Fixed Protection 2014 Member Guidance

1 What is Fixed Protection 2014?

Introduction

From 6 April 2014 the lifetime allowance will be reduced to £1.25 million from the level of £1.5 million in tax year 2013-14. If you have already built up pension savings of more than £1.25 million or have planned to do so in the expectation that the lifetime allowance would not reduce from the 2013-14 level, there is a new form of protection called "Fixed Protection 2014" (FP2014).

The legislation for FP2014 applies from 6 April 2014 and broadly follows that for the existing fixed protection which was introduced when the lifetime allowance was reduced from £1.8 million to £1.5 million in 2012-13.

If you expect your pension savings to be more than £1.25 million (including taking into account past benefits crystallised) when you come to take any benefits on or after 6 April 2014 you can use FP2014 to help reduce or mitigate the lifetime allowance charge. FP2014 will allow you to crystallise benefits worth up to £1.5 million without paying the lifetime allowance charge, although the ability to accrue future benefits is very limited.

The application form for FP2014 will available from 12 August 2013 and must be submitted electronically or in paper form by 5 April 2014. However, we will not send out any FP2014 certificates before November 2013. This guidance is being published to assist people and their advisers in deciding whether to apply for FP2014. It will be included in the Registered Pension Schemes Manual (RPSM) at the next available opportunity.

This guidance contains hyperlinks to existing guidance in RPSM where appropriate.

You may be aware of proposals for a further type of protection – Individual Protection 2014 (IP2014). For further information on the proposals for IP2014, you may wish to read the IP2014 consultation document published on 10 June 2013. You cannot apply for this protection before 6 April 2014 and this guidance does not cover the rules for IP2014. Under the current proposals individuals will be able to hold both FP2014 and IP2014. Please see the Lifetime Allowance Checking Tool for further information. Further IP2014 guidance will be published in due course.

2 Should I apply for FP2014?

Overview of FP2014

[Paragraph 1 Schedule 22 Finance Act 2013]

2.1 What is my lifetime allowance if I successfully apply for FP2014?

If you have FP2014 your lifetime allowance will be fixed at £1.5 million rather than the standard lifetime allowance, which will be £1.25 million from 6 April 2014. If, in the future, the standard lifetime allowance rises to be more than £1.5 million, you will no longer need to rely on FP2014 and instead your lifetime allowance will be the higher standard lifetime allowance.

2.2 Who can apply for FP2014?

Anyone who does not have fixed protection, primary protection or enhanced protection can apply for FP2014. You do not need to have already built up pension savings of more than £1.25 million to apply. If you want to apply for FP2014 then you must meet certain conditions. These are that on 6 April 2014 you

- are a member of a registered pension scheme or a relieved member of a relevant non-UK pension scheme (see RPSM13102530 and RPSM13102520 respectively for definitions of a "relieved member" and a "relieved non-UK pension scheme").
- do not have primary protection (see RPSM03100050 and RPSM03102000 for more detail),
- do not have enhanced protection (see RPSM03100040 and RPSM03104000 for more detail), and
- do not have fixed protection (see RPSM11101500 for more detail).

Once you have FP2014 there are restrictions on what you will be able to do with your future pension savings. For example, you will normally need to stop building up benefits under every registered pension scheme that you belong to by 5 April 2014. It is important that you give your scheme administrator (or employer) enough notice if you want to stop your active membership.

If you leave this notification to the last minute then your accrual or contributions may not cease before 6 April 2014 and if this is the case then you may not be able to rely on FP2014. As a result your lifetime allowance will be the standard lifetime allowance of £1.25 million, and if your benefits are worth more than this when you take them you will be liable to a lifetime allowance charge.

2.3 What are the conditions for FP2014?

To keep FP2014 you

- cannot start a new arrangement under a registered pension scheme other than to accept a transfer of existing pension rights,
- cannot have benefit accrual, and
- will be subject to restrictions on where and how you can transfer benefits.

If you break one of these conditions then you will lose your FP2014. You must tell HMRC if you lose FP2014. See Losing FP2014 for more information about how and when you can lose FP2014.

2.4 Applying for FP2014

You can only apply for FP2014 before 6 April 2014. Applications received by HMRC after 5 April 2014 will not be accepted as the FP2014 legislation does not allow HMRC to accept late applications.

You can apply for fixed protection 2014 at
http://www.hmrc.gov.uk/pensionschemes/fp14online.htm.

Once your application has been accepted by HMRC, we will send you a certificate setting out that you are entitled to FP2014. This certificate will have a unique reference number.

2.5 How does my reduced annual allowance affect my lifetime allowance?

It is possible that the changes to the annual allowance may mean that you become liable to an annual allowance charge in the same year that your benefits are tested against the lifetime allowance. If you are liable for an annual allowance charge in the year that you exceed the lifetime allowance, you will still need to pay the lifetime allowance charge if your total benefits are more than your lifetime allowance. There will be no reduction in the amount of lifetime allowance charge due because you are also liable to the annual allowance charge. See RPSM06105000 for more information about the annual allowance after 5 April 2011.

2.6 How does the scheme pays process for an annual allowance charge affect my lifetime allowance?

RPSM06109030 contains guidance on the circumstances in which scheme pays can operate. Under scheme pays the annual allowance tax charge is met by a reduction in the member's pension benefits, unless you elect to settle the charge directly with HMRC. Your scheme administrator must make a consequential adjustment to your pension savings or your benefit entitlement under the scheme. Where this adjustment is made before you take your benefits this means that, when you come to take your benefits, it is the reduced rate of pension payable that is tested against the lifetime allowance not the rate of pension before the reduction.

Example

Paul is entitled to a scheme pension under his registered pension scheme. Before the pension comes into payment, Paul uses scheme pays to meet an annual allowance charge and the scheme administrator makes a consequential adjustment to his scheme pension entitlement. When Paul takes his pension the adjustment means the rate of pension he is entitled to is reduced from £45,000 per annum to £43,000. When Paul takes his pension there is a BCE 2 (see RPSM11104200 for more detail). The amount crystallised by the BCE 2 is £860,000 (£43,000 x 20) and not £900,000 (£45,000 x 20).

2.7 Paying benefits to someone with FP2014

If you have FP2014 and want to rely on it to reduce or eliminate a lifetime allowance charge when you take benefits, you must tell your scheme administrator that you have FP2014. Even where you do not want to crystallise benefits in excess of the standard lifetime allowance you should tell your scheme administrator that you have FP2014. This will enable your scheme administrator to calculate the percentage of your lifetime allowance used up, based on £1.5 million.

You must give your scheme administrator the FP2014 certificate reference number; this is the legal minimum requirement. Your scheme administrator may ask to see a copy of the FP2014 certificate.

Where you have received a FP2014 certificate, but before you take all of your benefits

- you have benefit accrual, or
- you start a new arrangement other than to accept a transfer of existing pension rights, or
- there is an impermissible transfer into an arrangement, or
- a transfer is made that is not a permitted transfer

then you will lose FP2014 from the date the event above occurred and can no longer rely on the FP2014 certificate that was issued to you. You must tell HMRC if you lose FP2014.

When your scheme administrator starts to pay your benefits, they need to satisfy themselves that there is no lifetime allowance charge due. If the lifetime allowance charge is due your scheme administrator needs to know how much is due. Your scheme administrator is jointly and severally liable to pay the lifetime allowance charge where the event triggering the lifetime allowance test is not the payment of a death benefit. Your scheme administrator also has to report your liability to the lifetime allowance charge to HMRC on the accounting for tax (AFT) return. Guidance on reporting and paying the lifetime allowance charge can be found at RPSM12301300.

Unless your scheme administrator is told otherwise they must proceed on the basis that you have no form of protection from the lifetime allowance charge.

When your scheme administrator is given details of your FP2014 they will proceed on the basis that you have a standard lifetime allowance of £1.5 million or the actual standard

lifetime allowance if this has risen to more than £1.5 million when you come to take your benefits. This means that while the standard lifetime allowance remains below £1.5 million

- as long as your total benefits are not worth more than £1.5 million there is no lifetime allowance charge
- if you do not have scheme specific lump sum protection (see RPSM03105500) your maximum pension commencement lump sum will be the lower of
  - 25% of the available lifetime allowance set by FP2014 which will be £1.5 million
  - 25% of the amount crystallising under the scheme at that time.

This means that if you have not previously taken any benefits and are crystallising £1.5 million or more your maximum pension commencement lump sum will be £375,000.

If using FP2014 means that you have

- no lifetime allowance charge (but would have done if you had no FP2014), or
- a smaller amount liable to the lifetime allowance charge

your scheme administrator must tell HMRC that you have used FP2014 on the event report submitted annually to HMRC. This is a 'reportable event 6'. RPSM12301070 explains what needs to be reported to HMRC.

You will also need to include on your self assessment return the amount of any lifetime allowance charge due and the amount of lifetime allowance charge paid by the scheme administrator.

After crystallising benefits your scheme administrator must give you a statement showing how much of the standard lifetime allowance has been used up by the benefit crystallisation. The percentage shown on the certificate should be calculated as a percentage of your protected lifetime allowance of £1.5 million from 6 April 2014 and not the standard lifetime allowance of £1.25 million.

3 Applying for FP2014

[The Registered Pension Schemes and Relieved Non-UK Pension Schemes (Lifetime Allowance Transitional Protection) Notification Regulations 2013 Statutory Instrument 2013/1741]

You can apply for FP2014 if you do not have any of primary protection, enhanced protection or fixed protection. You do not need to have already built up pension savings of more than £1.25 million to apply.

If you want to apply for FP2014 then you will need to meet certain conditions. These are that you

- are a member of one or more registered pension schemes on 6 April 2014 or a relieved member of one or more relieved non-UK pension schemes (see RPSM13102140 and RPSM13102520 respectively for definitions of a "relieved member" and a "relieved non-UK pension scheme"),
- do not have primary protection (see RPSM03100050 and RPSM03102000 for more detail),
- do not have enhanced protection (see RPSM03100040 and RPSM03104000 for more detail), and
- do not have fixed protection (see RPSM11101500 for more detail).

Once you are satisfied that you meet these conditions then you can apply to HMRC to get FP2014.

