

# Pensions Tax

## Firefighters and Police Pensions



12 November 2019



@LGAworkforce #LGAFirepensions

# Agenda

## Technical Background

- Public Services Pensions Alliance
- Annual Allowance and Lifetime Allowance
- Unauthorised Amounts
- Scheme Pays

## Next Steps

- Engagement and Communication
  - Building the case for changes
  - Panel Session
-



# Public Services Pensions Alliance

LGA Fire & Police Pensions Seminar

Tues 12 Nov 2019

# Who?

The **FLA** is the staff association who represent, promote and protect the interests of the strategic leaders of the UK Fire and Rescue Service;

Andy Hopkinson, National Secretary

# Who?

The Public Services Pensions Alliance (PSPA) drawn from across the public services;

Representing fire, police, local govt, NHS, education, armed forces, civil servants and others;

Over 25 members representing employers, trade unions and supported by private pensions specialists.

Established in 2018 by the FLA

# Latest Update

- Roundtable meeting with Rt Hon John Glen MP, Economic Secretary to the Treasury
  - Impact on recruitment, retention & motivation
  - HMT prepared to listen to our views / suggestions,
  - Intimated would not interfere with or stand in the way of individual Government Departments developing flexibilities for Scheme members.
- Also engaged with TUC, influencing their pre submission to The Chancellor for Budget consideration
- Through Maj Gen Neil Marshall, we now have 'interest' in our cause being shown by a number of ex Military members of the House of Lords.

# Latest Update

- Evidence, Evidence, Evidence.
  - Members & Employers surveys
- Building the robust business case for change
  - Focus on improving freedom & flexibilities
  - Options to manage short & long term consequences
  - How to better manage growth in pension to minimise tax
  - How can people stay in scheme and manage benefit accrual

# Worked example

- Substantive gross pay was £112,841. Less 16.5% pension contribution = Threshold Income of £94,222.
- On the 2nd November 2017, temporary promoted to CFO
- As a result, Threshold Income for 17/18 was **£110,016**.
- Normal pension growth associated with substantive salary (2/60) coupled with the extra non-pensionable pay took my Adjusted Income to over £210,000 = reduction of £30,000 to AA down to £10,000.
- Had they stayed in substantive role, would not have triggered the £110,000 Threshold Income level & received the full £40,000 allowance.
- Therefore, in 17/18, paid tax on an additional £30,000 of income at the higher tax level of 45% which was £13,500.
- That £16 gave a tax bill of £13,500. If promoted the day after, the 3<sup>rd</sup> November, wouldn't have breached.
- In 2<sup>nd</sup> year of temporary promotion, Threshold Income was £134,386 but Adjusted Income didn't exceed £210,000 as pension growth in 17/18 was higher due to substantive promotion in Oct 2016.
- Therefore, Adjusted Income was £181,830 resulting in a reduction in the annual allowance of £15,915. The tax charge in this year was an additional £7,161.
- During this time, they received no pensionable benefits for the time spent as the CFO and ended up with an additional £20,661 charge across the two financial years.
- In the role for 17 months = **they paid £1,215 for the privilege** = more than the increase in net income



# Questions...?

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# Pensions Tax Annual Allowance & Lifetime Allowance

Pensions Tax  
Firefighters' and Police Pension Schemes  
LGA 12 November 2019

**Annemarie Allen**  
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# Introducing the .....

## Annual Allowance

The maximum amount of tax free pension savings allowed  
in a year

## Lifetime Allowance

The maximum amount of tax free pension saving allowed  
over an individual's lifetime

# A high level look at.....

## Annual Allowance

- **Technical terms & how much is it?**
  - Pension Input Periods & Pension Input Amounts
  - Annual & Tapered Annual Allowance
- **How does it work?**
  - Calculating annual pensions savings
  - Transitional year
  - Carry forward of allowance
  - Tax charges

- **Who might be affected?**

## Lifetime Allowance

- **How much is it?**
  - When is it applied
- **How does it work?**
  - Protections
  - Calculating the lifetime value of benefits
  - Tax charges

- **Who might be affected?**

Slides are a high level, simple, summary only

**Covered later today:**

Communications – session 5  
Pension Savings Statements – session 5  
Scheme Pays – session 4  
Unauthorised amounts – Session 3

