Fixed Protection 2014 - Defined Benefit Schemes

If I believed he had a significant sense of humour, I could be forgiven for thinking the last Chancellor of the Exchequer was having a laugh when he introduced "pensions simplification". Seven years on and nothing is further from the truth.

George Osborne's decision to reduce the lifetime allowance from £1.8m to £1.5m in April 2012, and then to £1.25m in April 2014 defies explanation for a Chancellor who has said that this month's budget was:

> A Budget for those who want to save for their retirement

Looking first at those in defined benefit schemes, who arguably have the simplest of decisions (though this is **not** that simple, I'm just comparing to defined contribution members), there is a balancing act of at least three factors before they opt out of a scheme and apply for Fixed Protection in April 2014, this assumes they **didn't** opt for Fixed Protection 2012:

1. Lifetime allowance charges – at its simplest 55% tax charge will be applied to the value of any benefits in excess of the lifetime allowance at a crystallisation event (most commonly retirement, but there others)
2. Annual allowance charges – any benefit accrual that exceeds the 'relevant percentage' (CPI for many schemes, which is 2.2% in the 2013/14 year) may be subject to an income tax charge. A £40,000 allowance (which equates £2,500 pa pension) will be available from April 2014, with the ability to 'carry forward' unused allowances from as many as three prior years. Some schemes will pay this tax charge, reducing the value of benefits built-up but eliminating the need to pay the tax personally
3. Benefits offered if opting out – some employers will pass on some or all of the cost savings if an employee opts out of a defined benefit schemes; conversely some schemes require a member to leave employment and renegotiate a new contract – not a pleasant experience in a time of austerity!

We have some worked examples, and the above is of course a significant simplification. Individuals should seek personal advice from a Pension Specialist (look for Chartered Financial Planners with either the "G60" or "AF3" qualification). I have all three and specialise in Financial Planning for senior executives, and business owners.

Your lifestyle expectations, attitudes to risk, long-term objectives and a significant element of crystal-ball gazing (remember how few people expected the rules that lead to "Fixed Protection 2014") will help you to at least better understand the benefits and disadvantages of opting out versus staying in – it is rare we can give an absolute answer but we can help you make an informed decision.