3.1 Can I apply on-line?

To get FP2014 you will need to complete the application form APSS228. The application form is available on the HMRC website and you will be able to complete this on-line. Using this process, to submit online, is quick and secure, and receipt of your application is confirmed immediately. If you do not wish to submit your application online you can complete the form online and then print and post the document to HMRC. For more detail see http://www.hmrc.gov.uk/pensionschemes/fp14online.htm.

Whichever method is used, the form will need to be received by HMRC before 6 April 2014.

3.2 What information will I need to give when making an application for FP2014?

Applications for FP2014 should be made on the form APSS228 which is available on the HMRC website at http://www.hmrc.gov.uk/pensionschemes/fp14online.htm.

To complete the application form for FP2014 you will need to give your

- name
- National Insurance number (or if you do not have a National Insurance number, the reasons for this), and
- address.

You will also need to confirm that you do not have fixed protection, primary protection or enhanced protection and complete the declaration on the form.

There is no need to give any valuation of current or expected pension funds as part of the application.

3.3 Will HMRC accept all applications for FP2014?

As long as you complete the prescribed form giving all the information that is requested and you complete the declaration then HMRC will accept your application.

Your completed form must be received by HMRC by 5 April 2014.
Applications received after 5 April 2014 will not be valid and cannot be accepted.

3.4 How will I know if HMRC has accepted my application for FP2014?

When HMRC has received and processed your form they will send you a certificate to state that you have FP2014. You will need to keep this certificate safe so that you can give this information to your pension scheme(s) if you want to rely on this protection when you come to take their benefits.

3.5 Deadline for applying for FP2014

Applications must be received by HMRC no later than 5 April 2014. If, when it is received by HMRC, the form contains any mistakes or is incomplete HMRC will write to you to request correct or missing information. If HMRC does contact you for information, in the four weeks leading up to 5th April 2014 or after that date, then you will be allowed four weeks from the date of our letter to supply the requested information to HMRC. If you do not do so within that time then HMRC will not process the application.

3.6 Late applications

There is no provision for late applications. You must ensure that your application is made on time.

3.7 Appeal against HMRC's refusal to accept a notice

Where HMRC has refused to accept your notice, you can ask HMRC to give the reasons for this. You may also appeal against this decision. You must tell HMRC if you want to appeal against the decision and you must do this within 30 days of the date when the refusal was given.

Where the appeal is considered by the tribunal, the tribunal will decide whether HMRC was entitled to take the view that the notice that you gave

- did not contain the required information (see What information will I need to give when making an application for FP2014? above);
- was not on the prescribed form;
- was not received by HMRC on or before 5 April 2014.

If the tribunal finds that HMRC should have accepted the notice then they may tell HMRC to issue you with a FP2014 certificate.

3.8 When HMRC may revoke a certificate

HMRC may revoke a certificate that they have issued to you if

- it has reason to believe that you have had benefit accrual under an arrangement under a registered pension scheme (See RPSM11101530);
- there has been an impermissible transfer into an arrangement under a registered pension scheme relating to you;
- a transfer of sums or assets held for the purposes of (or representing accrued rights under) any arrangement is made that is not a permitted transfer (see RPSM11101520);
- an arrangement is made for you that is not made under permitted circumstances see RPSM03104095: or
- you do not meet the requirements for FP2014 because you
  - are not a member of a registered pension scheme or are not a relieved member of a relieved non-UK pension scheme on 6 April 2014, or
  - have primary protection (see RPSM03100050 and RPSM03102000),
  - have enhanced protection on 6 April 2014 (see RPSM03100040 and RPSM03104000), or
  - have fixed protection (see RPSM11101500).

Your FP2014 certificate may also be revoked if you have failed to respond within the given deadline to a notice requiring you to provide information or documents to HMRC given by HMRC under paragraph 1 of Schedule 36 to Finance Act 2008 relating to you and FP2014.

If HMRC revokes your FP2014 certificate then you can ask HMRC to give the reasons for this. You may also appeal against this decision. You must tell HMRC if you want to appeal against the decision and you must do this within 30 days of the date when the refusal was given. Where the appeal is considered by the tribunal, the tribunal will decide whether HMRC had grounds to do this. If the tribunal allows your appeal then they may tell HMRC to issue you with a FP2014 certificate.

4 Can I lose FP2014?

Losing FP2014

[Paragraph 1(3) Schedule 22 Finance Act 2013]

You cannot give up FP2014, however you may lose your FP2014 if on or after 6 April 2014 any of the following occur:

- you have benefit accrual under a registered pension scheme (see Benefit accrual: overview for more information on what benefit accrual means);
- there is an impermissible transfer from your arrangement (see RPSM03104097);

- there has been a transfer of sums and assets that is not a permitted transfer; or
- you have made a new arrangement other than in permitted circumstances.

Once FP2014 is lost, all subsequent benefit crystallisation events in relation to you are tested by reference to the prevailing standard lifetime allowance.

4.1 Do I have to tell HMRC if I lose FP2014?

[Section 98 Taxes Management Act 1970, Section251 Finance Act 2004, The Registered Pension Schemes and Relieved Non-UK Pension Schemes (Lifetime Allowance Transitional Protection) Notification Regulations 2011 Statutory Instrument 2013/1741]

Yes, it is your responsibility to tell HMRC that FP2014 no longer applies. You must do this within 90 days of becoming aware of an event leading to the loss of FP2014. If you do not do this then you will be liable to penalties of up to £300 for failure to notify and daily penalties of up to £60 per day after the initial penalty is raised.

4.2 Can I keep FP2014 if I join a new pension scheme?

[Paragraph 1(3)(d) and (9) Schedule 22 Finance Act 2013]][Paragraph 12(2A – 2C) Schedule 36 Finance Act 04]

You can only join a new pension scheme and keep FP2014 if joining that new pension scheme is under 'permitted circumstances'. For more information on permitted circumstances see the section below When can I join a new arrangement and keep FP2014?

The most common of the permitted circumstances is when the reason for joining the new scheme is to receive a transfer of pension rights from another pension scheme. To keep FP2014 the transfer must be a 'permitted transfer'. So, for example, you could transfer benefits from one personal pension scheme into a new personal pension scheme. As long as no contributions are paid to the new personal pension scheme then you will be able to keep FP2014.

For more information on what transfers can be made without causing loss of FP2014 see the section What transfers will allow me to keep FP2014?.

4.3 When can I join a new arrangement and keep FP2014?

[Paragraph 1(3)(d) & (9) Schedule 22 Finance Act 2013][Paragraph 12(2A – 2C) Schedule 36 Finance Act 2004]

If you join a new arrangement on or after 6 April 2014 you will keep FP2014 if the reason for joining the new arrangement is

- to receive a permitted transfer (see below)
- as part of a retirement-benefit activities compliance exercise, or
- as part of an age-equality compliance exercise.

RPSM03104096 explains what a retirement-benefit activities compliance exercise and an age-equality compliance exercise are.

If you join a new arrangement on or after 6 April 2014 for any other reason, FP2014 will be lost at the point the new arrangement is made. This will be the case even though there would be no "benefit accrual" for FP2014 purposes under the new arrangement, for example the arrangement provides defined benefit death benefits only.

A new arrangement is an arrangement that is new to you, in other words you were not previously a member of the arrangement. So the arrangement can be one that has previously

been in existence for other members and can be either in the same pension scheme or in a different pension scheme.

Whether or not someone joins a new arrangement is a question of fact and will be influenced by the design of the scheme. It is possible for a scheme to have more than one arrangement of the same type, for example two defined benefits arrangements, for the same person. Where an individual starts to accrue a new type of benefit under the scheme after 5 April 2014 this must be via a new arrangement. For example a member being provided with only defined benefits under a scheme before 6 April 2014 but who then starts to build up money purchase (defined contribution) benefits will become a member of a new money purchase arrangement and so would lose FP2014.

A scheme may increase the rate of benefits provided or even offer new extra benefits without having to do so by way of a new arrangement. This is as long as you are a member of the same type of arrangement under the scheme on 5 April 2014 as the form of the benefits provided after 5 April 2014. For example a member of a defined benefits arrangement on 5 April 2014 has a new form of benefit provided after that date. These new benefits are also defined benefits and so do not have to be provided by a new arrangement. But even where the benefits provided after 5 April 2014 are the same as the type of benefits provided before 6 April 2014 a scheme may choose to provide the extra/new benefits via a new arrangement and if so, the creation of the new arrangement would lose FP2014.

4.4 What about automatic or auto-enrolment?

Some employers automatically put their employees into their pension scheme. From October 2012 under the provisions of Pensions Act 2008 some employers are subject to the automatic enrolment duty and required to automatically enrol their employees into a pension scheme.

Pensions Act 2008 provisions for automatic enrolment

If your employer is subject to the automatic enrolment duty and automatically enrols you into a new pension scheme under the provisions of Pensions Act 2008, you will have one month from the enrolment date to opt out of the new scheme. If you opt out within that one month period then the law treats you as if you were never a member of the pension scheme. So if after 6 April 2014 you, as an employee with FP2014, are subject to automatic enrolment under the Pensions Act 2008 provisions and opt out within one month you will keep your FP2014. If you do not opt out in time then you will lose your FP2014. Your employer will have a duty to automatically enrol those who have opted out every three years, so you will need to opt out within one month each time this happens.

If you change employer and your new employer is subject to the automatic enrolment duty under Pensions Act 2008, they will be required to automatically enrol you into their pension scheme. If you have FP2014 you will also need to 'opt out' of your new employer's pension scheme when you are automatically enrolled to avoid losing FP2014.

Auto enrolment that is not under Pensions Act 2008 provisions

If your employer auto enrols you into their pension scheme and this is NOT under the Pensions Act 2008 provisions you will normally lose your FP2014 because you will have started a new pension arrangement. But you will not lose your FP2014 if the scheme has a legally binding rule that treats an individual who opts out of scheme membership as never having been a member of the scheme or you have cancelled the pension contract under the Financial Services Authority cancellation rules with the result that the contract is treated as void from the start.

If you have FP2014 and you think that you may be auto enrolled into a new scheme, where the auto enrolment is not under the Pensions Act 2008, then you should speak to your employer or prospective employer at an early stage to avoid being enrolled if this is going to lead to the loss of your FP2014. Your employer will be able to tell you how you can do this.