# Slides have been emailed to delegates

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# Refreshments



# Unauthorised Payments





# PCLS

- Pension Commencement Lump Sum
- [Fire GAD Guidance 31.10.2018](#)
- [Police GAD Guidance 31.10.2018](#)



## Unauthorised Payments

- Exceeds the permitted Maximum
  - Used all the lifetime allowance available
  - Does not meet the timing of payment conditions
  - Minimum Age
-

## Permitted Maximum

- Lower of two measures
    1. Available portion of the members lifetime allowance – Equal to 25% of the members standard lifetime allowance available at that time.
    2. The applicable amount. 25% measure of the capital value
-

## Example of exceeding permitted maximum

- **Example Member**

- Salary = £33,300

- Comm Factor = 23.20

- Pension =  $40/60 * £33,300 = £22,200$

- Post Commutation = £16,650

- Lump Sum = £128,760

---

## Example of exceeding permitted maximum

- Lower of

### 1. Available Portion of Lifetime Allowance

➤  $£1,055,000 * \div 4 = £263,750$  ×

### 2. Applicable Amount

➤  $(20 \times £16,650) + £128,760 = £461,760 \div 4 = \mathbf{£115,440}$

- Unauthorised Amount =  $£128,760 - £115,440 = \mathbf{£13,320}$
-

## Restricting the lump sum within the permitted maximum

- $[20 \times \text{Pension}] \div [(3 \times \text{Commutation Factor}) + 20]$
- $[20 \times \text{£}22,200] \div [(3 \times 23.20) + 20] = \text{£}4,955.36$
- Revised Lump Sum =  $\text{£}4,955.36 \times 23.20 = \text{£}114,964.30$
- Revised Pension =  $\text{£}22,200 - \text{£}4,955.36 = \text{£}17,244.64$

	Pension	Lump Sum	After Tax
Not Restricted	£16,650	£128,760	£123,432
Restricted	£17,244.64	£114,964.30	N/A

## Exceeds Lifetime Allowance

- Salary = £112,000
  - Comm Factor = 23.60
  
  - Pension =  $40/60 * £112,000 = £74,667$
  - Post Commutation = £56,000
  - Lump Sum = £440,533
  
  - Crystallised Value =  $(20 * £56,000) + £440,533 = \mathbf{£1,560,533}$
-

## Exceeds lifetime allowance

- Lower of

### 1. Available Portion of Lifetime Allowance

➤  $£1,055,000 * \div 4 = \mathbf{£263,750}$  ×

### 2. Applicable Amount

➤  $(20 \times £56,000) + £440,533 = £1,560,533 \div 4 = £390,133.25$

- Unauthorised Amount =  $£440,533 - £263,750 = \mathbf{£176,783}$
-



## Does not meet the timing restrictions

- The lump sum must be paid within an 18 month period starting 6 months before and ending 12 months after the member becomes entitled to it
    - Pensionable Pay re-calculations
    - Increase in entitlement to pension
      - Special Members
      - Remedy?
    - What else?
-

## Additional lump sum paid 12 months after retirement

- Pensionable Pay first calculation = £33,000
- Pensionable Pay second calculation = £35,600

	At retirement	Rectification	Increase	Tax Treatment
Pension	£16,500	£17,800	£1,300	Not unauthorised
Lump Sum	£122,100	£131,720	£9,620	Unauthorised

## Minimum Age

- Normal Minimum Pension Age amended to 55 from 6 April 2010
- Firefighters and Police Officers were given a protected pension age BUT, unless they satisfied the employment conditions IF they were reemployed, the benefits paid to them (both pension and lump sum) could become unauthorised.

