**Core Unit 3 – Running a Workplace Pension Scheme**

**Assignment 3 Notes**

(Part 4 – Allowances)

Recommended Time: 1 Hour

# Explain Primary Protection and Enhanced Protection.

Answer should cover:

* Primary protection:
  + available to members who had already accrued benefits with a value greater than £1.5 million at 5 April 2006
  + The value of their accrued benefits as at that date is protected from the Lifetime Allowance charge, but any further benefits are subject to the charge.
  + HMRC provides these individuals with an enhancement to the standard LTA
  + To maintain the value of primary protection when the standard LTA was reduced from £1.8 million to £1.5 million from 6 April 2012, the enhancement to the LTA is based on the larger of £1.8 million and the standard LTA at the point the member’s benefits are paid;
* Enhanced protection:
  + available to any member, although in practice only members with benefits valued

above £1.5 million at 5 April 2006 are likely to have applied for it

* + a member’s benefits are completely protected from the Lifetime Allowance charge
  + no further contributions to DC schemes can be made
  + the member can only accrue very limited benefits in DB schemes.
* A worked example showing the enhanced LTA for a member with Primary Protection.

Relevant section of the manual is Part 4 Chapter 3.1.

# 10 marks

1. **Outline the changes to the Annual Allowance were announced in the Summer Budget 2015.**

Answer should cover:

* changes effective from 6 April 2015
* pension input periods (PIPs) aligned to the tax year with effect from 6 April 2016
* transitional provisions in place for the 2015/16 tax year, which in broad terms were:
* All 2015/16 pension input periods ran on until 5 April 2016
* The pension input period was split into two mini periods:
  + A pre alignment tax year that ran from the start of the PIP to 8 July 2015, and
    - A post alignment tax year that ran from 9 July 2015 to 5 April 2016
* Annual Allowance of £80,000 applied for the 2015/16 tax year (plus carry forward from the three

previous tax years), with a maximum of £40,000 applying in the post alignment tax year

* Tapered Annual Allowance introduced for high earners.

Relevant section of the manual is Part 4 Chapter 1 Introduction (page 87).

# 5 marks

1. **What determines the level of the Lifetime Allowance Charge for a member whose benefits exceed the Lifetime Allowance? Illustrate the difference using a worked example.**

Answer should cover:

* Level of LTA Charge depends on whether benefits in excess of the LTA are taken as a lump sum or pension form
* Example calculation showing:
  + how LTA charge is calculated where exceed benefits taken as a lump sum
  + how LTA charge is calculated where exceed benefits taken as pension.

Relevant section of the manual is Part 4 Chapter 2 Introduction (page 93).

**5 Marks**

1. **Explain what a Benefit Crystallisation Event is and how a member’s benefits are tested.**

Answer should cover:

* A BCE is an event in a registered scheme which triggers a test of the member’s benefits against the

Lifetime Allowance

* There are 13 BCEs
* Each time benefits are tested, part of the member’s Lifetime Allowance is deemed to have been used up
* If there is insufficient Lifetime Allowance remaining at the time of the test, then a Lifetime Allowance charge will become payable.
* The percentage of the standard Lifetime Allowance used up at a particular BCE remains constant year by year even though the standard Lifetime Allowance is changed in subsequent tax years
* This is to ensure that individuals will face the same real aggregate Lifetime Allowance on their total pension rights built up with tax relief, irrespective of:
  + When they choose to take their benefits and the type of benefits they become entitled to
  + Whether benefits are taken from one scheme or from multiple schemes.
* A worked example of a test of a member’s benefits against the LTA.

Relevant section of the manual is Part 4 Chapter 2.1.

**10 marks**

1. **Other than Primary Protection and Enhanced Protection, list 5 other Protections available to scheme members and outline what other Lifetime Allowance enhancement factors are available and why were they introduced?**

Answer should cover:

* Fixed Protection
* Fixed Protection 2014
* Individual Protection 2014
* Fixed Protection 2016
* Individual Protection 2016
* Other enhancement factors:
  + may be applicable for members who:
    - have overseas service or benefits
    - who are entitled to a pension credit following pension sharing on divorce.
  + Aimed at preventing members in these circumstances being taxed unfairly
  + Example - a member of a registered pension scheme who has benefits from overseas service may not have received UK tax relief on their contributions, and so it would be unfair to test their benefits against the standard LTA
  + Deadlines for applications to HMRC for these enhancements differ depending on the type of enhancement applied
  + Applications not subject to the deadlines applicable to enhanced/primary/fixed/individual protections

Relevant section of the manual is Part 4 Chapter 3.2 to 3.7.

**10 marks**

1. **Write short notes on how the Pension Input Period operates for Defined Benefit or Cash Balance schemes.**

Answer should cover:

* the value of a person’s benefits (i.e. their accrued benefit) at the end of the pension input period is compared with the value of their benefits at the end of the previous pension input period
* Subject to certain adjustments, the difference is the pension input amount for the period.
* Factors used for valuing benefits at start and end of pension input period (PIP)
  + 2010/11 or earlier - factor of ten is used for inputs
  + 2011/12 or later – factor of 16 used
* Adjustments made to the PIP to account for:
  + transfers in or out of the scheme
  + pension debits or credits resulting from a divorce
  + where a member is no longer an “active” member no longer accruing benefits - ensures that the PIP is protected from inflation by excluding annual revaluation
* inflation protection extended to active members from 2011/12 tax year
* deferred members whose benefits’ revaluation does not exceed the increase in the CPI (or any higher rate written into the scheme rules) deemed as having no PIP.
* individuals subject to the Money Purchase Annual Allowance still entitled to the alternative Annual Allowance for ‘other inputs’. The ‘alternative’ Annual Allowance is found by subtracting the Money Purchase Annual Allowance from the amount of the Annual Allowance for the tax year.

Relevant section of the manual is Part 4 Chapter 1.2.

**10 marks**