4.5 Can I still make contributions to my arrangement if I have FP2014?

If you, your employer or someone else (on your behalf) makes contributions to a money purchase arrangement that is not a cash balance arrangement then you will lose FP2014.

You, your employer or someone else (on your behalf) may however be able to make further contributions to a defined benefits arrangement or a cash balance arrangement. But the way that benefits are calculated for these types of arrangement will mean that there is benefit accrual if your benefits increase by more than the relevant percentage. If that is the case then you will lose the protection.

Making contributions to an arrangement once you have FP2014 has more information about contributions to an arrangement where the member has FP2014

4.6 What transfers will allow me to keep FP2014?

[Paragraph 1(3)(c) & (8) Schedule 22 Finance Act 2013][Paragraph 12(7 – 8B) Schedule 36 Finance Act 2004]

A transfer to another scheme of rights for an ex-spouse following a pension sharing order may still be made. Such a transfer does not affect your FP2014 where your rights are being reduced under the pension sharing order.

When transferring benefits, to keep FP2014 the transfer must be a permitted transfer. The following transfers are permitted transfers and will not cause loss of FP2014.

1. You can transfer pension rights from a money purchase arrangement that is not a cash balance arrangement to another money purchase arrangement that is not a cash balance arrangement. The money purchase arrangement receiving the transfer must be held under either a registered pension scheme or a recognised overseas pension scheme.

2. You can transfer from a cash balance arrangement or defined benefits arrangement to
   - a money purchase arrangement that is not a cash balance arrangement under a registered pension scheme or a recognised overseas pension scheme. The value of the sums and assets received by the money purchase arrangement must be actuarially equivalent to the rights being transferred, or
   - another defined benefits or cash balance arrangement if the transfer is made because
     - the pension scheme making the transfer is winding-up (see below) and the receiving cash balance or defined benefits arrangement relates to the same employment as the transferring arrangement, or
     - the transfer is made because your employer has sold all or part of the business. The legislation refers to this as a relevant business transfer. RPSM03104091 explains the conditions that have to be met for a transfer be a relevant business transfer, or
     - the transfer is made as part of a retirement-benefit activities compliance exercise. RPSM03104091 explains what a retirement-benefit activities compliance exercise is.

When is a transfer made in connection with a winding-up?

When a pension scheme going into the Pension Protection Fund is treated as having been wound up by section 161(2) of the Pensions Act 2004, HMRC accept that this amounts to the winding up of the scheme.

Whether or not a particular transfer is made in connection with a winding-up is a question of fact. Where a decision is made to wind up a scheme and transfers are then made to facilitate the winding-up but before the winding-up process formally starts or has been completed, HMRC will normally accept that the transfers are made in connection with the winding-up of the scheme unless there is evidence to the contrary. But where a decision to make a transfer

occurs before the decision is taken to wind up the scheme, for example because the employer subsequent to the transfer decides to wind up the scheme in relation to the remaining members, then the transfer will not have been made in connection with the winding up, although any other transfers made subsequent to the winding-up decision being taken may be.

Although not a requirement, it may be beneficial if the scheme administrator of the transferring scheme kept copies of any document evidencing that the intention to wind the scheme up pre-dated the decision to make the transfer.

The receiving arrangement must relate to the same employment
HMRC will treat the requirement that the receiving arrangement must relate to the same employment as the transferring arrangement that is being wound up as being met where a transfer has been made in accordance with either regulation 12(2)(a) or regulation 12(2)(b) of the Occupational Pension Schemes (Preservation of Benefits) Regulations 1991 SI 1991/167.

Partial winding-up
A scheme may have several employers participating in it. Where an employer ceases to participate and leaves the scheme, securing all the member's rights from that employment outside the scheme, e.g. by transfer or annuity purchase, such a partial winding up will constitute a scheme winding up for the purposes of these provisions subject to all of the following requirements being met:

- there is a registered pension scheme which is an occupational pension scheme,
- the occupational pension scheme comprises a number of different sections,
- the scheme rules provide for individual sections to be wound up,
- each section operates in respect of a particular employer participating in the scheme,
- if an employer has more than one section under a pension scheme all the sections relating to that employer must be wound up
- the winding up means that the employer's entire participation in the scheme ceases.

4.7 What transfers will cause me to lose FP2014?

[Paragraph 1(3)(c) & (8) Schedule 22 Finance Act 2013][Paragraph 12(7 – 8B) Schedule 36 Finance Act 2004]

You will lose FP2014 if a transfer is made

- to a scheme that is not a registered pension scheme or a recognised overseas pension scheme.
- from a money purchase arrangement that is not a cash balance arrangement to either a cash balance arrangement or a defined benefits arrangement.
- from a cash balance or defined benefits arrangement to another cash balance or defined benefits arrangement where
  - the transfer is not made because the transferring scheme is winding up, or
  - the transfer is not made as part of a retirement-benefit activities compliance exercise or a relevant business transfer (see RPSM03104091). In other words, your employer has sold all or part of their business and your benefits are being transferred to your new employer's scheme.

4.8 Penalties for failure to notify loss of FP2014

If HMRC find out you have not notified them that you can no longer rely on FP2014 within 90 days of becoming aware of an event which causes the loss of FP2014; HMRC may issue a penalty of up to £300.

However, this is not an automatic penalty and each case would be considered based on all the circumstances of that case.

Once the initial penalty has been issued there is an automatic daily penalty of up to £60 that applies until the information is provided.

5 Benefit accrual: overview

[Paragraph 1(3)(a) and (4) to (6) Schedule 22 Finance Act 2013]
If you have benefit accrual you will lose FP2014 on the day that benefit accrual occurs. The rules for when benefit accrual occurs will vary depending on which type of pension arrangement you have. If you have a number of pension arrangements and have benefit accrual under just one of them then you will lose FP2014 for all of your pension savings. (RPSM09100200 gives further information about different arrangement types.)

5.1 How is benefit accrual different to relevant benefit accrual for enhanced protection?

For money purchase arrangements that are not cash balance arrangements the tests are effectively the same for both forms of protection.

For defined benefits arrangements, when applying the test for benefit accrual for FP2014, it is important to appreciate that this test is fundamentally different from that for relevant benefit accrual for enhanced protection.

For FP2014 the test for whether benefit accrual has occurred in a defined benefits arrangement is an ongoing test against any increases in your pension and lump sum rights, so benefit accrual may occur at any time up to the time benefits are actually taken (see Defined benefits arrangements: aspects of benefit accrual for more detail about this).

FP2014 will therefore be lost at any point in time after 5 April 2014 if benefit accrual occurs.

For enhanced protection the test for whether relevant benefit accrual has occurred in a defined benefits arrangement is carried out

- at the time the benefits are actually taken or
- when there is a permitted transfer from a defined benefits arrangement to a money purchase arrangement that is not a cash balance arrangement.

Enhanced protection may therefore only be lost at those fixed points in time. For more information please see RPSM03104500.

5.2 Benefit accrual under a money purchase arrangement that is not a cash balance arrangement

[Paragraph 1(3)(a), 4(a) & (10) Schedule 22 Finance Act 2013][Paragraph 14 Schedule 36 Finance Act 2004]

For a money purchase arrangement that is not a cash balance arrangement benefit accrual happens if on or after 6 April 2014 a relevant contribution is paid in respect of you. A relevant contribution is one of the following types of contribution

- A relievable pension contribution. That is a contribution paid by you, or someone else, other than your employer, on behalf of you. The following contributions are not relievable contributions.
  - Contracted-out rebates and minimum contributions paid into a money purchase arrangement that is not a cash balance arrangement by HMRC in relation to contracted-out periods prior to 6 April 2014.
  - Contributions paid by you or someone else (other than your employer) in respect of you after you have reached age 75
  - Life assurance premium contributions as per RPSM05101220.

- A contribution paid by your employer in respect of you.
- A contribution that is not paid by
  - you (or on your behalf) or
  - your employer in respect of you,

  which is subsequently allocated to your arrangement.

The following will not trigger loss of FP2014.

1. Minimum payments under section 8 of the Pension Schemes Act 1993 or section 4 of the Pension Schemes (Northern Ireland) Act 1993 or any amount recovered under regulations made in connection therewith. Where such payments are being made before 6 April 2014 they may continue.
2. Certain contributions that are used to provide life cover under a policy of insurance that existed before 6 April 2006 will not count as relevant contributions – see RPSM03109032 and RPSM03109120.

The payment of compensation into a money purchase arrangement that is not a cash balance arrangement after 5 April 2014 could be a relievable pension contribution and so will trigger loss of FP2014. Whether it is will depend upon the nature of the compensation. RPSM03104511 explains when compensation will be a relevant contribution that will trigger loss of protection.

The normal rules apply as to when a contribution is paid when considering whether benefit accrual has occurred. For more information please see RPSM05300080.

5.3 Benefit accrual under a cash balance arrangement

[Paragraph 1(3)(a), (4)(b) & (5)(a) Schedule 22 Finance Act 2013]

In a cash balance arrangement (or a hybrid arrangement where the benefits to be provided may be cash balance) your rights under the arrangement should be tested to see if there has been an increase in the amount that would on the valuation assumptions be available for the provision of benefits.

If from 6 April 2014 the increase in this amount is more than the 'relevant percentage' there has been benefit accrual and FP2014 will be lost. See The "relevant percentage" for more information about the relevant percentage.

5.4 Benefit accrual under a defined benefits arrangement

[Paragraph 1(3)(a), (4)(b), (5)(b) & (6) Schedule 22 Finance Act 2013]

To see if you have had benefit accrual in a defined benefits arrangement (or hybrid arrangement where there may be defined benefits) your rights under the arrangement should be tested to see if the increase in benefits amount is more than the 'relevant percentage'. See FP2014 Examples of testing for benefit accrual under a defined benefits arrangement for some practical examples.

If from 6 April 2014 the increase in the benefits amount is more than the 'relevant percentage' there has been benefit accrual and FP2014 will be lost (see The "relevant percentage").

The benefits amount is:

(P x RVF) + LS

where

- LS is the lump sum (other than by commutation of pension) that you would be entitled to under the valuation assumptions

- P is the annual rate of pension that you would be entitled to under the valuation assumptions
- RVF is the relevant valuation factor – see RPSM11104220. The relevant valuation factor will be 20 unless a scheme has agreed another factor with HMRC.