## Minimum Age

- Loss of Protected Pension Age due to not satisfying the re-employment conditions

	At retirement	Tax Treatment
Pension	£27,500	Unauthorised
Lump Sum	£216,333.30	Unauthorised

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## Charges

- Unauthorised payments charge
  - Unauthorised payments surcharge
  - Scheme Sanction charge
-

40%

## Unauthorised payments charge

- 40% of value of unauthorised payment

Unauthorised condition	Unauthorised Amount	Tax Charge
Permitted Maximum	£13,320	£5,328
Timing Condition	£9,620	£3,848
Minimum Age (Lump Sum)	£216,333.30	£86,533.33

40% or 55%

## Excess of LTA

- Unauthorised Payment @ 40% + Scheme Sanction Charge
- Or
- Lifetime Allowance Excess Lump Sum @ 55%

Category	Unauthorised Amount
	£176,783
Unauthorised Payment	£70,713.20
LTAELS	£97,230.65

## Unauthorised payment (40% + SSC)

40%

- There must be available LTA. Any lump sum paid in excess of the maximum pension commencement lump sum is an unauthorised payment.
  - Therefore BCE 6 (payment of lump sum sum) occurs first and then BCE 2 (payment of scheme pension)
-



## LTAELS (55%)

55%

- There must be no available LTA.
  - Therefore BCE 2 (payment of scheme pension) occurs first and then BCE 6 (payment of permitted lump sum)
-

## Previous HMRC View

- Authorised payments should take priority over unauthorised payments, therefore the BCE2 (payment of scheme pension) takes priority over BCE6 (payment of permitted lump sum).
  - ‘Obvious’ conclusion... - treated as LTAELS???
-

## Unauthorised Payment Surcharge

15%

- A member gets unauthorised payments of 25% or more of their pension pot in a year
  - As a simple measure using the Lifetime allowance of £1.055m, the total unauthorised payments the member could receive within a year should not total more than £263,750
  - The rate of an unauthorised payments surcharge is 15%.
-

## Unauthorised payments surcharge

- Unauthorised member payment = £13,320
  - Crystallised benefits = £461,760
  
  - For the surcharge to be applicable, £13,320 would need to be more than 25% of £461,760 (£115,440)
-

# Unauthorised Payments Surcharge – Minimum Pension Age

	At retirement	Tax Treatment
Pension	£27,500	Unauthorised
Lump Sum	£216,333.30	Unauthorised

- Unauthorised member payments = £243,833.30
  - Crystallised benefits = £766,333.30
  - Surcharge applicable: £243,833.30 is more than 25%  
£766,333.30 (£191,583.30)
-

## Scheme Sanction Charge

40% - 15%

- Due at a rate of 40%, but can be lowered to 15% where the unauthorised payments charge has been paid. (For certainty on this a scheme can ask the member to mandate them paying it on their behalf)
  - Only payable on the amount attributable to service from 6 April 2006.
  - **The Scheme sanction charge is not chargeable to the member if the pension scheme rules do not allow for it.**
-

## Proportion 6 April 2006

- A simple example:

A member has 25 years prior to 6 April 2006 and 5 years from 6 April 2006 to date of retirement.

That is 30 years pre 2006 and 10 years post, so you would pro rate the unauthorised payment on the basis of 10/40 to establish the element on which a scheme sanction charge is payable.

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# Scheme Pays





## Two Types of Scheme Pays

- Mandatory Scheme Pays (MSP)
  - Voluntary Scheme Pays (VSP)
-

## Mandatory Scheme Pays (MSP)

- MSP applies where;
    - The tax charge is over £2000
    - The individual is subject to the standard annual allowance £40k
    - Relates to a single scheme for the immediate preceding tax year
  - Member must confirm if they want MSP to apply by 31 July following Pension Saving Statement
-

# MSP 2018/2019 Tax Year

9 Months

6 October  
2019

- Issue Pension Savings Statement for 2018/2019

- Individual Identifies a Tax Charge

31 July 2020

- Individual requests MSP

## Voluntary Scheme Pays (VSP)

- VSP applies where;
    - MSP does not!
  - Fire - can offer VSP 'where there are sufficient grounds for doing so'
  - Police - scheme rules changed to allow VSP
  - Payment must be paid to HMRC by 31 January following Pension Saving Statement
-

## Sufficient grounds...

- Member with benefits in both CARE and Final Salary schemes
  - Member subject to taper annual allowance (Less than £40k)
-

