



Protect your pension

Ray Price says it's important that you're are doing all you can to maximise your pension position, to avoid a tax hit

If you are in your 40s, it's unlikely that you will have exceeded the LTA limit

When the Government announced its 'Pension Simplification' programme for April 2006 and called it 'A-Day', many in the pensions world (and investors) looked forward to many improvements and an easier way of planning towards retirement.

However, nearly three years on, in some ways it has had the opposite effect. This is particularly true of something called the Lifetime Allowance (LTA). This rule states that you are limited to how much pension benefits (from any source other than the state pension) you can have in your lifetime. The limit started at £1.5 million in April 2006, and is currently £1.65 million, rising to £1.8 million in 2010.

If you build up pension funds worth more than these figures, then you will be taxed on the excess at 55 per cent on lump sums and 25 per cent on a pension. It is important to remember that this tax would apply to the pension that (when taken) takes you over the limits.

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Protecting your assets

Last summer, all dentists in the NHS Superannuation Scheme should have received a letter that discussed this very point. As a result, some have been worried whether this will mean they will lose out. It is a complex issue for many, and here we try to cover the main issue – whether you should apply for pension protection before the deadline of April 5 2009?

The first thing to mention is that this LTA rule could especially affect those who are high earners in the NHS, and have or will have around the equivalent

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of 35 to 40 years' service by retirement. There are two types of protection that the NHS offers, Primary and Enhanced. So what are these designed to achieve, and are they something that you should action?

Primary Protection – PP

This is available to Scheme members whose total benefits

at A-Day (April 5 2006) were higher in value than the standard lifetime allowance of £1.5 million. It protects benefits by permitting an individual increase to the LTA, as calculated at April 2006. Further benefits can be accrued but a charge will be applied to any excess over the individual LTA protected benefits.

If you are unsure about whether you are eligible here, ensure you check this as soon as

possible. This particularly applies to anyone who has a Merit Award, and/or other pensions.

Enhanced Protection – EP

If you are in your 40s, it's unlikely that you will have exceeded the LTA limit as of April 2006. However, you may well exceed any new limits in the future.

So the idea of Enhanced Protection is to take these in-

creases into account. However, there are limits on this option, and this is covered by rules called Relevant Benefit Accrual (RBA).

RBA is applied to those who have registered for Enhanced Protection to ensure that their benefits have not grown above prescribed limits set by HMRC. The limit has been set at the greatest of five per cent or the growth in the Retail Price Index for each year after A-Day.

If you are a hospital consultant and are in receipt of Merit awards, you may well exceed the LTA. A senior consultant with the accompanying seniority payments who gains a Gold or Platinum award will see their pensionable income increase dramatically. So from not having a problem one day, you may do the next.

Please note, if an individual applies for Enhanced Protection, they normally cannot pay further pension contributions. However, this does not apply to the NHS Pension Scheme, but does apply to any other pensions.

Enhanced Protection can also be lost if your total benefits, including added years contributions, grow too much. This is checked at retirement, looking at your benefits tested against Relevant Benefit Accrual.

In summary, Enhanced Protection removes the LTA charge completely but is subject to several important conditions:

- Benefits at retirement must be subject to a RBA test, and if this shows you fail the test, then *all* EP is lost

'If you are unsure about whether you are eligible here, ensure you check this as soon as possible'

- Generally, members cannot continue to pay contributions to a defined contribution scheme, including money purchase additional voluntary contributions schemes. But they *can* continue contributing to the NHS Superannuation Scheme to build scheme membership

LTA Frozen

Recently the Government announced that the LTA limits will be frozen from 2011. They will not increase before 2016, and perhaps not even after then. This will have a dramatic effect for those with pension funds near the upper LTA figure, and many who thought that they had no problem as they were sufficiently below the LTA.

Registering for protection

You have until April 5 2009 to make your decision. You need to register your total pre A-Day benefits with HMRC. Further details can be found on the HMRC website at: <http://tinyurl.com/7lfjgc>. You can register with HMRC for

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both Primary and Enhanced Protection. NHS Pensions cannot apply on your behalf, so it's down to you.

In order to register you will need to provide HMRC with a valuation of the capital value of your NHS Scheme benefits as at April 5 2006. If you require a valuation of the capital value of your NHS Scheme benefits at April 5 2006, you need to contact your local Pensions/Payroll Officer or PCT.

checking your total pensions fund value as of April 5 2006. This includes all Personal Pensions as well as the NHS Superannuation Pension. If the total is above £1.5 million, it may well make sense to apply for Primary Protection as well as Enhanced Protection.

For everyone else, you may as well apply for Enhanced Protection (although check that you are eligible). Get the paperwork out of the way now,

well in advance of the deadline (April 5).

Free Audio CD

To learn more about retirement planning options, you can request a free copy of one of Rutherford Wilkinson's Audio CDs: 'How To Avoid The 3 Most Common Retirement Planning Mistakes'. Just call Catherine Lowes on 0191 217 3340 and a copy will be posted to you (please quote ref: DT). [▶](#)

About the author



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What it all means

You're still with me? Great! It can be quite a dry subject, but I'm sure you'll agree a very important one if there's a chance you could be affected. So what would we advise? Well, a few general points.

As readers of our 'Financial Tips' email newsletter have probably heard before, when we develop a retirement strategy with a client, many do not require more investment into pensions (in addition to the NHS Scheme). In fact, many dentists quite often cease payments into non-NHS existing pensions since their own financial projections (Financial Sat Nav) shows that they do not require more income in retirement (which may well be subject to higher rate tax).

Another way of reducing or avoiding an LTA problem is to go part time at say age 55 or 60. This is something we have seen increasingly being considered by clients. For example, by working five years at three days per week, it could reduce your NHS fund value by around £100,000 on a Whole Time Equivalent salary of £170,000 a year.

You could, however, take a fatalistic view. Chatting to one client who would be affected, he had the attitude of 'so what'. Basically he thought that as he was only going to be taxed on any excess pension, he was a very fortunate man to be receiving so much. Not everyone may feel this way however.

Finally, as there is no downside to applying for PP or EP, we would advise you to do so. It is questionable whether EP will help in reality, but of course it may well do so in your case. So go ahead and apply (see previous link). The coming years will tell if this bit of extra paperwork will pay off.

The key point

Check your position to ensure you are doing all you can to maximise your pension position, yet avoid a tax hit. Plan ahead, and ensure you have your own financial map. If your adviser has not provided one, ask. Diagnosis before prescription is the best approach.

Take action

Discover if you are eligible for Primary Protection by



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