For more information on benefit accrual in a defined benefits arrangement see Defined benefits arrangements: aspects of benefit accrual.

5.5 Valuation assumptions for benefit accrual under a cash balance or defined benefits arrangement

[Section 277 Finance Act 2004]

When calculating whether there has been an increase in rights available for the provision of benefits in a cash balance or in the benefits amount for a defined benefits arrangement, your rights are valued as the amount that you would be entitled to receive on the date of the test, subject to two valuation assumptions.

The two valuation assumptions are that:

1. the benefit should be calculated assuming you to be the age at which no reduction would apply to the payment of an immediate benefit, and
2. you are deemed to be in good physical and mental health at the time of the test.

5.6 Benefit accrual under a hybrid arrangement

[Paragraph 1(3)(a), 4(c), 5(a), 5(b) & (6) Schedule 22 Finance Act 2013]

For a hybrid arrangement, when and how benefit accrual occurs depends on the options available under the arrangement.

If one of the possible benefits that could be provided under the arrangement is a money purchase benefit that is not a cash balance benefit then benefit accrual occurs after 5 April 2014 on the earlier of

- the payment of a relevant contribution, or
- an increase in benefits of more than the 'relevant percentage'

If the only possible benefits under the hybrid arrangement are defined benefits and cash balance benefits then benefit accrual will occur when benefits increase by more than the 'relevant percentage' (see The "relevant percentage").

5.7 Benefit accrual under an annuity contract

[Paragraph 1(3)(a), (15), (16) & (17) Schedule 22 FA2013][Section 153(8) FA04]

The tax rules treat a deferred annuity contract (which includes what are commonly known as a section 32 policy, a buy out policy and an assigned policy) as a registered pension scheme where, on or after 6 April 2006, either funds have been transferred to the policy/contract or the policy has been assigned to you and the funds or policy concerned have come from a registered pension scheme.

The deferred annuity contract automatically becomes a registered pension scheme on the day on which the contract is made or the policy assignment is completed.

As a result, when benefits are taken under the contract or policy there will be benefit crystallisation events (see RPSM11102010 for more detail). So the benefits taken count for the purposes of your lifetime allowance just as they would have done had you remained in the original registered pension scheme.

Where your pension rights with FP2014 include rights under one or more deferred annuity contracts the value of these rights count towards your lifetime allowance. You are therefore covered by FP2014. And if there is benefit accrual in relation to your rights under the contract your protection will be lost.

Benefit accrual will occur in the same way as it would have done had the funds remained in your arrangement in the original pension scheme except that, where the arrangement was a defined benefits one, the "relevant percentage" (see The "relevant percentage") will be the higher of any annual rate of increase in your rights during the tax year which is specified in the contract (provided that this rate is no more than the percentage increase in the retail prices index over a 12 month period specified in the contract) and the relevant statutory increase percentage. If your rights increase at a higher rate then there is benefit accrual and FP2014 is lost.

5.8 Benefit accrual for a relieved member under a relieved non-UK pension scheme

[Paragraph 1(3)(a) & (18) to (21) Schedule 22 FA2013][Paragraph 13(3) & (4) & Paragraph 18 Schedule 34 FA04]

If you are a relieved member of a relieved non-UK pension scheme (RNUKS) who has FP2014 you will lose your protection if benefit accrual occurs in respect of those rights. RPSM13102530 and RPSM13102520 explain respectively who is a relieved member and what counts as a RNUKS.

For the purposes of the tax rules relating to FP2014, a RNUKS is treated as if it were a registered pension scheme. So if you are a relieved member of a RNUKS who has FP2014 you will lose your protection if benefit accrual occurs.

Benefit accrual occurs if, in relation to your relieved arrangement in the RNUKS, there is a pension input amount under sections 230 to 237 FA 2004 (as applied by Schedule 34 of FA 2004) greater than nil for any tax year. See RPSM13102300 for more detail about pension input amounts. Where this happens, the benefit accrual is normally only treated as occurring at the end of the tax year in question. However, where during a tax year there is a benefit crystallisation event (see RPSM11102010 for more detail) in relation to you under any arrangement which you have in any pension scheme and there would have been a pension input amount greater than nil in relation to your arrangement in the RNUKS had that tax year ended immediately before the BCE took place then there is benefit accrual. The benefit accrual is treated as having occurred immediately before the benefit crystallisation event. As FP2014 is lost before the benefit crystallisation event takes place, the standard lifetime at the time will apply instead of the protected £1.5 million lifetime allowance.

6 Defined benefits arrangements: aspects of benefit accrual

[Paragraph 1(3) Schedule 22 Finance Act 2013]

6.1 Benefit accrual and an "earnings cap"

A pension scheme's rules may include an earnings cap. This means that the pension scheme's definition of final pensionable salary includes a cap on the amount of a member's earnings that counts as pensionable salary. The cap may change with the tax year (for example the continued operation of the earnings cap under pre 6 April 2006 tax legislation). Where a member has applied for FP2014 and their pension scheme's rules include an earnings cap, an increase in the cap may lead to the loss of FP2014 where this results in benefit accrual.

Example

James is a member of a registered pension scheme. The scheme provides a pension benefit (before commutation for a pension commencement lump sum) of 1/60th of pensionable earnings for each year of service.

The scheme's rules contain an earnings cap which increases every 6 April by an amount equal to the annual increase in the RPI for the year ending with the preceding month of September, rounded up to the nearest multiple of £600.

On 6 April 2013 the scheme's cap is £150,000.

For tax year 2013-14, James has earnings of £200,000.

On 5 April 2014 James has completed exactly 30 years of pensionable service. James has therefore accrued a pension of £75,000 (£150,000 x 30/60). That is also the amount he has accrued immediately after midnight on 5 April 2014.

For FP2014 purposes James's pension rights are valued at more than £1.25 million (£75,000 x 20 = £1.5 million) and James has applied for FP2014.

The annual increase in the RPI between September 2012 and September 2013 is say 5.6%.

On 6 April 2014 the scheme's earnings cap increases to £158,400 (£150,000 @ 105.6/100 = £158,400. There is no rounding up as £8400 is an exact multiple of £600).

James has remained in active membership of his scheme; under the scheme's rules his benefits are increased by reference to his length of service and final salary (subject to the earnings cap) rather than by a percentage specified in the scheme's rules.

For the purposes of the benefit accrual test, the relevant percentage in James's case is the appropriate CPI percentage increase, which is the 5.2% increase (say) in the CPI between September 2012 and September 2013.

This is less than the 5.6 % increase in James's rights as a result of the increase in the earnings cap.

Benefit accrual has therefore occurred on 6 April 2014 and James loses his FP2014 from that date.

6.2 The benefit accrual test for defined benefits in a tax year during which you take your benefits

When you take defined benefits in a tax year, whether or not there is benefit accrual at any time is calculated on the basis of your prospective benefits.

The test is carried out on any increase(s) in the value of your prospective pension and lump sum rights occurring throughout the year, ending with the point in time immediately before the BCE(s) occur(s) in relation to the benefits taken.

If you are an active member whose benefits accrue on the basis of final salary and years of service, where your scheme does not also increase the rights of active members by a rate specified in the scheme's rules, the "relevant percentage" will be the appropriate annual increase in the CPI.

If on this basis benefit accrual does occur at some time during the tax year before benefits are taken then FP2014 is lost at the point the relevant percentage is exceeded.

If, later in the same tax year, those benefits are taken early and are subject to an actuarial reduction, then even though the value of the benefits taken may at that stage be less than the value of those benefits when they were calculated under the benefit accrual test, this does not alter the position and FP2014 remains lost.

6.3 If you apply for FP2014 and cease to accrue any further pension benefits in your employer's defined benefits scheme will you still be able to get a death in service benefit if you die in service?

Under the tax rules it is possible for death in service benefits to be provided for individuals with deferred pension benefits. However a pension scheme may choose not to provide death in service benefits or provide reduced death in service benefits if you stop being an active member. This will depend on the rules of the scheme.

Whether or not you can continue to have death benefits (life cover) and keep FP2014 depends on the type of arrangement providing the death benefits. RPSM03109040 gives guidance on what type of benefit is provided by what type of arrangement.

If the death benefit promised is a defined benefit (and this is often the case in occupational pension schemes) continuing to provide death cover should not cause loss of FP2014. This is because a death in service benefit is not considered to be part of your pension rights. So if you continue to be provided with death in service benefits this will not be benefit accrual and so will not cause loss of FP2014.

If the death benefit promised is on the basis of money purchase that is not cash balance benefit cover may only continue with you keeping FP2014 if it is provided by a policy established before 6 April 2006. The conditions at RPSM03109032 need to be met. FP2014 will be lost where contributions are made as premiums to a policy set up on or after 6 April 2006.

6.4 If a scheme insures against lump sum death benefits will continuing payment of premiums on or after 6 April 2014 result in loss of FP2014 for members covered by the policy who have FP2014?

If the death benefit promised is on the basis of a money purchase that is not cash balance benefit cover may only continue with you keeping FP2014 if it is provided by a policy established before 6 April 2006. The conditions at RPSM03109032 need to be met. FP2014 will be lost where contributions are made as premiums to a policy set up on or after 6 April 2006.

Where the only lump sum death benefit being provided under an arrangement under the scheme rules is an amount equivalent to the proceeds of an insurance policy, in other words, there is no provision for a defined benefits lump sum death benefit, then the arrangement is clearly a money purchase arrangement that is not a cash balance arrangement.

Where the lump sum death benefit is expressed as being the greater or lesser of

- a defined benefit (an amount determined by reference to salary, service or some other factor) and
- the policy proceeds,

then this will be a hybrid arrangement. This is because, depending on the circumstances when the member dies, either a defined benefit or money purchase that is not cash balance benefit will be payable.

Benefit accrual occurs in relation to both a money purchase arrangement that is not a cash balance arrangement and a hybrid arrangement capable of paying such money purchase benefits where a relevant contribution is paid under the arrangement on or after 6 April 2014. So in both cases, the payment of insurance premiums on or after 6 April 2014 will result in benefit accrual and loss of FP2014 if the premium is a 'relevant contribution' as defined by paragraph 14 of Schedule 36 to Finance Act 2004 by virtue of paragraph 1(10) of Schedule 22 to Finance Act 2013. See Benefit accrual: overview for more detail.