## Combined amounts above £40k



## Single amount above £40k



# VSP 2018/2019 Tax Year

3 Months

6 October  
2019

- Issue Pension Savings Statement 2018/2019

- Individual Identifies a Tax Charge and requests VSP

31 January  
2020

- Scheme pay tax charge to HMRC



## Scheme pays

- D = Tax Charge as declared by member £71,622.46
- E = Scheme Pays Factor 12.58

### Scheme Pays

$$D \div E$$

$$(\pounds 71,622.46 \div 12.58) = \pounds 5,693.36$$

## Proportion scheme pays

- A = Final Salary Pension Savings
- B = Career Average Pension Savings
- C = Total Pension Savings (A + B)
- D = Tax Charge as declared by member
- E = Final salary scheme pays factor
- F = Career Average scheme pays factor

Final Salary formula	Career Average formula
$(A \div C) \times D \div E$	$(B \div C) \times D \div F$

## Proportion scheme pays

- A = £192,529.60
- B = £26,186.72
- C = £218,716.30
- D = £71,622.46
- E = 12.58
- F = 8.42

Final Salary formula	Career Average formula
$(A \div C) \times D \div E$	$(B \div C) \times D \div F$
$(£192,529.60 \div £218,716.30) \times £71,622.46 \div 12.58 = \mathbf{£5,011.70}$	$(£26,186.72 \div £218,716.30) \times £71,622.46 \div 8.42 = \mathbf{£1,018.44}$

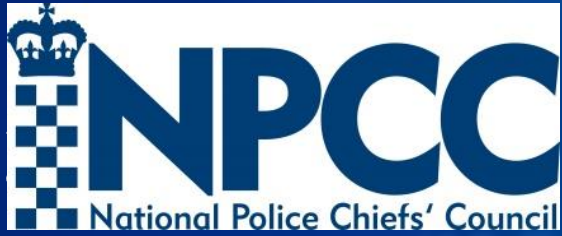
# Useful references

	1987 /1992 Final Salary Scheme	2006 Final Salary Scheme	2015 CARE Salary Scheme
Fire Scheme Rules	<a href="#">[Rule B11]</a>	<a href="#">[Part 14, Para 2]</a>	<a href="#">[Part 13, Chapter 3]</a>
Police Scheme Rules	<a href="#">[Rule B11(2)]</a>	<a href="#">[Part 8, Para 84]</a>	<a href="#">[Chapter 6]</a>
Tax Charge Debit - GAD Guidance	<a href="http://www.fpsregs.org/index.php/gad-guidance/tax-charge-debits-scheme-pays">http://www.fpsregs.org/index.php/gad-guidance/tax-charge-debits-scheme-pays</a>		
Finance Act	214 to 226, Part 4, Chapter 5 of the Finance Act 2004 <a href="http://www.legislation.gov.uk/ukpga/2004/12/part/4/chapter/5/crossheading/lifetime-allowance-charge">http://www.legislation.gov.uk/ukpga/2004/12/part/4/chapter/5/crossheading/lifetime-allowance-charge</a>		
Pensions Tax Manual	<a href="https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm083000">https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm083000</a>		

# Lunch



**Welcome Back**



Pensions & Tax  
November 2019  
Kevin Courtney  
NPCC Pension Advisor



# Police Schemes – Pensions & Tax

- Staff Associations' letter to Minister – mid 2018
- 12 November – Minister seeks 'evidence'
- Home Office proposes data
- January 2019 SAB – Home Office writes formally proposing data – but..



# Recent Changes:

- Pay restructuring of superintending ranks.
- Varying annual inflation (high inflation mitigates the impact of Annual Allowance; officers with identical earnings can be adversely affected in different years solely because of the annual CPI inflation rate).
- A 2-part annual allowance tax year in 2015-16
- Police pay growth in recent years, following several years of pay restraint (incremental freeze; 1% pay awards; limited promotion opportunities).
- The current pay, rank structure, with relatively large increases on pay on promotion and during the initial years following promotion.
- Changes to the Annual Allowance threshold and the introduction of the Tapered Annual Allowance.
- Loss of availability of carry forward as a result of pay changes, inflation changes and reduced threshold.
- We know where the impacts are : - 1987 Scheme £80,000 p.a.

