, she would have lost her enhanced protection. As her fund was below the standard lifetime allowance at 6 April 2006 (£1.5 million), she would not have been entitled to primary protection.

Therefore, a lifetime allowance charge would have applied to the excess over £1.8 million.

Important Information

Please note that the information provided in this document is based on Stirling House Financial Services' understanding of existing and proposed legislation and HMRC practice, all of which may be subject to change in the future. The information is based on the assumption that tax legislation is not changed.