However, there are a number of other scenarios in which insured lump sum death benefits may be paid. If the death benefit being paid is not a money purchase that is not cash balance benefit, continuing payment of premiums after 5 April 2014 will not be benefit accrual and so FP2014 is not lost.

The following are examples of scenarios where there is no benefit accrual if insurance premiums continue to be paid. For the purpose of these examples, the defined benefits lump sum death benefit to be provided is assumed to be a lump sum of 4 times final salary. In practice, the defined benefit may be different (such as a specified sum or by reference to a different multiple of salary), and any increase in the value of defined benefit after 5 April 2014 is not benefit accrual.

Examples

- A lump sum death benefit of 4 times final salary is paid out of scheme funds. This benefit is a defined benefits lump sum death benefit.
- A lump sum death benefit is backed by an insurance policy where, if the policy proceeds exceed the promised lump sum death benefit, the excess is paid to the scheme for the provision of other benefits under the scheme.
- A lump sum death benefit is backed by an insurance policy with the scheme liable to make good any shortfall where the proceeds of the policy are insufficient to fully fund the cost of the promised lump sum death benefit.
- A lump sum death benefit is calculated as above and is backed by an insurance policy which will not pay out more than the promised lump sum death benefit but may contain restrictions. These restrictions, if applicable, will result in an amount payable to the scheme (or payable directly to the beneficiary/beneficiaries) which is less than the unrestricted promised defined benefits lump sum death benefit.

  Many insurance policies contain such restrictions as terms of the policy. Examples include when there is a 'catastrophe' event resulting in multiple deaths of individuals covered by the policy or a reference to a particular individual who represents a greater insurance risk. If the lump sum death benefit paid to the beneficiaries after the restriction is applied can itself be expressed as a defined benefits lump sum death benefit then it will be treated as such. This can occur where the benefit:

  - represents a percentage of the defined benefits lump sum death benefit that would have been provided in normal circumstances,
  - it is paid on a pro rata basis to the defined benefits lump sum death benefit that would have been provided in normal circumstances,
  - it is expressed as a specified amount lower than 4 times final salary, or
  - the maximum paid under the policy is capped at a specified amount

  The exact position will depend upon the restrictions that apply under a particular policy. Provided the maximum lump sum death benefit that can be provided under the policy is the defined benefits lump sum death benefit of 4 times final salary and the restricted lump sum death benefit is defined in a manner which satisfies either the definition of defined benefits or, possibly, a benefit under a cash balance arrangement there will be no other money purchase element to the benefits to be provided. Where, under a group life policy, there are restrictions applying to one or more particular members covered by the policy but they not apply to a member with FP2014, then no account need be taken of those restrictions in deciding whether that member’s benefit is a defined benefits lump sum death benefit.

- An individual has restricted benefits under one policy but a further policy is taken out by the scheme in respect of the individual to ensure that the maximum 4 times final salary lump sum death benefit is paid. The aggregated benefits under the two policies will be a defined benefits lump sum death benefit, subject to the top-up policy not itself being a money purchase arrangement that is not a cash balance arrangement because the entire proceeds will be paid out as a lump sum death benefit.
- The insurance policy might, for example, make provision for a maximum dependants' pension equal to 30 per cent of the member's salary, but with the pension restricted to the 'free-cover' divided by a specified multiple (say 30). So, if the free-cover is £500,000, the maximum dependant's pension is £16,667. This is a defined benefit as a specified benefit (a pension) will be provided and that pension is calculated by reference to a factor rather than just the amount available for the provision of dependants' benefits.

6.5 What about people whose life cover ceases because they believed the continuing payment of premiums on or after 6 April 2014 would lead to benefit accrual and loss of FP2014? Can the life cover be re-instated without leading to FP2014 being lost?

Yes. In such cases, re-instatement of the life cover will not be regarded as involving a new arrangement for the member so long as:

- the cover is re-instated as soon as possible (whether with the same or a new insurer), and
- the basis of the cover provided is not been increased in comparison to the cover previously provided

6.6 Refunds of contributions on death in service

Under scheme rules a lump sum death benefit may include an amount equal to a multiple salary or a set monetary amount together with a refund of the contributions paid to the scheme by the deceased member.

HMRC's view is that the payment of a refund of contributions on death is a defined benefit and that the aggregate lump sum is a defined benefits lump sum death benefit. Where the rules also provide for the refund to include an element of 'interest' or growth to be paid, then provided that the scheme rules provide for the payment and it is expressed or can be expressed in percentage terms then this will not affect the defined benefits nature of the lump sum. The scheme rules may specify an annual percentage rate of 'interest' or a rate in line with the average annual base rate of a bank for example, or a rate to be determined by the scheme trustees in accordance with actuarial advice. Such rules are accepted as providing a defined benefit.

7 The “relevant percentage”

[Paragraph 1(12) Schedule 22 Finance Act 2013]

7.1 What is the “relevant percentage”?

[Paragraph 1(12) Schedule 22 Finance Act 2013]

The relevant percentage is either:

- an annual rate used to increase your rights and which was specified in the rules of the pension scheme (or a predecessor registered pension scheme) on 11 December 2012 **plus** the relevant statutory increase percentage

  or (if no annual rate was specified},
- the higher of
  - the percentage by which the consumer prices index (CPI) for the month of September in the previous tax year is higher that it was for the September before that (or nil if there has been no increase or a fall), or
  - the relevant statutory increase percentage.

When the relevant percentage is the increase in the CPI, this will be known before the tax year to which it applies for the purpose of the benefit accrual test. For example, for the tax year 2012-13 it will be the percentage increase in the CPI for the 12 month period ending September 2011. If there is no increase or a fall in the CPI in this period, then the percentage rate is nil.

7.2 What is the “relevant statutory increase percentage”?

[Paragraph 1(14) Schedule 22 Finance Act 2013]
This is a percentage increase in your pension rights under an arrangement which occurs during a tax year solely as a result of the application of certain statutory provisions. The scheme rules do not have to specifically provide for such increases for them to count towards

the relevant percentage.

The statutory provisions are
(a) Section 15 of the Pension Schemes Act 1993 or section 11 of the Pension Schemes (Northern Ireland) Act 1993 – providing for increases to a guaranteed minimum pension because its commencement has been postponed.
(b) Section 16 of the Pension Schemes Act 1993 or section 12 Pension Schemes (Northern Ireland) Act 1993 - providing for the revaluation of earnings factors for early leavers.
(c) Chapter 2 of part 4 of the Pension Schemes Act 1993 or the Pension Schemes (Northern Ireland) Act 1993 – providing for the revaluation of accrued benefits for early leavers.
(d) Chapter 3 of part 4 of the Pension Schemes Act 1993 or section 11 Pension Schemes (Northern Ireland) Act 1993 – providing for the protection of increases in guaranteed minimum pensions for early leavers.
(e) Section 67 of the Equality Act 2010 - this provision replaces the previous equal treatment provisions in section 62 of the Pensions Act 1995 and reads into scheme rules a sex equality rule. One effect of the sex equality rule is that it requires men and women to be treated equally in respect of their benefit entitlement for pensionable service from 17 May 1990 onwards.

7.3 When do a scheme's rules specify an annual rate of increase?

The rules of a defined benefits scheme may specify a percentage rate by which the retirement benefits of deferred members will increase each year until the time when the member takes their benefits. The relevant percentage for such a deferred member will be the rate specified in the rules. In contrast, for active members the scheme's rules will normally provide for benefits to increase each year by reference to additional years of service and increases in pensionable salary rather than at a specified rate. In such cases, the relevant percentage for an active member will be the appropriate increase in the CPI unless there is specific provision in the scheme rules for their benefits to increase by a specified annual rate.

The legislation requires the pension scheme rules to have provided that the value of your rights under an arrangement shall be increased during the tax year at a specified annual rate. Where the scheme's rules provided for your rights to increase each year by one of a number of specified rates, for example, by a rate that is the greater/lesser of 5% and the increase in RPI during a 12 month period defined in the rules, then there is a specified annual rate and the relevant percentage is the rate by which your rights are increased in any particular tax year. So there will not be benefit accrual.

However, if the scheme rules give a discretion (to say the scheme trustees or the scheme administrator) as to whether or not pensions should be increased in any particular year or a discretion as to the rate of increase that should apply each year, there is no specified annual rate and the relevant percentage is the CPI percentage calculated as above. If the trustees give an increase in rights in a tax year that exceeds the CPI percentage there is benefit accrual and FP2014 is lost.

Where the relevant percentage is fixed by reference to the rate specified in the scheme's rules at 11 December 2012, this may only apply to a particular category of member or different rates may be specified for different categories of members.

A scheme's rules may specify a percentage rate of increase for deferred members only, so the relevant percentage for an active member is the appropriate increase in the CPI.

A scheme may specify different rates for active members and deferred members.
In such cases, as the benefit accrual test is an ongoing test, the relevant percentage for benefit accrual may vary during the year depending on your membership status.
Where an active member becomes a deferred member part way through a tax year the relevant percentage will, until the time of the change in status, be the relevant percentage applying to an active member (the rate stated in the scheme rules at 11 December 2012 or CPI for September prior to the tax year in question).

From the date of change to deferred membership status the relevant rate would be that appropriate to a deferred member. It is not permissible to anticipate a more advantageous rate before the change in status occurs. And as the test is by reference to the value of your pension rights at the beginning of the tax year, any increase in those rights during the period of active membership will be taken into account when testing for benefit accrual during the period of deferred membership.

Example
Note that for the purposes of this example there is no relevant statutory increase.

Neeta has FP2014 and is an active member of a defined benefits (final salary) arrangement. At the beginning of tax year 2014-2015, Neeta has accrued a pension of £60,000 per annum. As an active member Neeta's relevant percentage is CPI. The year end September CPI rate applying for 2014-2015 is 3%. Neeta opts out of active membership with effect from 1 November 2014. By midnight on 31 October 2014, as a combined result of additional pensionable service and a pay rise, Neeta's accrued pension is £61,500. So Neeta's pension has increased by 2.5%. As this is less than the CPI increases of 3% there has not been benefit accrual in the tax year to date. Neeta is now a deferred member of her pension scheme and, under the scheme's rules, deferred pensions are increased on 31 March each year by the lesser of 5% or the annual increase in the RPI for the year ending in the preceding month of December.

