

Meeting of the Board 14 March 2019

ITEM 8

SAB Request for Information

Background

1. As board members will be aware in [bulletin 15](#) we issued a [request for information](#) to Fire Authorities to supply information to the board to support their discussions with Home Office on how schemes might be better managed to give choice and flexibility to pension members to stay in the pension scheme.
2. Responses were originally requested by 31 January 2019, however by mid-January we had only received 13 responses. We extended the deadline to 28 February 2019 and sent an email to Chief Fire Officers.
3. This paper provides the board with a summary of responses.

Summary of Results

4. Response Rate

We have received a total of 29 responses, from an expected 47 (including Wales). This equates to a response rate of 62%

5. Quantitative data

	2016/2017 scheme year	2017/2018 scheme year
How many pension savings statements were sent on 6 October 2017	343	413 (20% increase from previous year)
Did you have any requests to pay pensions tax via Voluntary Scheme Pays	14 responses ¹ received	15 responses received
How much pensions tax was paid on behalf of scheme members breaching the annual allowance for the scheme year 2016/2017	£2,120,807.89 This equates to an average of £6,183.11 per pension saving statement	Not applicable
Did you know of any Firefighter choosing to pay the tax themselves	5 (1 through tax code)	Not applicable

¹ Some answered 'yes', some gave the number of requests received.

Are you aware of any promotion opportunities during the year 2016/2017 that were turned down primarily because of pension tax fears	Majority of responses were 'unknown'.	
How many opt-outs of the scheme did you have?	797	411
	Majority of responses recorded that opt-outs were from retained firefighters or due to the auto-enrolment cycle	
Of those opt-outs did anyone particularly mention affordability or pension tax	Generally not, but affordability mentioned more than tax.	

6. Anecdotal evidence

Are you able to identify those who have opted-out of the scheme by salary band	Mixed response, most could do if asked but haven't historically
Do you collect reasons for opting out	Majority yes but information unreliable
Are you aware of anyone who has left the private sector primarily because of pension tax	No

7. Individuals² views on how concern over pension tax is driving behaviour of employees

Reduction in commutation factor and impact on lump sum
In 2019 we are noting that pension tax is an increasingly significant factor at senior level in determining retirement dates. One senior officer has decided to retire two years earlier than originally planned due to the impact of both Annual and in particular the Life Time Allowance Limits. Also as pension tax is now extending to cover Station Commander level, we have a small number of managers with further potential at this level and above beginning to question whether promotion is 'worth it'. This behavioural change is recent and as yet it isn't clear how significant expectations surrounding the recent ruling regarding the 2015 scheme transition arrangements is beginning to impact on promotional decisions. NB I understand that the wider Civil Service is beginning to experience promotions being turned down and external job offers not being accepted; to the point that the

² Unless express permission has been granted, stories have been edited to remove any identification

<p>relevant pay review body has been commissioned to look into. Whilst this may be wider than pensions and tax issues, it may be worth checking this out.</p>
<p>Anecdotal evidence suggests that current tax implications on the pension is leading to a number of managers to reconsider their career options as long-term benefits to being promoted are increasingly minimised due to increased tax burdens arising from an increase in wages. The Service has also seen a reduced number of applicants for some of its senior uniform roles, this is difficult to understand what may be the reasoning behind this, but one factor is considered to be the tax implications on the individuals pension should they be promoted.</p>
<p>Historically we have been asked to provide approximate calculations of potential annual allowance breaches before somebody accepts or applies for promotion</p>
<p>I can say on two counts that I have been affected here in x. I am seeing fewer candidates for the most senior posts when we advertise and when we have enquired with those that we felt would be good candidates they are often quoting the fear of the life time and annual allowance issues. We have worked hard in house to reassure or at least provide a better understanding for those at middle manager that this also impacts upon. Age profiles of those in protection etc means that they simply aren't applying for roles because of the real or perceived negative benefits of doing so. From a personal perspective I am happy for Malcolm to share my own example with you and I know other CFOs are in a similar position. The true personal benefit once the in year taxation of annual allowance, tapering of the income tax allowance etc all cut in there is very little financial benefit remaining for taking on the additional demands and responsibilities of senior roles. In time this will cause a degradation in quality of leadership and an increase in remuneration package costs.</p>
<p>We are currently recruiting two senior manager posts and a number of applicants have raised concern on the impact of any promotion on their annual and life time allowances. However, we are not aware that this has prevented them from applying.</p>
<p>It is apparent that there is a clear lack of understanding around pension tax issues. Decisions are clearly being made based on an incorrect understanding of the tax regime. This is despite training being provided and the circulation of information sheets as part of the promotion process.</p>
<p>There are a number of senior officers that are revaluating their retirement plans i.e. planning to leave before their 30 years due to the current annual and lifetime allowance charges</p>
<p>I don't have any hard evidence or data to support this – but anecdotally this is certainly the case. It's not the only reason that there is less interest in middle and senior management positions than was once the case but it is definitely a reason. I have middle managers in x who have approached me and said the uncertainty about pension tax, the confusion in its application and calculation, are significant reasons why they choose not to apply for more senior roles, and also why they choose to retire as soon as they can, as opposed to staying on a few or several more years. This year, for the first time, I have had several Group Managers receiving annual allowance tax letters.</p>
<p>Pension tax is an issue only understood by those who are affected by it. It does not appear to have driven anyone to make a decision regarding taking a promotion</p>

