ADVISER FACTSHEET

JAMES HAY PARTNERSHIP

Scheme Specific Lump Sum Protection

Where an individual with no other form of lump sum protection had rights as at 5 April 2006 within an occupational pension scheme or a buy out policy, to tax-free cash of greater than 25% of the value of their pension benefits as at that date, those lump sum rights are protected. This is known as scheme specific lump sum protection.

FEATURES

- What happens if a transfer to another scheme occurs?
- How does scheme specific lump sum protection work?

For professional advisers only

Scheme Specific Lump Sum Protection

What happens if a transfer to another scheme occurs?

The scheme specific lump sum protection will be lost on transfer to another scheme, unless the transfer is a block transfer (see the factsheet on Block Transfers).

Scheme specific lump sum protection can only apply under a SIPP if a transfer is made on or after 6 April 2006 as part of a block transfer.

How does Scheme Specific Lump Sum Protection work?

The individual's pension commencement lump sum (PCLS) is calculated as follows:

a) The amount of the scheme specific protected lump sum, as at 5 April 2006, re-valued in line with the standard lifetime allowance (SLA). From 6 April 2012, £1.8m or the SLA if greater is used for revaluation purposes. Plus;

b) An additional lump sum amount. This is calculated using the following formula:

25% of (the value of crystallised benefits less the indexed value of the block transfer fund as at 5 April 2006*)

* The value of the block transfer fund as at 5 April 2006 is the value of rights held by the individual under the original pension scheme on that date. The indexed value of the fund is dependent on the type of lifetime allowance protection, if any, held by the individual.

The protected lump sum is always expressed as a specific amount – not a percentage.

Example of how a PCLS is calculated where scheme specific lump sum protection applies, assuming the individual is not entitled to any form of lifetime allowance protection.

Fund value as at 5 April 2006	£100,000
PCLS as at 5 April 2006	£40,000
SLA as at 6 April 2006	£1,500,000
SLA as at date of crystallisation (2021/22)	£1,073,100
Value of crystallised benefits	£200,000

Scheme protected lump sum calc $= \frac{£1,800,000}{£1,500,000} \times £40,000 = £48,000$

Additional lump sum calc $= 25\% \times [£200,000 - (£100,000 \times £1,073,100/£1,500,000)]$

$= £32,115$

Total PCLS $= £80,115$

Note that in the additional lump sum amount calculation, because the individual is holding no form of lifetime allowance protection, the fund value as at 5 April 2006 is indexed in line with the change in the SLA between 6 April 2006 (£1.5m) and the date of crystallisation (£1.0731m).