This is now the relevant percentage for testing whether benefit accrual occurs in the remainder of the tax year. Say the annual RPI increase for the year ending in the month of December 2014 is 4%. As this is less than 5%, the relevant percentage for Neeta is now 4%. On 31 March 2015, Neeta gets a pro rata increase in her deferred benefits for the 5 month period of deferment (1 November 2014 to 31 March 2015). Neeta's pension rights are increased by 1.67% (5/12 of 4%). Neeta's pension rights have therefore now increased by 4.17% in tax year 2014-15 so there is relevant benefit accrual. Neeta loses her FP2014 on 31 March 2015.

7.4 The "relevant percentage" and capped increases

The rules of a registered pension scheme may provide for increases in the value of deferred pension rights to be "capped", for example a rule providing that the rate of increase in any year is the lesser of the annual increase in the RPI or 5%.

Where there is such a provision, then an increase in accordance with that provision will be at an annual rate specified in the scheme rules and is the relevant percentage when testing for benefit accrual. So if, for example, the scheme's rate of increase in a tax year was 4% (that being the relevant annual RPI increase) while the annual increase in the CPI is 3%, the relevant percentage for deferred members of the scheme is 4%.

However, the position is different where scheme rules provide for capped increases as above but go on to provide that the scheme trustees or some other person has discretion to ignore the cap and award a higher rate of increase. In any year in which the trustees exercise their discretion so as to award an increase greater than the cap, the increase for that year is not at an annual rate specified in the scheme rules so the relevant percentage is the appropriate increase in the CPI.

7.5 The "relevant percentage" and scheme rule changes

The relevant percentage is fixed by reference to the rate of increase specified in the scheme's rules at 11 December 2012. The scheme rules may subsequently be amended to change that rate.

7.6 Example

A pension scheme's rules in relation to increases for deferred members' benefits provide for increases in line with annual increases in the CPI and after 11 December 2012 the scheme rules are changed to use annual increases in the RPI as the rate of increase. In such cases, the relevant percentage remains the annual rate of increase in the CPI. Where this occurs,

the member may lose FP2014 when the first increase occurs after 6 April 2014. The relevant percentage for 2014-15 is the annual increase in the CPI to September 2013 which is say 3%. If the increase in RPI used to increase deferred members' benefits is more than 3% then benefit accrual occurs from the date the increase applies and FP2014 is lost.

7.7 The "relevant percentage" and late retirement factors

Where you do not take your benefits until an age later than the scheme's normal age for bringing benefits into payment, your scheme rules may provide that, in addition to normal increases for pensions in payment, your pension rights will be increased to compensate you for the fact that once taken your benefits will be paid for a shorter period of time.

Such increases are often referred to as "late retirement factors" or "late retirement uplift". The application of a late retirement factor will result in an increase in the member's prospective pension rights; this may result in benefit accrual.

However, if the late retirement factor qualifies as a "relevant percentage" specified in the scheme's rules on 11 December 2012, there will be no benefit accrual on the occasions where that factor is applied to a member's pension and/or lump sum rights. Whether or not a late retirement factor provided under a scheme rule in place on 11 December 2012 qualifies as a "relevant percentage" under the tax rules will depend on the facts of the particular case and the wording of the relevant scheme rules.

Where a scheme's rules provide for specified percentage increases in pension benefits in recognition of the fact that the benefits are not being brought into payment until some time after the scheme's normal age for doing so, the increases will be by way of a "relevant percentage" and benefit accrual will not occur. However, the fact that a scheme's rules do not specify a percentage for such increases in pension benefits does not automatically mean that there is no "relevant percentage". HMRC's view is that the definition of the "relevant percentage" as "an annual rate specified in the rules of the pension scheme" does not require an actual percentage to be specified in the scheme's rules so long as:

- the annual rate (for example an enhancement factor) can, once calculated, be expressed in percentage terms, and
- the scheme trustees do not have a discretion as to whether or not to pay the late retirement uplift at all or as to whether to pay the late retirement uplift in whole or in part, i.e. once the rate of uplift has been decided, it must be paid in full.

As the tax rules refer to annual increases during a tax year in relation to a particular individual member, HMRC accepts that the rate of uplift under a scheme's rules may vary from member to member and/or from year to year.

It is not necessary for the scheme rules to stipulate that the scheme trustees take actuarial advice before deciding on the rate of the late retirement uplift. However, in HMRC's view the rate of uplift should be a rate that does no more than compensate the member for the fact that their pension is payable for a shorter period of time. In other words, it should not be used to provide what is effectively additional accrual of pension.

Where the scheme rules do require late retirement uplifts to be set by the trustees after taking actuarial advice, HMRC accepts that late retirement uplifts may meet the "relevant percentage" definition and so uplifts paid in accordance with them will not lead to benefit accrual and the loss of fixed protection. For the avoidance of doubt, it is confirmed that the "relevant percentage" definition will be met where a scheme's rules use one of the following forms of wording (or variants thereon) to express a late retirement uplift as one that is set by the scheme trustees:

"…after obtaining the Actuary's advice, is reasonable having regard to the period of postponement, but being reasonably satisfied that the value of the pension payable to the member is at least equal to the value required by the Preservation Requirements.", or

"…increased by an amount calculated on a basis outlined by the appointed actuary as being

reasonable having regard to the period of postponement." , or

"The Principal Employer and the Trustees hereby undertakes that the Plan/Scheme shall be operated in such a manner as to comply with the provisions relating to the preservation of benefits contained in Chapter 1 of Part IV of the Pension Schemes Act 1993, and to the extent that the provisions of the Plan/Scheme are inconsistent with this, the provisions of the legislation shall prevail.".

7.8 Creation of a new class of membership after 5 April 2014 and late retirement increases

To minimise the risk of benefit accrual for members with FP2014, schemes rules may be amended to create a new class of membership such as a "special deferred member class" or a class of active membership which has curtailed benefit provision. The intention is to have a class of member which no longer accrues benefits under the scheme but which can continue to be provided with benefits such as life cover for so long as they remain in employment with a scheme employer.

Any such rule change will not of course have formed part of the scheme rules on 11 December 2012 when the reduction in the lifetime allowance to £1.25 million was announced. However, the new class of membership may still be allowed to access the pre-existing late retirement factor rule which was in force on 11 December 2012.

If you have FP2014 and are put into a new class of membership after 5 April 2014, provided this does not involve the scheme establishing a new arrangement for you under the scheme, HMRC accepts that you can continue to be awarded late retirement uplifts where these were specified in the rules of the pension scheme on 11 December 2012 and meet the "relevant percentage" definition (see above).

7.9 Relevant percentage where there has been a transfer of benefits

[Paragraph 1(13) Schedule 22 Finance Act 2013]

If you transferred funds to a new pension scheme, the annual rate of increase specified in your new scheme's rule at 11 December 2012 may not be as high as that specified in your previous scheme. If the rate for the 'new' scheme were to be used when testing for benefit accrual you would lose FP2014, whereas if the annual rate of increase for the transferring scheme had been used, you would not have lost FP2014. In these circumstances the rate of the increase that was in the previous scheme's rules at 11 December 2012 can be used when testing for benefit accrual.

The same will apply where you have transferred to a new arrangement under your existing pension scheme, where the rate of increase for that (new) arrangement is less than the one that would have applied in your previous arrangement as at 11 December 2012.

8 Testing for benefit accrual

[Paragraph 1(3) Schedule 22 Finance Act 2013]

8.1 Who is responsible?

You are responsible for testing for benefit accrual because you (or your agent) completed the declaration when you applied for FP2014. However, you may need to ask your pension scheme administrator for information to help you carry out the test.

8.2 When to test for benefit accrual

For a money purchase arrangement that is not a cash balance arrangement the test is whether or not any relevant contributions have been made since 6 April 2014. The test is therefore applied at the time any contribution is made. If no relevant contributions are made to the arrangement then you will not lose your FP2014.

For a defined benefits or cash balance arrangement, benefit accrual can occur at any time during the tax year. If you remain an active member of your scheme this may mean that you will need to carry out the test more frequently than if you are a deferred member. If you are a deferred member of your scheme then your deferred rights may be increased by a rate of increase specified in your pension scheme's rules and if this rate was in the scheme rules at 11 December 2012 then this will then be the relevant percentage together with the relevant statutory increase percentage (see The "relevant percentage" for more detail).

This means that as a deferred member you should be able to predict the increase in your benefits in the tax year and should be able to tell from the outset whether the increase in your benefits will exceed that produced by applying the relevant percentage. In effect so long as a scheme does not make a change to its rules after 11 December 2012 which changes the annual rate of increase for deferred benefits then, as an individual who only has deferred rights, you should keep FP2014.

If your scheme rules are amended to provide for a different rate of increase, then from the effective date of the amendment the relevant percentage will be the higher of:

- the percentage by which the consumer prices index (CPI) for the month of September in the previous tax year is higher that it was for the September before that (or nil if there has been no increase or a fall), or
- the relevant statutory increase percentage (see The "relevant percentage" for more detail).

If you are an active member of a scheme, the question of when the benefit accrual tests should be carried out is less straightforward - for example, your benefits may increase daily as there is additional pensionable service and account may also need to be taken of any increase in your salary during the tax year. The test for benefit accrual should be carried out at least after the end of every tax year. Where there has been benefit accrual then FP2014 would have been lost at the time the benefit accrual occurred which may not be the time the test is carried out. If you wish to remain an active member then you will need to be aware that more frequent tests may be necessary. Penalties may apply where you do not tell HMRC that you have lost FP2014 within 90 days of becoming aware of benefit accrual. Schemes may want to consider the need to report loss of FP2014 when designing their systems

You should consider this when you make your decision to apply for FP2014 as continuing to be an active member of any registered pension scheme will mean that the test may need to be done more frequently. It is likely that as an active member you will lose FP2014 at some time.

