

Annex C:

Example calculations

Example 1:

Officer applies for Fixed Protection 2014 prior to 6 April 2014.

At 5 April 2014, 1987 scheme details are as follows:

- Reckonable service: 25 years
- Pensionable salary: £130,000

The officer has built up a pension of:

$$30/60 \times £130,000$$

$$= £65,000$$

The value of the officer's pension rights on 5 April 2014 is therefore:

$$£65,000 \times 20$$

$$= £1,300,000$$

Since this is greater than £1.25m the officer receives LTA protection of up to £1.5m.

At retirement, the officer has not lost his right to Fixed Protection 2014 and the officer's details are as follows:

Pension before commutation £70,000

Member's applicable LTA £1.5m

Lump sum taken £350,000

Pension after commutation £52,500

Lump sum LTA charge

No LTA charge is due in respect of the lump sum because it is less than one-quarter of the member's available LTA.

Pension LTA charge

No LTA charge is due in respect of the pension because the HMRC value of ongoing pension is less the member's available LTA in excess of lump sum.

Example 2:

Officer applies for Individual Protection 2014 prior to 5 April 2017. The officer has accrued pension rights of £1,300,000 on 5 April 2014 and therefore receives a personal LTA of £1,300,000.

At retirement, the officer's details are as follows:

Pension before commutation £70,000

Member's applicable LTA £1,300,000

Lump sum taken £350,000

Pension after commutation £52,500

Lump sum LTA charge

The lump sum LTA charge due in respect of the lump sum is 55% of its value in excess of one-quarter of the LTA:

$$\begin{aligned} &= 55\% \times (350,000 - \frac{1}{4} \times 1,300,000) \\ &= 55\% \times 25,000 \\ &= \text{£}13,750 \end{aligned}$$

Pension LTA charge

The pension LTA charge in respect of ongoing pension can therefore be calculated as

$$\begin{aligned} &25\% \times (\text{HMRC value of ongoing pension - member's LTA in excess of} \\ &\quad \text{lump sum}) \\ &= 25\% \times (20 \times 52,500 - \frac{3}{4} \times 1,300,000) \\ &= 25\% \times 75,000 \\ &= \text{£}18,750 \end{aligned}$$

As the member has used up $\frac{1}{4}$ of their LTA from the lump sum, the LTA in excess of lump sum is capped at $\frac{3}{4}$ of the original LTA amount.

The total LTA charge is the sum of the charge in respect of the lump sum and the charge in respect of the ongoing pension:

$$\begin{aligned} &= 13,750 + 18,750 \\ &= \text{£}32,500 \end{aligned}$$