# SAB concerns:

- New entrants
- In service opt outs
- Annual Benefit Statements
- Pensions & Tax
- Auto re-enrolment 2020

# NPCC concerns:

- Few applicants for senior rank roles
- Some reluctance to progress at Superintending Rank
- Succession & Experience
- Uplift
- Combined impact over 3 years

# Flexibilities Sought:

- ❖ scheme member choice to be available to elect to have an element of pay as pensionable or non-pensionable pay.
- ❖ scheme member choice to vary future accrual 1987 scheme 1/45 per year, (the equivalent uniform accrual rate).
- ❖ 2015 member contributions at half rate (= 50/50).
- ❖ The availability of a minimal level of membership, contributory but with death in-service and survivor benefits only - no in service accrual.
- ❖ choice to members with membership of 2 schemes to elect to which scheme any 'scheme pays' pension debit should be applied
- ❖ availability of commutation at the rate of 25% of pension for members of the 1987 scheme aged over 50 with at least 25 years' service, subject to Chief Constable approval



# Pensions Tax: Engagement and Communication

The Good, the Bad and the Ugly....

Laura Bowler

# The art of communication...

...is to understand and be understood.

What are we trying to achieve?

# The Bad....



# Language Barrier...

“If you have any benefits in a money purchase (defined contribution) pension arrangement which you have flexibly access on or after 6 April 2015 then the Money Purchase Annual Allowance (MPAA) rules may apply. However the MPAA will only apply if your total contributions to a money purchase arrangement in a Pension Input Period exceed the MPAA”.

Pension input amount v pension growth

Income tax or not?

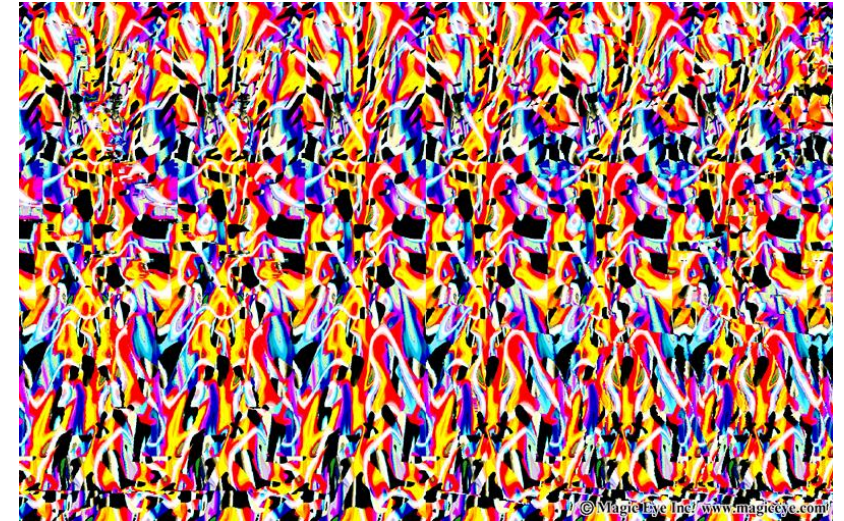
Threshold and adjusted income

Accrual v benefit growth

Pension-ese?



# The Ugly...



$$\begin{array}{l} 2 > -3 \\ 0.999\dots = 1 \\ \pi \approx 3.14 \\ \sqrt{2} \\ 5(2+2) \\ 101_2 = 5_{10} \end{array} \quad \begin{array}{l} \infty \\ \times \\ \div \\ 5^2 \\ (1-2)+3 \end{array} \quad \begin{array}{l} + \\ - \end{array}$$



# What does good look like?

- Multiple channels of communication
- Relevant but not assuming
- Balanced with the pension increase – combined statements?
- Pre-emptive
- Human Behaviour
- Language, terminology and perception
- Actions



Scheme Pays

# Thank you very much!

Laura Bowler

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# Building the case for change

12 November 2019

Craig Moran FIA

# Agenda

- A look across the public sector
- SAB's experience
- Options for change
- Evidence evidence evidence!

# A look across the public sector

# NHS pensions crisis...

Government pension plans threaten 'significant' cuts in doctors' pay, warns BMA

By Nick Bostock on the

Doctors face a 'proposed by the



## Doctors cut hours despite pension proposals



## Providers warn NHS pensions crisis puts patients at risk this winter

Backdating of proposed changes urged so doctors have an incentive to work additional shifts



# ...but it's not just the NHS

## Pension savers revolt as annual allowance cuts hit public services



Save 44



Home > Money > Pensions > Tax retirement

## First doctors, now judges are caught in the high earners' pensions tax trap



Save





# Government consultation: July 2019

- In July 2019, Government consulted on a *“more flexible approach to the NHS Pension Scheme”*
- This mainly involved a **50:50** option
- Employees would “lose” 50% of employer contribution
- The reaction to this was mixed...