8.3 Benefit accrual is an ongoing test

The benefit accrual test for FP2014 is a forward looking test that begins immediately after midnight on 6th April each year. If your pension and lump sum rights with FP2014 are increased by an amount which exceeds the relevant percentage at any time during a tax year, you will lose your FP2014 at the point the relevant percentage was exceeded, irrespective of what happens subsequently during the tax year. The relevant percentage will be the rate specified in the scheme rules on 11 December 2012 by which your rights are increased annually plus any relevant statutory increase percentage (see The "relevant percentage" for more detail). Where there is no such rate, the relevant percentage is the higher of the annual rate of increase in the Consumer Prices Index (CPI) for the year ending with the previous September's CPI or the relevant statutory increase percentage (see The "relevant percentage" for more detail).

For example, for tax year 2014-15 it will be the annual increase in the CPI for the year ending with the month of September 2013 which counts. If that increase is say 3% and this is higher than the relevant statutory increase percentage, 3% is the level of increase used for the benefit accrual test for increases in pension rights occurring in the tax year 2014-15. If your benefits receive a relevant statutory increase of 4% then that 4% is the relevant percentage.

So at the start of any tax year you will be able to find out your relevant percentage because it is either specified in your scheme's rules or has already been published, in the case of the annual increase in the CPI and relevant statutory increases.

This will allow you to work out by how much your pension and lump sum rights can increase during the tax year before you lose FP2014.

It is for you to decide on the frequency of the application of the accrual test during the tax year based on your own circumstances, bearing in mind you have an obligation to notify us when you have lost FP2014, with possible penalties for not doing so.

When carrying out a benefit accrual test during a tax year, the relevant percentage to be used is always by reference to the annual rate, rather than a proportion of it.

Example
For a member whose relevant percentage is the CPI increase, any increase in their rights of less than that percentage during the tax year will not result in the member losing FP2014, regardless of the date on which the increase occurs.

This also applies where the member takes all of their benefits under the defined benefits arrangement part way through the year.

At the time all the benefits are taken, providing those rights have not increased by the relevant percentage for the tax year, the member won't have benefit accrual in respect of that particular arrangement unless they start accruing new rights under the arrangement.

8.4 The benefit accrual test for defined benefits is a test on prospective rights

FP2014 is lost if at any time in a tax year the value of your pension and lump sum rights (calculated using the valuation assumptions set out in section 277 of Finance Act 2004) is increased by an amount which exceeds the relevant percentage.

The benefit accrual test is, by virtue of the words "at any time" in the relevant legislation, an ongoing test as explained above.

The valuation assumptions are:

a. the benefits to be valued are those which would be paid if you had reached the age at which no actuarial reduction would apply on account of age and

b. you have not retired on incapacity grounds.

This means that the rights are to be valued on a prospective basis and therefore the test applies to prospective rights only.

Benefit accrual can therefore only occur where your benefits have not come into payment.
In view of the above it follows that the value of pension and lump sum used for the purpose of FP2014 will be the same as the value of pension and lump sum used for determining the closing value of the annual allowance pension input amount, for a pension input period ending on the date the benefit accrual test is carried out.

The value of the actual benefits taken is not subject to a benefit accrual test as the pension and lump sum rights are, at that stage, actual rather than prospective rights. If benefit accrual occurs in relation to your prospective rights then you have lost FP2014. The fact that your actual benefits may be actuarially reduced when taken and so have a lower value than they did as prospective rights does not change the position.

For the same reason, increases to a pension in payment do not give rise to benefit accrual even if that increase gives rise to a benefit crystallisation event (BCE) 3. See RPSM11104300 for more details on BCE 3. This includes cases where a pensioner member accepts an immediate one-off increase in their pension in exchange for foregoing their right to future non-statutory pension increases.

8.5 When not all your benefits are taken from an arrangement

Where you take some but not all, of your benefits under an arrangement during a tax year, HMRC's view is that this does not give an opportunity to accrue further benefits over and above the relevant percentage increase without benefit accrual occurring.

If you are an active member continuing to accrue benefits in your arrangement then you can only accrue benefits up to the relevant percentage before benefit accrual occurs triggering the loss of FP2014.

When some, but not all benefits are taken the prospective rights immediately before crystallisation should be valued to see if benefit accrual has occurred (assuming benefit accrual has not exceeded the relevant percentage at any earlier stage in the tax year so FP2014 has already been lost).

If at that stage any benefit accrual is within the relevant percentage, then FP2014 is not lost and the lifetime allowance of £1.5 million (or the standard lifetime allowance if this is higher) applies in relation to the benefits taken.

The ongoing test for benefit accrual when some, but not all, benefits have been taken then applies by reference to the residual benefits.

If you continue to accrue benefits in your arrangement from the uncrystallised funds then you can only accrue benefits for those funds up to the relevant percentage, taking account of any increase that accrued before part crystallisation.

Example

On 6 April 2014 Fiona has uncrystallised defined benefits pension rights of £72,500 (pension before commutation); the value of these uncrystallised rights is £1.45 million (72,500 x 20).

Fiona has FP2014. She remains an active member of the scheme and the "relevant percentage" for tax year 2014-15 is the annual increase in the CPI for September 2013 which is 3%. Fiona is therefore aware that if her rights increase by more than 3% she will lose her FP2014. £1.45m increased by 3% is £1,493,500

On 30 October 2014, Fiona takes a pension of £50,000 from her arrangement. By that time her total accrued rights were to a pension of £74,000. The value of her prospective rights immediately before crystallisation is therefore £1.48 million (£74,000 x 20). This is an increase of about 2.1%.

There has been no increase in Fiona's rights above the relevant percentage so she has not lost FP2014.

However, the £24,000 remaining uncrystallised pension rights have already received an increase of nearly 2.1% increase (in effect the uncrystallised rights were worth about £23,506 at the start of the year and have increased by about 2.1% to £24,000).

The uncrystallised rights may still give rise to benefit accrual if they are increased beyond the relevant percentage during the tax year. In measuring this it is necessary to take account of all increases during the tax year including those increases previously occurring before part crystallisation.

Any further increase in the value of those remaining uncrystallised rights in 2014-15, in excess of about 0.9% of £23,506, will therefore lead to loss of FP2014.

Similarly, if Fiona's rights had been increased by 3% before the time the pension of £50,000 was taken, she loses her FP2014 if the remaining uncrystallised rights are increased at all during the remainder of the tax year.

8.6 Enhancements on taking benefits

An enhancement of benefits on incapacity grounds will not in itself lead to benefit accrual (and potential loss of FP2014) in the year when those enhanced defined benefits come into payment.

Since the benefit accrual test is in relation to the value of your prospective rights immediately before your benefits are taken rather than against the value of the benefits themselves, applying the valuation assumptions means that you are assumed to take your benefits when you are in good health.

No account is taken of any incapacity enhancement when calculating the value of prospective rights for benefit accrual purposes.

However, other enhancements (such as enhanced benefits on redundancy or a one-off increase in pension rights in exchange for you foregoing the right to future non-statutory pension increases) awarded before benefits are taken may trigger benefit accrual.
You will normally have acquired a prospective right to the enhanced benefits at some point in time before they come into payment. This means there is an increase in your prospective rights.

As the benefit accrual test is an ongoing one it applies to any increase in rights right up to the moment benefits are taken. If the increase exceeds the relevant percentage then FP2014 will be lost.

8.7 Death benefits including death in service benefits

For FP2014 the continuing provision of defined benefit death benefits (whether under the same arrangement/registered pension scheme or under a separate arrangement/registered pension scheme as that under which your own benefits are being provided) cannot give rise to benefit accrual.

This is because death benefits are outside the definition of “the benefits amount” and consequently the benefit accrual test in the legislation.

As the “benefits amount” definition restricts the benefits amount to your own pension and lump sum rights under the scheme, FP2014 cannot be lost as a result of an increase in your defined benefit death benefits.

If death benefits are provided under a separate arrangement that is a hybrid arrangement where, until death occurs, there is the possibility of the death benefit being provided as either a defined benefit or a non cash balance money purchase benefit, the benefit accrual tests for both defined benefits and non cash balance money purchase arrangements need to be carried out.

As a result, although there is no possibility of benefit accrual under the defined benefits test, any contributions (including life insurance premiums) made to the arrangement after 5 April 2014 will lead to loss of FP2014.

8.8 FP2014 Examples of testing for benefit accrual under a defined benefits arrangement

Example 1

Sarah is a member of a defined benefits scheme. Sarah has FP2014. She also tells her scheme that she wants to stop accruing pension benefits.

Under the rules of Sarah’s pension scheme it is specified that

- on her death the scheme will pay a ‘death in service’ benefit of a lump sum of four times salary and a dependant’s pension, and
- her deferred pension is increased by 5% pa. This rule has been in place since before 11 December 2012.

As the ‘death in service’ lump sum benefit and the dependant’s pension are not part of Sarah’s pension rights for the purposes of benefit accrual, any increase in the value of these

benefits will not cause her to lose FP2014 even though the lump sum death benefit will be tested against the lifetime allowance if Sarah died before reaching age 75.

As Sarah's pension is only being increased in line with an annual rate specified in the scheme rules on 11 December 2012 she will not lose FP2014. Any additional increase that is a relevant statutory increase percentage (see The "relevant percentage" for more detail) can also be ignored. So there is no need to test for benefit accrual in respect of her deferred pension during any tax year in which these are the only increases that are applied to it.

Example 2
Roger is a member of a defined benefits scheme. His scheme gives him a pension of 1/60th of pensionable salary for each year of service. To get a lump sum Roger has to give up (commute) part of his pension. If Roger dies before he starts drawing his pension a lump sum of four times salary will be paid.

Roger has FP2014 but continues to build up benefits under his scheme after 5 April 2014. From 2014-15 onwards Roger needs to check at regular intervals during each tax year to see if he has lost FP2014. He does this by testing whether or not the value of his pension rights have gone up by more than the "relevant percentage" at any point in time during the tax year. The relevant percentage, is either

- an annual rate specified in the rules of the pension scheme on 11 December 2012 plus any relevant statutory increase percentage (see The "relevant percentage" for more detail), or if no rate is specified
- the higher of the annual percentage increase in the Consumer Prices Index (CPI) for the month of September in the previous tax year or any relevant statutory increase percentage.

The rules of Roger's pension scheme do not set a percentage by which an active member's benefits are increased each year. Nor is he entitled to an increase as a relevant statutory increase. So Roger needs to check that his pension rights have not gone up by more than the annual CPI increase.

