

Protect Your Pension

April 5 2014 is fast approaching and HMRC conservatively estimate that approx. 400,000 taxpayers will be affected by the next decrease in the Lifetime Allowance ("LTA") (from £1.5 million to £1.25 million) meaning part of your pension pot could be exposed to a punitive 55% tax charge on the future drawdown of benefits.

If the value of all your pension fund(s) is approaching £1.25 million, including any final salary fund you may have lurking in the background (which should have a conversion factor of 20 times the estimated annual income applied to it) then you may need to act now.

Fixed Protection 2014

Individuals can apply for Fixed Protection 2014 ("FP 2014") to lock in the present £1.5 million LTA on the condition that you stop accruing benefits above a given percentage. Beware traps that will rescind this relief such as auto-enrolment. The application must be made before 6 April 2014.

Individual Protection 2014

Individual Protection 2014 ("IP 2014") available between 6 April 2014 and 5 April 2017 is slightly different as it allows savers to fix their LTA at the value of their accumulated fund to date (which should already be at £1.25 million up to a maximum of £1.5 million) but allows you to continue to accrue benefits, which may be attractive where there is no option to receive higher salary in lieu of a pension contribution. The protection from the effect of the reduction in LTA from £1.5 million to £1.25 million is however limited to the accumulated fund value as at 5 April 2014. The closer this figure is to £1.25 million, the less valuable the relief will be as the increase in fund value post April 2014, whether by normal growth or through additional contributions, will be subject to an LTA charge when in due course pension benefits are crystallised.

Do Both?

An individual can apply for both FP 2014 and IP 2014. Both these options are of course only available to people who do not already have some form of existing LTA fixed protection.

Alternatively....

As an alternative to FP 2014 or IP 2014, individuals approaching retirement age could consider crystallising some pension benefits now. It would be wise to seek a value of your pension fund to date and take advice.

The Annual Allowance is also coming down to £40,000. Making effective use of pension input periods and the carry forward mechanism could maximise the amount that can be contributed in tax year 2014/15.

One can entirely understand the policy rationale behind the reining in of tax reliefs to the wealthy who were just using their pension pot as an alternative means of investment but is there a possibility that the Government is penalising those wise and fortunate enough to save for their retirement?

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