

TECHNICAL BULLETIN

NO.16

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TO ALL EMPLOYERS WITH MEMBERS IN THE LOCAL GOVERNMENT PENSION SCHEME. PLEASE ENSURE COPIES ARE PASSED TO RELEVANT STAFF.

Local Government Pension Scheme (LGPS)

Inland Revenue Tax Simplification

Her Majesty's Revenue and Customs (HMRC) are revising the tax rules applicable to the benefits payable for pension arrangements from 6th April 2006; more commonly known as 'A Day'.

Although the Local Government Pension Scheme will not be sufficiently amended by 6th April 2006 to accommodate the changes imposed by the Finance Act 2004, nevertheless the Finance Act itself overrides the provisions of the Local Government Pension Scheme. Guidance is still being received from HMRC, ODPM and the Local Government Pensions Committee on the effect these new provisions will have on the LGPS. It is possible that the LGPS and other public service pension schemes will qualify for exemption from some of the administrative arrangements required by the new tax regime, however, recent guidance received means that the following administrative arrangements require to be put in place for retiring members as a matter of urgency.

Notification of Other Pension Entitlement

Under the new tax regime, **retiring members** must provide details of **all pension entitlements they have with any other pension provider, including AVC's, whether in payment or not**. Under the new arrangements, Strathclyde Pension Fund must assess if the total value of a member's pension benefits will exceed the Lifetime Allowance (LA); currently £1.5m, in order to determine if a tax charge is to be applied to the Local Government Pension Scheme benefits at the point they are due to be paid. In addition to the benefit amounts in each separate pension arrangement, the member must also ascertain from their pension provider the percentage of the Lifetime Allowance that the value of those pension benefits represents. A "*statement of previous pension benefits*" form has been issued to all employing authorities and this completed form must now accompany each retirement notified to Strathclyde Pension Fund Office.

It is important to realise that although in the majority of cases it may seem that the member's total level of benefits from all pension arrangements is unlikely to exceed a value of £1.5m, failure to provide such detail will compel Strathclyde Pension Fund Office to assume that the potential accumulated value of all pension entitlements for the member exceeds the Lifetime Allowance of £1.5m. A tax charge would therefore be applied to the value of the member's retirement benefits, over and above the member's normal liability for tax, effectively reducing the amount of benefit payable from this scheme.

Commutation of Pension

Under the new tax regime commutation of pension for lump sum **post retirement** from 6th April 2006 is classed as an **unauthorised payment** and **such payments attract a tax charge over and above the employee's liability for tax**. This will currently affect those members with service prior to 16th March 1987 that have the ability to commute pension for lump sum under the existing LGPS Regulations. Members with the ability to commute pension for lump sum must therefore make this election prior to their retirement date.

AVCs Purchasing Scheme Service.

Members with an in-house AVC taken out prior to 30/06/2005 retain the right to purchase scheme service with those funds but this option is only available to active members. In order to take advantage of this facility therefore, a member must elect to transfer their in-house AVC fund into the main scheme prior to their date of retirement.

Employing authorities must therefore review their administration arrangements for notifying Strathclyde Pension Fund of retirements from the scheme to ensure this office gives members full information on their pension options at least one month in advance of their retirement date.

Failure to advise members accordingly could result in charges of maladministration being brought against either Strathclyde Pension Fund Office or the scheme employer. It is imperative therefore that Strathclyde Pension Fund Office is given, as a minimum, at least one month's prior notification of all retirements using the appropriate forms.

It is also essential that employing authorities treat requests for information from this office as high priority to avoid delays in the calculation of benefits that may prove detrimental to members

Leavers and refund of contributions

Under the new taxation arrangements, a member is not entitled to a refund of contributions on terminating employment or opting out of scheme membership if they also have an entitlement to deferred benefits or are in receipt of a retirement pension from another Scottish Local Authority Pension Fund (This excludes an entitlement to a widows, widowers or dependants pension). If a member fails to notify Strathclyde Pension Fund Office of these previous pension entitlements with other Scottish Local Authority Pension Funds and claims a refund of contributions from this fund they will forfeit their right to those previous deferred or pension benefits. Therefore, before a member receives a refund of contributions they must confirm that they have no other Scottish Local Government Pension Scheme entitlements either as a deferred member, retired member or with concurrent membership (e.g. a pension in Lothian Pension Fund).

We are taking this opportunity of changing the way in which we deal with members who leave the Scheme prior to retirement. Once you have provided the basic details of the leaver (on S11 form) we will communicate directly with the member. Before a refund of contributions is paid, we will ask members to confirm that they have no other Scottish Local Government Pension Scheme entitlements.

The practice of refunding pension contributions via payroll should discontinue. Under the new regulations, such a payment will be unauthorised and if this happens the Scheme may be fined by HMRC. If this affects you, please make sure all contributions are passed to this office with necessary paperwork to allow us to process the refund.

Further bulletins will be issued if necessary, however if you wish to discuss any of the issues raised please contact your appointed liaison officer. Alternatively you can contact either Tom Hammond on 0141 287 7441 or Sarah Mallon on 0141 287 7348 with any questions you may have.

Summary of Action Points

- A fully completed statement of the member's pension entitlements held by other pension providers must accompany all retirement forms received in this office.
- Strathclyde Pension Fund Office must receive notice of **all** impending retirements, using the appropriate forms, a minimum of one month prior to the member's intended retirement date is required. This may be extended in future to two months prior notification if changes to the LGPS Regulations provide greater flexibility for members to commute pension for lump sum. Employing authorities should pay particular attention to the retirement date selected in the case of medical retrials where the member is on no pay.
- Request from Strathclyde Pension Fund Office for further information to enable the calculation of member's benefits to progress must be treated as high priority to avoid delays that would prove detrimental to members and potentially result in charges of mal administration.
- Refunds payable through Payroll should cease.