On 5 April 2014 Roger has 35 years of service and a pensionable salary of £120,000. He has built up a pension of

35/60 x £120,000 = £70,000pa.

The value of Roger's pension rights on 5 April 2014 is therefore

£70,000 x 20 = £1.4 million.

On 5 April 2015 Roger's pensionable salary has not increased as his employer is operating a pay freeze. Roger has now built up an annual pension of

36/60 x £120,000 = £72,000pa.

This means the value of his pension rights is now

£72,000 x 20 = £1,440,000.

The annual increase in CPI to September 2013 is, say, 3%. This means that as long as the value of Roger's pension rights in the tax year 2014-2015 has not increased by more than 3% he will keep FP2014.

The value of Roger's £1.4 million pension rights as at 5 April 2014 increased by the 3% increase in the CPI is

£1.4 million x 103/100 = £1,442,000.

This is £2000 more than the value of Roger's pension rights at the end of 2013-14. As the CPI increase that is the relevant percentage is published in the previous October, this value (£1,442,000) can be calculated at the beginning of the tax year. So this figure is known before 6 April 2014.

Roger does not lose FP2014 at any point in time during the tax year and he will know this in advance (assuming the pay freeze was announced before 6 April 2014).

Example 3
Rosa is a member of a defined benefits scheme. Her scheme gives her a pension of 1/60th of pensionable salary for each year of service. To get a lump sum Rosa has to give up (commute) part of her pension. If Rosa dies before she starts drawing her pension a lump sum of four times salary will be paid.

Rosa has FP2014 and agrees with her scheme to have no further accrual of pensionable service but her benefits will continue to be linked to her salary. From 2014-15 onwards Rosa will need to check at regular intervals during each tax year to see if she has lost FP2014. She does this by testing whether or not the value of her pension rights has gone up by more than the "relevant percentage" at any point in time during the tax year. The relevant percentage, is either

- an annual rate specified in the rules of the pension scheme on 11 December 2012 plus any relevant statutory increase percentage (see The "relevant percentage" for more detail), or if no rate is specified
- the higher of the annual percentage increase in the Consumer Prices Index (CPI) for the month of September in the previous tax year and any relevant statutory increase percentage.

The rules of Rosa's pension scheme do not set a percentage by which member's benefits are increased each year while they are an employed member. Instead increases are based on salary increases. So Rosa needs to check that her pension rights have not gone up by more than the annual CPI increase/relevant statutory increase (whichever is the higher).
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On 5 April 2014 Rosa has 35 years of service and a pensionable salary of £120,000. She has built up a pension of

35/60 x £120,000 = £70,000pa.

The value of Rosa's pension rights on 5 April 2014 is therefore

£70,000 x 20 = £1.4 million.

On 5 April 2015 Rosa's pensionable salary has gone up by £4,200 to £124,200. Rosa has now built up an annual pension of

35/60 x £124,200 = £72,450.

This means the value of her pension rights is now

£72,450 x 20 = £1,449,000.

The annual increase in the CPI to September 2013 is 3%, the relevant statutory increase is 2.5%. So the relevant percentage for Rosa is 3%. This means that as long as Rosa's pension rights in the tax year have not increased by more than 3% she will keep FP2014.

The value of Rosa's pension rights as at 5 April 2014 increased by the 3% increase in CPI would be

£1,400,000 x 103/100 = £1,442,000.

This is less than the value of Rosa's pension rights at the end of 2014-15. Rosa loses FP2014 from the date her deferred benefits are re-calculated by reference to her increased salary.

Example 4
Angela is a member of a defined benefits scheme. Angela's pension builds up at a rate of 1/80th of pensionable salary for each year of service. Her scheme also gives Angela a

separate lump sum of three times her pension. If Angela dies before she starts drawing her pension a lump sum of four times her salary will be paid.

Angela has FP2014 and continues to build up benefits after 5 April 2014. From 2014-15 onwards Angela needs to check at regular intervals during each tax year to see if she has lost FP2014 at any point in time during the tax year. She does this by testing whether or not the value of her pension rights have gone up by more than the "relevant percentage" for the tax year. The relevant percentage, is either

- an annual rate specified in the rules of the pension scheme on 11 December 2012 plus any relevant statutory increase percentage (see The "relevant percentage" for more detail), or if no rate is specified
- the higher of the annual percentage increase in the Consumer Prices Index (CPI) for the month of September in the previous tax year and any relevant statutory increase percentage.

The rules of Angela's pension scheme do not set a percentage by which member's benefits are increased each year. There is no relevant statutory increase as Angela is an active member of her scheme. So Angela needs to check that her pension rights have not gone up by more than the annual CPI increase.

On 5 April 2014 Angela has 35 years of service and a pensionable salary of £140,000. She has built up a pension of

35/80 x £140,000 = £61,250 pa, and a lump sum of

3 x £61,250 pa = £183,750

The value of Angela's pension rights on 5 April 2014 is therefore

(£61,250 x 20) + £183,750 = £1,408,750.

The annual increase in CPI to September 2013 is 3%. This means that to keep FP2014 Angela's pension rights on 5 April 2013 cannot be more than

£1,408,750 x 103/100 = £1,451,012

At 5 April 2015 Angela's pensionable salary has increased to £144,000. Her annual pension on 5 April 2015 is

36/80 x £144,000 = £64,800.

Angela has also built up a lump sum of

3 x £64,800 = £194,400

This means the value of Angela's pension rights at 5 April 2015 is

(£64,800 x 20) + £194,400 = £1,490,400.

During the 2014-15 tax year Angela's pension rights have increased by more than the CPI increase. Angela has lost FP2014 from the date on which the value of her benefits exceeded £1,490,000 as a result of the combination of additional pensionable service and her pay increase.

Example 5

Emily is a member of a defined benefits scheme. Under the scheme the formula for the pension due to her when she reached the scheme's normal retirement age is 1/80th x pensionable salary x years and complete months of service. There are no lump sum retirement benefits as of right, only by commutation.

Emily has FP2014 and continues to build up benefits as an active member after 5 April 2014.

On 5 April 2014 Emily's pensionable salary is £132,000 and she has completed 23 years pensionable service. So she has accrued a pension of £37,950 pa; with a value, for FP2014 purposes, of £759,000 (i.e. 20 x £37,950).

Emily is not entitled to a relevant statutory increase in her pension rights. The annual increase in CPI to September 2013 is, say, 3%. This means that to keep FP2014 until (at least) 5 April 2015 Emily's pension rights cannot at any time from 6 April 2014 to 5 April 2015 be more than £759,000 x 103/100 = £781,770 (equivalent to a pension of £39,088 pa).

Emily knows that her pensionable salary will be frozen over 2014/15. At 5 April 2015 her pensionable salary will therefore still be £132,000. If she continues in pensionable service, then her annual pension on 5 April 2015 would be 24/80 x £132,000 = £39,600, with a value for FP2014 purposes of (£39,600 x 20) = £792,000.

This is more than £781,770. So Emily knows that if she continues in pensionable service to the end of the tax year, she will at some point before then lose FP2014.

The scheme accounts for pensionable service in completed months of service. Emily's pensionable service started service on 28 March 1992. So she knows that if she leaves active membership between 28 November and 27 December 2014 inclusive she will have a prospective pension of £39,050 pa (23 & 8/12 / 80 x £132,000); and if she leaves on 28 December she knows she will have accrued a further month's pensionable service giving her a prospective pension of £39,188 pa (23 & 9/12 / 80 x £132,000).

So Emily will lose FP2014 if she is still in pensionable service on 28 December 2014 when she had a prospective pension of £39,188, which has a value of £783,760. Her FP2014 will be lost on 28 December 2014.

Emily therefore opts out of active scheme membership before that date.

9 Making contributions to an arrangement once you have FP2014

If you make contributions to a money purchase arrangement that is not a cash balance arrangement after 5 April 2014 then you will lose FP2014.

You may be able to make further contributions to a defined benefits arrangement or cash balance arrangement. But the way that benefits are calculated for these types of arrangement may mean that there is benefit accrual if your benefits increase by more than the relevant percentage. If that is the case then you will lose FP2014.

9.1 When is a contribution paid?

The rules for when a contribution is paid depend on how the contribution is made. For example, if your contribution is made by cheque then it is paid when the cheque is received by your scheme administrator, as long as the cheque does not bounce. (See RPSM05300080 for more information about the normal rules for when a contribution is paid.)

9.2 Failure to stop an automatic payment from a bank and building society

If you have told your bank or building society in good time that you want to stop the payment but the bank or building society have failed to act on this then you will not lose FP2014.

Here, the payment(s) made by the bank or building society were beyond your control and you never intended that the payment(s) should be contributions. HMRC will not consider such payments as contributions and so FP2014 will not be lost.

The payments should be returned to you although you will have to repay any tax relief you have received in relation to them (see RPSM12101070 for more details).

9.3 Payment of a pension credit under a pension sharing order into a money purchase arrangement (personal pension scheme)

Provided the pension credit is transferred to your existing non-cash balance money purchase arrangement, you will not lose your FP2014. The tax rules provide that a pension credit in such cases is not a tax relievable contribution so its payment will not cause loss of the FP2014.

However if the pension credit is received from a non-registered pension scheme it is tax relievable. FP2014 will be lost if it is paid into a registered pension scheme.

Likewise, if the pension credit is transferred into a new arrangement for you, FP2014 will be lost. This is because setting up of the new arrangement will trigger loss of FP2014.

9.4 Payment of a pension credit under a pension sharing order to a defined benefits or cash balance pension scheme

If the pension credit is transferred into a new arrangement for you, FP2014 will be lost due to the setting up of the new arrangement.

If the pension credit is transferred into an existing defined benefits or cash balance arrangement then FP2014 will be lost if at the end of the tax year in which the pension credit is transferred into the arrangement benefit accrual occurs. It is very likely that there will be benefit accrual in such cases.

See "Benefit accrual: overview" for more information about benefit accrual.

9.5 National Insurance rebates paid into a money purchase arrangement (other than cash balance)

For the purposes of benefit accrual, a National Insurance rebate is not a "relevant contribution" so payment of this into your arrangement will not cause loss of FP2014.