Majority of opt-outs are new recruits who have taken pay cut to join fire service. We have only had one opt-out at a rank higher than firefighter. This was a station manager who has attained 30 years' service and will work until age 60

Some individuals are considering opting out of the pension scheme to avoid paying tax, in particular individuals who already have opted for Voluntary Scheme Pays.

The Service has anecdotal information that some Officers are dissuaded from applying for Senior roles as potential increase in salaries will result in breaches of Annual and/or Lifetime Allowance.

1. One colleague told us that they received a tax bill of more than £20k when moving from Group Manager to Area Manager. They have also recently been promoted to Assistant Director [a hybrid role used in x between Area Manager and Brigade Manager level] and are almost certainly going to get another. This will also probably push them over the lifetime allowance making them liable to 55% tax. Now clearly that has to be weighed up against higher salaries and a proportionately higher pension but it is still a potential block in the system.

2. A station and group manager colleague with 4-5 years' service left before retirement and they have worked out that they would be worse off if they took promotion. This intuitively just feels like a block on getting the very best people to come up through the system.

3. An Assistant Director was promoted to the position of Director of Operations and incurred a tax charge on their lifetime allowance of £96k.

4. A similar situation will arise when another colleague is promoted to Director from Assistant Director. They will incur an annual allowance tax charge of £104k, purely because of the promotion.

5. Some colleagues in the LGPS have taken flexible retirement as a way of continuing to work whilst avoiding further pension tax issues.

I am on secondment to x FRS as an Assistant Chief Officer with a view to taking on the role substantively in the near future. My primary employer is x FRS where I am an Area Commander.

My retirement date on completion of 30 years is October 2019, age 53. However I would like to stay working for the fire Service beyond this, particularly as an Assistant Chief Officer within x FRS.

The financial reality of this makes it a really unattractive option.

If I stay on I will carry on paying in 16% of my salary as a pension contribution, the benefits of which in reality reduces as my commutation figure goes down. I will also be liable for a tax bill in the region of £52000 - £54000, this basically wipes out any additional lump sum benefits promotion may have provided.

The end result is that yes I will have an ever so slightly larger annual pension however when further tax deductions are made it can only be considered as minimal and certainly not sufficient incentive to stay within the Service, especially at a higher role with greater responsibility and demands.

I also agree with x about the lack of clarity and understanding regarding 're-engagement'. The rules surrounding this make it in reality almost impossible for the individual or the organisation to consider as a viable option.

Unfortunately the only safe and perhaps sensible solution, which so many are now doing, is to take the money and run. Especially when allowances may be further reduced in future budgets.

My own personal story is that I was substantively promoted to the role of Area Commander within x Fire & Rescue Service in June 2016 following an 18 month period of temporary promotion [*please note x do not recognise temporary promotion for pension purposes*] following which I again entered a period of temporary promotion this time to Assistant Chief Fire Officer in April 2017 before substantiating that position in June 2018.

I was made aware of the tax implications of taking such a promotion, both in terms of the lifetime and annual allowances, *albeit that tax law for the lay person isn't exactly easy to understand!* and that by taking a second promotion within three years I would increase my tax burden as I hadn't built up an allowance cushion – *how bizarre and demotivating is that!* my only options at the time would have been to not 'go for promotion' and take my chances that x would need to advertise again a year or so later; or go for it, which I did and was fortunate enough to be successful.

