

Annex B

These calculations are based on a retirement in 2009 and are shown to illustrate the interaction between Enhanced and Primary Protection.

Example 1

Consider a member registered for Primary Protection (PP) and Enhanced Protection (EP). The member is first treated under EP, and PP applies only once EP lapses. The member opts to take maximum commutation and has no other benefits in payment.

Standard Lifetime Allowance

2006-07: £1,500,000

2008-09: £1,650,000

At 5 April 2006, 1987 scheme details are as follows:

- Reckonable service : 27 years
- Final Pensionable Salary: £150,000
- Accrued 1987 scheme pension: £85,000 a year
- Capital value of benefit rights as at 5/4/06 = 20 x pension = £1,700,000

This is equal to the EP limit on the certificate issued by HMRC. He has also registered for Primary Protection and has a personal lifetime allowance of 113.33% of the standard LTA [113.33%=1.7m/1.5m].

The member retires on 5 April 2009. During the 3 years to retirement, the officer retains his EP. At retirement, his 1987 scheme details are as follows:

- Reckonable service : 30 years
- Final Pensionable Salary: £180,000
- Pension before commutation: £120,000
- Applicable 1987 scheme commutation factor: 18.85

His earnings recalculation amount proves to be the best method of revaluing the EP limit. The EP limit is therefore £2,040,000 (= £1,700,000 x (£180,000 / £150,000))

The member's benefits can be split into two separate events, the first to which EP will apply, and the second to which PP could apply.

FIRST BCE

The maximum tax-free lump sum that the officer can crystallise under EP is:

$$\begin{aligned} & 25\% \times \min(\text{standard LTA, HMRC value of benefits, EP limit}) \\ & = 25\% \times \text{standard LTA} \\ & = £412,500 \end{aligned}$$

This is obtained by commuting £21,883 (= £412,500 / 18.85) of pension.

The maximum pension that can be crystallised without losing EP is:

$$\begin{aligned} & (\text{EP limit} - £412,500) / 20 \\ & = £81,375 \text{ a year} \end{aligned}$$

By taking this pension and lump sum at the first BCE the member uses up all his scope within EP and has crystallised benefits worth £2,040,000.

1987 scheme pension rights (before commutation) crystallised at this BCE
= £21,883 + £81,375
= £103,258

SECOND BCE

The member crystallises the remaining benefits on the same day as the benefits crystallised within the EP limit.

The member's personal LTA in this tax year is £1,870,000 (=113.33% x £1,650,000). He has already crystallised benefits worth more than this so has no remaining available lifetime allowance. All further benefits will therefore be subject to the Lifetime Allowance Charge (LTAC).

Uncrystallised 1987 scheme annual pension before commutation
= £120,000 - £103,258
= £16,742

Pension commuted so far is £21,883

Maximum commutation under the 1987 scheme is £30,000 (= 25% of pre-commutation pension)

Further commutation lump sum that can be taken under the 1987 scheme
= (£30,000 - £21,883) x 18.85
= £153,005

LTAC in respect of lump sum payable by scheme administrator
= 55% x £153,005
= £84,153

Remaining pension subject to LTAC
= £16,742 - (£30,000 - £21,883)
= £8,625

LTAC in respect of pension payable by scheme administrator
= 25% x 20 x £8,625
= £43,125

The total LTA charge is the sum of the charge in respect of the lump sum and the charge in respect of the second BCE:
= 84,153 + 43,125
= £127,278

Example 2

Consider the member in example 1 but now he does not opt for two BCEs, so EP lapses.

The member opts to commute 25% of his pension, which is the maximum permitted in the 1987 scheme.

The member's pension before LTA charge is £90,000 (= 75% x £120,000)
The pension commuted is £30,000 (= 25% x £120,000) and so the member's lump sum before LTA charge is £565,500 (= £30,000 x 18.85)

Total HMRC value of these benefits is £2,365,500 (= £90,000 x 20 + £565,500).
The member's personal LTA in this tax year is £1,870,000 (=113.33% x £1,650,000).

The maximum tax-free lump sum that the officer can crystallise under PP is:
25% x standard LTA (assuming lump sum protection did not apply)
= £412,500

The maximum pension that can be crystallised within PP is:
(Personal LTA - £412,500) / 20
= (£1,870,000 - £412,500) / 20
= £72,875 a year

All further benefits are subject to the Lifetime Allowance Charge (LTAC).

Lump sum subject to LTAC
= £565,500 - £412,500
= £153,000

LTAC in respect of lump sum payable by scheme administrator
= 55% x £153,000
= £84,150

Pension subject to LTAC
= £90,000 - £72,875
= £17,125

LTAC in respect of pension payable by scheme administrator
= 25% x 20 x £17,125
= £85,625

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:
= 84,150 + 85,625
= £169,775