

Meeting of the Board 4 October 2018

ITEM 10

Public Sector Pensions Tax

Background

1. Pensions Tax in the form of [annual allowance](#) and [lifetime allowance](#), occurs when a person accrues more pension growth in the permitted period than the allowed amount. For annual allowance this is £40,000¹ or between £10,000 & £40,000 where threshold income is above £110,000². For lifetime allowance³, this is where the total pot is valued at £1,030,000.00 from 1st April 2018.
2. For annual allowance, pension growth is measured by multiplying the increase in pension over an annual period by a factor of 16. This means that where a pension grows by more than £2,500 in a twelve month period, a person would have pension growth in excess of the standard annual allowance of £40,000.
3. For lifetime allowance, pension growth is calculated by multiplying the pension by a factor of 20 plus any lump sum due to the member.
4. The tax rules allow for a three year 'carry forward' period, where any unused allowance can be carried forward into the next year to top up the allowance.
5. When the pension growth accrued is more than the available allowance, a tax charge can occur. Members have the ability to pay for tax using scheme pays, which is a debit to the pension that is applied on retirement.
6. Currently the rules of the scheme, do not offer an individual any choice other than to opt out of the pension scheme and stop accruing pension, if they wanted to limit their pension growth.
7. During October 2017 to January 2018, the Firefighters Scheme Advisory Board, in collaboration with Police pensions, procured a consultant to provide a range of [awareness sessions](#) aimed at the Scheme Managers and Local Pension Boards to inform them of how pensions tax was calculated and who it might affect. The sessions aimed to encourage FRAs to consider what next steps they can take to ensure their workforce is educated and informed.
8. Across public sector workforces, anecdotal evidence suggests that an increasing number of scheme members are incurring year on year tax charges and potentially incurring numerous scheme pays debits. There is a

¹ <http://www.legislation.gov.uk/ukpga/2013/29/section/49>

² <http://www.legislation.gov.uk/ukpga/2015/33/schedule/4/paragraph/10>

³ <http://www.legislation.gov.uk/ukpga/2016/24/section/19>

growing concern across employers, that their employees are making decisions such as not pursuing promotion, or opting out of the scheme to avoid further pension growth. For the smaller workforces in particular, this concern can lead to a smaller talent pool to recruit from.

9. The Fire Leaders Association (FLA) have formed a working group with stakeholders across public sector to consider a case for change, requesting more flexibilities within the public sector pensions schemes, to allow individual members to make choices to manage their pension growth ie lessen the amount of pension accrued, so that they do not breach the tax limits. Slides 12 to 19 from the [2018 Fire pensions AGM](#) refer.
10. In order to make that case, the working group needs to gather evidence across the public sector workforce to support the anecdotal accounts. In particular the working group is looking to gather evidence such as:
 - How many pension savings statements are issued each year, and are they increasing?
 - Number of individuals opting out
 - Number of individuals opting for scheme pays
 - Examples of the impact on recruitment, retention and promotion
 - Types of member who might be impacted? I.e. not just high earners

Actions for Firefighters (England) Scheme Advisory Board

11. This paper asks the board to consider the following actions:

Education and myth busting

12. Does the board support providing further tax support to scheme members in the form of
 - An annual refresher session of tax awareness session, for those involved in managing the pension scheme.
 - Practical training for administrators on calculating tax liabilities and related processes.
 - Procuring communications materials for FRAs to issue to members, such as posters advertising the deadlines for scheme pays options, general factsheets and leaflets for those who might be considering promotion.
 - Creating a framework of agreed suppliers for direct member training, that Fire Authorities could call off as required.

13. With the board actuaries, calculate the estimated pension that could be provided via a personal pension using the members' contributions, to help members understand the value of their pension.
14. Working with the boards actuaries on further solutions to help firefighters understand the impact of tax charges on their pensions.

To provide the working group with the evidence required

15. The working group has suggested that the public sector scheme advisory boards would be the best body to request the evidence required. Does the board support this suggestion?

Action Required

16. For the board to discuss at the meeting.

Board Secretariat

1 October 2018