On promotion I gained a £6k uplift in pay, the vast majority of which went towards pension contributions and I actually only saw an extra £100 a month, in effect the increase was marginal and now I had a tax bill to look forward to when I retired – *accepting that my final pension would be marginally improved by promotion and that I did have a pay increase, so shouldn't complain too much.*

However, in the natural order of things, as they currently stand, my career has two and a half years to run before I reach 30 years' service, at which point I will be 52, with a decision to make, if I remain I will be effectively throwing money away, if I leave I will be leaving a job that I enjoy and think that I can still contribute to. Furthermore, if an additional promotion opportunity appeared would it be sensible to go for that? as A) I will increase both my level of responsibility and attendant stress factor B) whatever increase in pay I may receive is likely to be swallowed up in tax and pension contributions and C) these additional contributions will even then most likely be lost in tax burden after I retire – *so from a purely financial decision that doesn't appear to be very appetising!*

Having discussed decision making rationale with colleagues who were contemplating leaving the service recently, *particularly at senior level*, a number of issues have been voiced:

- **Utter confusion** in regard to what is happening with pensions, full stop! Despite the best efforts of the [administrator] to allay fears [*individual to get a particular mention here*]
- Desire to remain in role or be re-engaged in a different role, being viewed with fear and suspicion as to the negative impacts on individuals pension pots and as a consequence highly skilled and experienced Senior Officers (*in particular*) have left the Fire and Rescue Service despite not necessarily wanting to, which has left x FRS with a growing skills shortage – *undoubtedly reflected elsewhere*.
- Ability to earn more in the private sector without impacting on their pension pot, making it practically irresistible for retirees to take that pathway rather than be re-engaged with the attendant cap on earnings.

A different example of an Individual who has remained 'in service' past his 30 year point on the 1992 scheme and taken the hit of continuing to pay pension contributions for longer with no defined benefit and in actual fact being penalised for staying, is now seriously re-considering his position and could well leave this summer, which in his current role will again impact heavily on x FRS as his skills, knowledge and understanding of key issues will be incredibly difficult to replace.

Furthermore, we have more junior colleagues questioning the value of promotion and the perverse impacts on their pay and pensions, with some declaring the intention not to seek promotion any earlier than three years apart or even at all. Now don't get me wrong many more will take that step either without an awareness of the consequences or despite them, but this is a strange situation to be in and it will ultimately negatively impact on available talent and career aspirations in the UK Fire and Rescue Service as well as elsewhere in the public sector.

In terms of the narrative around individuals who are directly affected by tax and scheme pays all of those conditioned to the firefighters pensions (1992 and 2015) have been affected to a greater or lesser extent, however as one of the team is due to retire this year the narrative will only apply to the other 3 individuals.

I have personally been affected and accessed scheme pays since 2014/2015 and every year after that, which includes the years that I transitioned across to the 2015 scheme as I had tapered protection. I have exceeded my annual allowance each year and have no carry over allowance to use to offset any of the charges. To give an idea of my annual reduction through scheme pays it is already circa £20k p.a. I am now in the position where I will not apply for any other roles across the UK despite being asked on more than one occasion because of the subsequent tax charge I may experience. I of course, have the various protections afforded through my years within the 1992 scheme which means that I am seriously considering what action to take when I hit 50 years of age or 30 years'

service. When I hit 50 years of age I will have completed 28 years and 3 months of service and within the rules of the pension I could retire, this is a position I am constantly reviewing because it is approximately 20 months away. If I decide to stay on I will absolutely retire at the point at which I achieve 30 years' service and this is driven by the impact of tax and the future reductions of my pension through scheme pays.

In terms of the other 2 individuals they have both recently been affected by taxation on their pension contributions and therefore accessed scheme pays for the last 2 years as they had the carry over allowance from previous years. In terms of their future they both expect to continue breaching their annual allowance and they both have over 5 years left to serve before they are able to retire. The impact for these individuals is simple, they already now have a reduced pension because of the annual reduction caused by scheme pays and they are concerned about what their actual pension is going to look like as and when they come to their retirement options. It is a significant factor in their thinking about applying for promotion and it has in some cases already resulted in them not applying for roles.

I hope this information helps in some way.

Regards
Becci

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Chief Fire Officer

Those that do opt out continue to do so at every opportunity they are enrolled back in. Largely On-call Personnel who have other pension plans or cannot afford contributions

8. Respondents

Bedfordshire
Buckinghamshire
Cambridgeshire
Cheshire
Cleveland
Cornwall
Cumbria
Durham & Darlington
East Sussex
Essex
Greater Manchester
Hampshire
Hertfordshire
Humberside
Kent

Firefighters' Pensions (England) Scheme Advisory Board

Paper 1

Lincoln
London
Northumberland
Nottinghamshire
Royal Berkshire
Shropshire
Staffordshire
Suffolk
Tyne and Wear
West Midlands
West Sussex
West Yorkshire
North Wales
Mid and West Wales

Action Required

9. Board members are asked to note the report and consider what further action could / should be taken.

Board Secretariat

07 March 2019