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INDEPENDENT FINANCIAL PLANNING  
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### **Changes for significant pension funds - Fixed Protection deadline approaching**

On the 6<sup>th</sup> April 2012 the total amount that can be held by one person in pension funds (the [lifetime allowance](#)) is reducing from £1.8 million to £1.5 million.

Before then there is an opportunity to apply for lifetime allowance protection called [fixed protection](#). Fixed protection has the advantage of maintaining the lifetime allowance at the existing level of £1.8 million.

The decision to apply for fixed protection is an important consideration for those with pension funds worth more than £1.5 million, or which could be worth more than £1.5 million by the time retirement benefits are taken.

Fixed protection allows for a maximum pension commencement lump sum of up to 25% of the protected lifetime allowance to be withdrawn, which is 25% of £1.8 million, or £450,000 and this is tax free.

Under the new rules from 6<sup>th</sup> April 2012 the maximum pension commencement lump sum that can be withdrawn will continue to be 25% of the total fund. However because the lifetime allowance is being reduced to £1.5 million the maximum tax free lump sum that can be withdrawn will also be reduced to £375,000.

The disadvantage of fixed protection is that if pension contributions are made after 6<sup>th</sup> April 2012 into a money purchase scheme, or if benefits accrue in a final salary scheme at an annual rate in excess of the Consumer Prices Index (CPI), or another rate specified in the scheme rules if written before 9 December 2009, the fixed protection will lapse. For this reason, if a person intends to make further contributions

into their pension scheme, or if they are an active member of a final salary scheme, then fixed protection may not be appropriate.

If a person already has [primary](#) or [enhanced protection](#), they cannot apply for fixed protection. However, if they have enhanced protection but not primary protection they may benefit more from fixed protection and may wish to consider lapsing their enhanced protection.

Therefore if a member has a fund value in excess of £1.5 million, with enhanced protection, it may be prudent to weigh up the benefit of a potentially higher pension commencement lump sum available under fixed protection against the possibility of a higher lifetime allowance charge.

Primary protection cannot be lapsed, so fixed protection is not an option if they already have primary protection.

There are many things to consider before the most appropriate decision can be made and individual guidance is essential.

The form that needs to be completed to claim fixed protection is now available. To be valid, applications for fixed protection have to be received by HMRC by 5 April 2012; there are no exceptions and late claims will not be accepted.