

Historical information and HMRC tax protections

This factsheet explains more about the historic lifetime allowance protections that were offered by HMRC, and provides a brief overview of the pre-2006 arrangements, referred to as the 'earnings cap'. Fixed protection 2012 and fixed protection 2014 can no longer be applied for.

The deadline for applications for individual protection 2014 was 5 April 2017. You can apply if the value of your lifetime allowance at 5 April 2014 was more than £1.25 million and you do not have a valid primary protection in place.

Fixed protection – 2012 and 2014

Following reductions in the LTA, methods of benefit protection (called fixed protection) were introduced by HMRC. These protections allowed pension scheme members to apply to retain the higher LTA value that applied previously.

- Fixed protection 2012 – a LTA of £1.8 million to be retained. HMRC accepted applications up to and including 5 April 2012.
- Fixed protection 2014 – a LTA of £1.5 million to be retained. HMRC accepted applications up to and including 5 April 2014.

You can lose either of these protections if you pay any further contributions to USS or any other pension arrangement other than to provide life cover. Please note, fixed protection will be lost if you elect to transfer your USS Money Purchase AVC fund to secure additional benefits in USS upon retirement. There are other circumstances under which you could lose fixed protection. See <https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm093400> for details on how you can lose fixed protection.

Individual protection – 2014

Individual protection 2014 – As well as fixed protection 2014, the government introduced another form of protection called 'individual protection 2014' (IP2014), which is available following the reduction of the LTA to £1.25 million for 2014/15. You can apply if the value of your lifetime allowance at 5 April 2014 was more than £1.25 million and you do not have a valid primary protection in place. Primary protection is an earlier form of protection that applied when the lifetime allowance was first introduced. By opting for IP2014, you will have a personal lifetime allowance equal to the value of your rights on 5 April 2014, subject to an overall maximum of £1.5 million. Importantly, you can continue to build up more pension benefits, but these benefits will then be subject to a tax charge when you do eventually retire. The application form for IP2014 is available online through HMRC's website. Applications for this could only be made up to 5 April 2017.

Earlier forms of protection (Enhanced & Primary)

To find out more about earlier types of protection please see the [HMRC website](#).

Historic limits – earnings cap

Members joining or re-joining USS on or after 1 June 1989 were subject to a statutory earnings cap for pension purposes, set by HMRC. The contributions payable by the member and the institution were based on a maximum amount determined by the government. The amount was usually reviewed annually to reflect changes in the Retail Prices Index and rounded to the next higher multiple of £600. Any amount in excess of the cap could not be taken into account when calculating pension benefits. The figure for the final year of the statutory earnings cap (2005/06) was £105,600.

The statutory earnings cap was removed with effect from 6 April 2006, but for the purpose of calculating USS benefits its effect on past service accrued prior to that date remains. Members who were subject to the earnings cap as at April 2006 had the option to continue to have their future benefits subject to the cap.

The continuation of the statutory earnings cap is written into the USS scheme rules and is known as the 'scheme specific cap'. It is increased on an annual basis using the same methodology as the statutory cap. The scheme specific cap will be revalued each year and any past service benefits, which were capped, will be based on the relevant figure at retirement. In addition, it will be used as the basis for ongoing contributions for any members who decided to keep the cap for future accrual.

If you are unsure whether the cap applies to part of your USS benefits, please check with your employer. If you were affected by the statutory earnings cap for any service from 1 June 1989 (14 March 1989 in some cases) to 6 April 2006, your benefits accrued from 6 April 2006 will now be calculated by reference to your full pensionable salary. Your pension contributions will also be based on your actual salary (unless of course you requested that your salary remained capped by the USS scheme specific cap).

If, after 6 April 2006, the earnings cap no longer affects you, your benefits will be calculated in at least two parts:

- The benefits from 1989 (or date you joined the scheme if later) to April 2006 will be calculated by reference to the scheme specific cap in the year in which you retire or leave.
- The benefits from April 2006 will be calculated by reference to your full pensionable salary. Additionally, if you have transferred benefits into USS from another scheme based on an uncapped salary, or you have earlier uncapped service, these will continue to be calculated by reference to your full pensionable salary. You and your employer have the option of making a payment to remove the effect of the earnings cap in all or in part. There is only one opportunity to make a payment to remove the effect of the cap. However, there is no time restriction on when this is made, so long as you remain an active member of the scheme. If a payment is made to completely remove the effect of the earnings cap, then all of your benefits will be calculated by reference to your full pensionable salary. If only part of the earnings cap is removed, then your benefits will be calculated separately, but with a reduced amount being subject to the cap. There are some restrictions on removing the cap; please speak to your employer regarding your options.

This publication is for general guidance only. It is not a legal document and does not explain all situations or eventualities. USS is governed by a trust deed and rules and if there is any difference between this publication and the trust deed and rules the latter prevail. Members are advised to check with their employer contact for latest information regarding the scheme, and any changes that may have occurred to its rules and benefits.

