

London Borough of Tower Hamlets Pension Fund Local Government Pension Scheme

ANNUAL ALLOWANCE – INTERIM VOLUNTARY SCHEME PAYS POLICY

Tower Hamlets Pension Fund has identified the requirement for a policy on “Scheme Pays”. Scheme Pays is way for individuals to meet annual allowance tax charges through their pension arrangements without the need to meet the cost from current income or savings.

Scheme members can, in all cases, choose to pay any tax charge directly to HMRC however depending on their circumstances they may choose one of the Scheme Pays options available.

The two types of “Scheme Pays” are known as “Mandatory” and “Voluntary”.

Annual Allowance - ‘Mandatory Scheme Pays’

Where, in a given tax year;

- a. a member exceeds the standard Annual Allowance amount (£40,000 in 2018/19) in all of their LGPS arrangements, and
- b. they have a tax charge in all pension arrangements that exceeds £2,000,

the member may choose for their pension scheme to meet the tax charge and for their pension benefits to be reduced by a corresponding amount. Within the LGPS the amount of the reduction is determined according to Secretary of State guidance.

Where a member meet the criteria for mandatory scheme pays and makes an election within the necessary timescales the pension scheme must agree to operate mandatory scheme pays.

Annual Allowance – “Voluntary Scheme Pays’

Where a member incurs an annual allowance charge in a given tax year but does not meet the criteria for Mandatory Scheme Pays, or makes an election outside of the necessary timescales, the member’s administering authority may choose, at their discretion, to discharge the tax liability and reduce the member’s benefits by a corresponding amount. This is known as Voluntary Scheme Pays.

The circumstances in which Voluntary Scheme Pays can apply are wide ranging and it is good practice for administering authorities to set out a policy regarding how they will exercise this discretion in a way that is fair to members without incurring undue risk to the fund.

The impact of the tapered annual allowance

Presently the standard annual allowance is £40,000, meaning that pension growth in excess of £40,000 can generate an annual allowance charge for a member.

In some cases, members with earnings above a certain threshold will see their annual allowance tapered down to less than the standard £40,000. For some members the annual allowance can be as low as £10,000.

However, Mandatory Scheme Pays applies only in respect of growth over the standard annual allowance. This can result in some members having to pay a significant tax charge from their own income.

It is not the policy of the Scheme to consider using Voluntary Scheme Pays when a member is subject to the tapered annual allowance.

Tower Hamlets Interim Policy

On 28 November The London Borough of Tower Hamlets Pension Fund considered advice from Hymans Robertson and agreed the voluntary scheme pay policy shown in the table below on an interim basis for a period of 6 months.

It is the understanding of the Tower Hamlets LGPS Administering Authority that other LGPS Administering Authorities have adopted Voluntary Scheme Pays within certain criteria. Therefore, a decision to use a Voluntary Scheme Pays option in certain circumstances would align the Tower Hamlets LGPS Fund with other funds within local government and across the public sector.

Voluntary Scheme Pays Policy

The scenarios for which this policy will be applied are listed in the table below. Notwithstanding the below policy positions all Voluntary Scheme Pays elections will be considered at the time on their individual merits.

Voluntary scheme pays scenario	Policy
Where an individual meets the Mandatory Scheme Pays criteria, but due to an administrative oversight (e.g. failure to provide the required pension savings statement) on the part of the Fund, was unable to make their election within the required timescale	Such an election would be accepted by the Fund
Where the individual's tax charge in respect of the LGPS is less than £2,000	The Fund will not accept such an election
Where an individual makes a valid 'mandatory scheme pays' election in respect of the LGPS, but has a tax charge relating to another pension arrangement which they are requesting the Fund to meet on their behalf	The Fund will not accept such an election
Where an individual meets the 'mandatory scheme pays' criteria, but due to their own oversight (i.e. not an administrative oversight on the part of the Fund) fails to make their election within the required timescale	The Fund will not accept such an election

The Pensions Committee in its role as the Administering authority of the Tower Hamlets Pension Fund considered and agreed to extend Scheme Pays function to include Voluntary Scheme Pays as set out in the table above.

Scheme Pays guidance

The Secretary of State for the Ministry of Housing, Communities and Local Government in conjunction with consultation by Government Actuaries Department (GAD) has issued guidance on the calculation of the reduction in a member's pension benefits following a Scheme Pays election. This ensures that, on average, the scheme pays offset is cost neutral to the scheme.

Pensions Committee Key Decision Date: 28.11.2019

Signed, on behalf of the London Borough of Tower Hamlets Pension Fund

Name in Block Capitals: KEVIN BARTLE

Designation: INTERIM DIRECTOR FINANCE, PROCUREMENT & AUDIT

Date _____