# Government consultation: September 2019

- In September 2019, a new consultation was launched going *“significantly beyond the 50:50 flexibility previously proposed”*
- This involved:
  - More flexible accrual (**10:10**, **20:20** etc)
  - Discretion for employers to pay unused contributions to members
  - Phasing of large pay rises
  - Fine tuning accrual towards year end
- Consultation closed on **1 November 2019**

# An example

***NHS proposal – an example (earning £54,000 a year):***

*The difference between the full and reduced employer contribution may be paid to staff at the employer's discretion.*

# SAB's experience

# Cost Cap breach

- The 2016 valuation results were released in September 2018.
- Employer Cost Cap calculations showed that benefits needed to improve and/or member contributions needed to reduce.
- To rectify this, SAB proposed to improve:
  - Accrual rate; and
  - Early Retirement Factors.

# Cost Cap breach

- SAB also considered introducing a **variable accrual** option.
- This would allow members to earn **lower benefits**, for a **reduction** in member contributions.

# Least flexible schemes

The Fire & Police Schemes are some of the least flexible in the public sector:

- **Teachers** can use “Faster Accrual” to earn more pension;
- **LGPS** has “50:50”, allowing members to earn less pension;
- **Civil Servants** can switch between a defined benefit and defined contribution scheme each year.

# Arguments

## **SAB's arguments:**

- Fire Schemes are one of the least flexible in the public sector
- Lower paid members were struggling with affordability
- Pensions tax discouraging members taking promotion



# Home Office response

## Home Office's response:

- No
- Valuation and cost-cap process halted due to Sargeant / McCloud.



# SAB's experience

## In summary:

- Agreement that increased flexibility is attractive
- Member and employer representatives in agreement
- Clear need for evidence

**Could Sargeant / McCloud provide an opportunity?**

# Options for change

# Options

## What does a flexible scheme look like?

- Flexible accrual (10:10, 20:20, 50:50 etc...)
- Flexible retirement
- Flexible pay increases
- Flexible final salary link



# Who needs flexibility?

## Who are we targeting?

- All members, or just higher earners?
- Equality issues?
- Do lower earners need flexibility too?



Evidence evidence evidence

# Key questions

Treasury are clear that evidence is required before they will consider any proposed changes.

Key questions are:

**What data do we collect?**

**Who do we collect this from?**

**Who is likely to be impacted?**

**What do we do next?**

# What data do we collect?

- Requests for opt-outs
- Reasons for opting out
- Who has opted out
  
- Pension saving statements issued
- Number using Scheme Pays
  
- Recruitment issues
- Member behaviour



# Who do we collect this from?

- Members
- Non-members
- Employers
- Administrators

- Online survey
- Focus groups
- Etc.

# Who is likely to be impacted

- Higher earners
- Long servers (particularly with 1992 Scheme service)
- Large pay increase

# What do we do next?

- What are FRAs doing to alert members to possible issues?
- Is there anything more they could be doing?
- What could SAB be doing?

Any questions?

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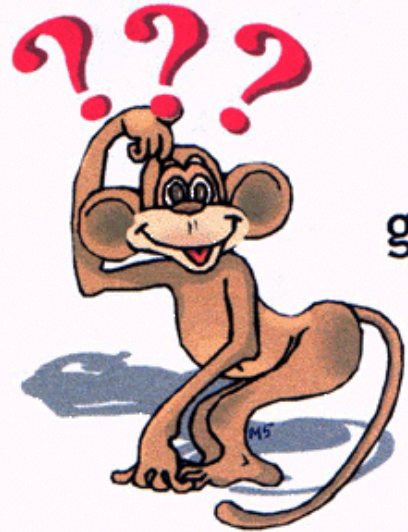
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- Ask the panel
-



Questions  
are  
guaranteed in  
life;  
Answers  
aren't.



# Closing remarks

**Thank you for coming**

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