Pensions and retirement planning

R04 2024–25 edition

Web update 1: 01 August 2024

Please note the following update to your copy of the **R04** study text:

Chapter 3, section C6, page 3/37

Please add the following at the end of this section:

C6A Pension debits as a result of a pension sharing order

A pension debit is where pension rights have been given up as a result of a pension sharing order following divorce.

Enhanced protection
Enhanced protection is not affected by a pension debit.

However, since April 2023, those with enhanced protection have been able to restart pension funding without losing enhanced protection so long as they registered for the protection on or before 15 March 2023. This means that an ex-spouse subject to a pension debit can rebuild their pension savings if they wish.

Primary protection
An individual with primary protection who gets divorced after 5 April 2006 may find that it affects their protection.

If they are subject to a pension debit after 5 April 2006, their primary protection factor has to be recalculated as at 5 April 2006. This is done by taking the value of the pension debit rights away from the original benefit value on 5 April 2006. The primary protection factor is then recalculated using the lower benefit value.

When testing any relevant lump sums against the LSDBA after the pension sharing order has taken effect, the amount available is based on their reduced primary protection factor. If tax-free cash rights were registered under primary protection, the LSA is unaffected by the pension debit, unless it results in a loss of protection.

Primary protection is lost if the pension debit reduces the value of the individual's rights on 5 April 2006 to a figure below £1.5 million. This is the only way someone can lose primary protection.

Example 3.24

Calum had benefits worth £2.4 million on 5 April 2006 and his primary protection factor was 60%. In 2024/25 this gave him a LSDBA of:

- £1.8 million + (£1.8 million x 0.6) = £2.88 million.

In October 2024, Calum got divorced and he is subject to a pension debit of £600,000.

His benefits as at 5 April 2006 are now recalculated as £2.4 million – £600,000 = £1.8 million.

This gives Calum a revised primary protection factor of:

- $\frac{£1.8m - £1.5m}{£1.5m} \times 100\% = 20\ \%$

If his benefits are taken after his divorce, they will be tested against his new lower LSDBA, which will be:

- £1.8 million + (£1.8 million x 0.2) = £2.16 million

Fixed protection
Fixed protection is not affected when pension benefits are reduced as a result of a pension debit.

As with enhanced protection, an ex-spouse who registered for fixed protection by 15 March 2023, is able to recommence pension funding to rebuild their pension savings if they wish.

Individual protection
If someone with individual protection has their pension benefits reduced because of a pension debit, their enhancement factor will be reduced.

Their original valuation for protection is reduced by the amount of the pension debit. However, the value of the debit can sometimes be reduced:

- **Individual protection 2014** – if the transfer date of the debit is after 5 April 2015, the value of the pension debit is reduced by 5% for each complete tax year since 2013/14.
- **Individual protection 2016** – if the transfer date of the debit is after 5 April 2017, the value of the pension debit is reduced by 5% for each complete tax year since 2015/16.

Example 3.25

Ava had benefits worth £1.6 million on 5 April 2014. She registered for individual protection and was given a personal LTA of £1.5 million.

Ava was divorced on 1 May 2024 and was subject to a pension debit of £400,000.

Ten full tax years have elapsed since 2013/14 and so her pension debit for individual protection purposes was reduced by:

- 10 years x 5% = 50%
- her pension debit is therefore reduced by 50% from £400,000 to £200,000

The original valuation of £1.6 million on 5 April 2014 is therefore reduced by £200,000 to £1.4 million. This is still above the minimum level of £1.25 million, so her individual protection 2014 is maintained. This means that her LSDBA will be £1.4 million and her LSA will be £350,000.

C6B Pension credits as a result of a pension sharing order

Pension credits are where pension rights are received as a result of a pension sharing order after a divorce.

Enhanced protection
Since 6 April 2023, enhanced protection will not usually be affected by receiving a pension credit.

The exception is where HMRC have accepted an individual's application for enhance protection on or after 15 March 2023. In this case the pre-6 April 2023 rules still apply.

- This means that enhanced protection is lost if a new arrangement is set up to accept the pension credit directly from the ex-spouse's pension.
- However, this doesn't apply if the pension credit was paid from the ex-spouse's pension into an existing pension arrangement of the member.

Primary protection
The effect on primary protection of receiving a pension credit on divorce depends on where the pension credit comes form.

If a pension credit is generated from an uncrystallised pension, or a pension that was already in payment before 6 April 2006, there is no change to the amount of primary protection the recipient has. This means that their LSA and LSDBA are unaffected.

However, it is possible to claim an enhancement, known as a pension credit factor, to existing primary protection, if the pension credit:

- comes from a pension already in payments: and
- the entitlement to that pension arose between 6 April 2006 and 5 April 2024.

This reflects the fact that these benefits have already been tested against the ex-spouse's LTA.

If a pension credit was received before 6 April 2006, the value of the pension credit rights would have been included when calculating the member's enhancement factor under primary protection.

Fixed protection
Since 6 April 2023, fixed protection is not usually affected by receiving a pension credit.

However, as with enhanced protection, it will be lost if HMRC have accepted an application for fixed protection on or after 15 March 2023. In this case the pre-6 April 2023 rules still apply.

It is possible for the member to claim an enhancement (known as a pension credit factor) to their LSDBA if the pension credit:

- comes from a pension already in payment to the ex-spouse; and
- the entitlement to that pension arose after 5 April 2006.

This allows the member to claim an enhancement factor that will give them an increase on top of their projected LSDBA (which is £1.8 million for fixed protection 2012, £1.5 million for fixed protection 2014 or £1.25 million for fixed protection 2016).

If the pension credit is generated from an uncrystallised pension or from a pension that was already in payment before 6 April 2006, there is no change to the amount of fixed protection the recipient has.

Individual protection
The effect on individual protection of receiving a pension credit depends on where the pension credit comes form.

If a pension credit is generated from an uncrystallised pension, or a pension that was already in payment before 6 April 2006, there is no change to the amount of individual protection the member has.

It is possible for the member to claim and enhancement (known as a pension credit factor) to existing individual protection if the pension credit:

- comes from a pension already in payment to the original member; and
- the entitlement to that pension arose after 5 April 2006.

This reflects the fact that these benefits have already been tested against the ex-spouse's LTA. The enhancement factor will give the member an increase on top of their protection LSDBA. However, it doesn't give a higher entitlement to tax-free case, so the member's LSA is unaffected.

Refer to

Return to *Entitlement to a higher LSA and/or LSDBA* on page 2/44 to see how the pension credit factor is calculated.