Sixty second summary

Preparing for Annual Allowance Pension Saving Statements

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Over the next few months, LGPS funds will be providing Pension Savings Statements to members who have breached the Annual Allowance. In this 60 Second Summary, we consider some things that funds should bear in mind when carrying out this exercise.

Retrospective changes to Annual Allowance

In February this year, the Government introduced changes that allow Pension Input Periods to be re-opened and Pension Input Amounts to be recalculated where it transpires that the employer has provided incorrect information or there has been a change to the scheme rules.

If a fund discovers (either as part of this year's Pension Savings Statement exercise or following the receipt of updated information) that a previous year's annual allowance calculation was incorrect due to the information provided by the employer then that Pension Input Period and any other affected Pension Input Periods should be revisited, and the Pension Input Amount(s) recalculated.

The ability to retrospectively revisit Pension Input Periods only applies during the relevant time. The relevant time begins with the start of the tax year six years before the tax year in which the employer becomes aware of the error and ends with the end of the tax year in which the error was discovered. So, if an error is identified during the 2022/2023 tax year, the earliest tax year that would fall into the relevant time is 2016/2017.

Corresponding changes have been made to allow members who are affected by the re-opening of Pension Input Periods to use Mandatory Scheme Pays to discharge any tax liability.

Where members make such an election, the deadlines for the fund to pay the tax are significantly shorter than "normal" Mandatory Scheme Pays elections. Instead, where members elect for Mandatory Scheme Pays after 30 September in the year following that in which the relevant tax year ends, the fund must report and pay the tax using the AFT return for the next quarter following the quarter in which the election is made.

The new regulations have also changed the time limit for amending Mandatory Scheme Pays elections. Previously members had until 31 July following a four-year period which started at the end of the relevant tax year. This period has now been extended to six years.

Action point

Funds should familiarise themselves with these changes and ensure that processes and member communications are updated to reflect the changes.

Some common questions

Among the most common questions we get asked regarding Annual Allowance calculations concern the correct treatment of aggregated LGPS service and transfers.

Aggregations

The relevant date at which LGPS records are deemed to be aggregated is the date that the member confirms they do not wish to retain separate benefits or, if no election is made, at the end of the period in which the member must make such an election (which is usually 12 months but can be extended by the employer).

The date that the member's current fund receives the money from the former fund, or the date the current fund updates the member's record, do not determine the relevant date. For example, if the relevant date is March 2022, whilst it might well be the case that the former fund does not send payment until May 2022 and the record is updated in June 2022, the increase in growth as a result of the aggregation needs to be reflected in the 2021 – 2022 Pension Input Period.

Transfers-in

For transfers-in the rules are different. It is the date the CETV is actually received that determines the relevant date and, therefore, which Pension Input Period is impacted by the transfer.

Exactly how transfers-in are treated depends on the type of transfer.

For transfers treated as **non-Club**, the value of the benefits purchased by the original CETV are ignored for the closing value at the end of the Pension Input Period. Any growth over and above the initial value, eg pensions increase, is not ignored and should be included. For subsequent Pension Input Periods, the starting and closing values should include the full value of any benefits purchased by the CETV.

For transfers treated as **Club**, the situation is a bit more complex. The starting point is that the additional benefits purchased by the Club transfer value are stripped out of the closing value. However, any growth in benefits as a consequence of an increase in salary or as consequence of enhanced CARE revaluation on the benefits purchased by the transfer in the new scheme do count as additional value and should be included in the closing value at the end of Pension Input Period. As with the non-Club scenario any pensions increase is also included, and subsequent Annual Allowance calculations should include all benefits on the member's record.

Action Point

Ensure that your processes are able to reflect the fact that adjustments might need to be made to benefits to reflect the timing of aggregation elections and that Club and non-Club transfers can be properly accounted for.

You can read more about the treatment of Club transfers in Public Sector Transfer Club Memorandum section 8.

Further support

If you have any questions about the issues covered here or any other aspect of the Annual Allowance, please speak to your usual Hymans Robertson contact.

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