

## Clwyd Pension Fund: Scheme of Delegation

The Clwyd Pension Fund has certain functions which are delegated to the Chairman, Vice-Chairman and/or Officers of the Fund by the Pension Fund Committee. This paper outlines the decision made, the powers under which it is made, when the decision was taken, and by whom.

<b>DELEGATED POWERS BEING USED (extracted from agreed PFC delegations):</b>	<b>Delegation:</b>	Approving administering authority discretions policy (including the Voluntary Scheme Pays Policy and Over/underpayments Policy) other than in relation to: <ul style="list-style-type: none"> <li>• any key strategy/policies and</li> <li>• matters relating to admission bodies and bulk transfers as included in the scheme of delegation.</li> </ul>
	<b>Delegated Officer(s):</b>	HCPF and either the CFM or CMPOD (having regard to the advice of the rest of the PAP)
	<b>Communication and Monitoring of Use of Delegation</b>	Copy of policies to be circulated to PFC members once approved.

## BACKGROUND:

This request asks for the approval of minor changes to the CPF Voluntary Scheme Pays Policy. It includes the changes to Annual Allowance announced in the Government's Spring Budget on 15 March 2023.

### **Scheme Pays Policy**

Annual Allowance is one of the limits set by the Government in relation to the level of an individual's pension savings, known as pension input, before a tax charge becomes due to HM Revenue and Customs (HMRC).

Scheme members are normally required to pay their tax charges directly to HMRC, however, where the member exceeds the standard annual allowance (currently £60,000) and their annual allowance charge in a tax year exceeds £2,000, members are entitled to elect to meet some or all of the tax charge from their future pension benefits. This is known as the Mandatory Scheme Pays (MSP) option. This option requires the Pension Fund to pay the tax charge on the member's behalf and then to reduce their future pension benefits accordingly.

Local Government Pension Scheme (LGPS) administering authorities also have the power to grant a member's request to pay their annual allowance charge even if they do not meet the criteria for MSP; this mechanism has become known as Voluntary Scheme Pays (VSP).

Voluntary Scheme Pays can apply where the member does not have an entitlement to MSP, and the member may ask the Pension Fund to pay their annual allowance tax charge on a voluntary basis via the Voluntary Scheme Pays option with a corresponding reduction to their LGPS benefits. This would include those members adversely affected by HMRCs tapering rule (i.e. members with taxable income in excess of £260,000 in any year which is likely to mean they have an annual allowance of less than £60,000) and could also be used where the member's tax charge is less than £2,000. This, however, is subject to the Administering Authority's approval which is discretionary. There are a number of other circumstances where voluntary scheme pays would be permitted.

The Fund put in place a VSP policy in 2019 to allow voluntary scheme pays in circumstances where it will not result in a major amount of additional work for the CPF Administration Team and where the charge purely relates to membership in CPF (i.e. not also relating to other pension arrangements). It is considered this approach is fair to the scheme member and the exceptions are justifiable.

This policy permits voluntary scheme pays in the following circumstances:

- A member is subject to the Tapered Annual Allowance or the Money Purchase Annual Allowance and has a tax charge of more than £2,000 relating to input in the Clwyd Pension Fund, and the irrevocable election is received by 30<sup>th</sup> November following the end of the tax year in which the input arises .
- A member meets all the criteria for Mandatory Scheme Pays but was unable to meet the 31st July deadline due to an administrative error or omission by the Clwyd Pension Fund, (i.e. the member was not notified of their pension input in time for them to meet the deadline). In these circumstances the application for Voluntary Scheme Pays should be made within 2 months of the member receiving notification of their pension input.

The policy also outlines some situations where voluntary scheme pays should not be permitted. In particular it is not considered practical to allow voluntary scheme pays where charges are partly due to pensions growth in other schemes, as this could result in complications and a large amount of administration compared to CPF only cases. The excluded scenarios are as follows:

- The member's tax charge relating to pension input in the LGPS in England & Wales is less than £2,000, but they have applied for Voluntary Scheme Pays because their total tax charge when taking input from other arrangements into account is more than £2,000.
- The member has a Mandatory Scheme Pays right in respect of pension input in the LGPS in England and Wales, but has also asked the Fund to pay a tax charge relating to input in a separate pension arrangement.
- The member's tax charge is less than £2,000.
- A member did not meet the 31st July deadline for applying for Mandatory Scheme Pays and this failure to meet the deadline was **not** due to any administrative error or omission by Clwyd Pension Fund.

The VSP Policy is subject to review every three years and so was due for review during 2022. Due to competing priorities it has been delayed slightly.

Officers have now considered the policy and a small number of changes are recommended to be made as shown with tracked changes in the attached draft updated version. The main changes are:

- Ensuring all references to financial thresholds and dates are up to date
- Adding a new item to the list of exceptions where VSP cannot be used which is where "All of a member's retirement benefits have been put into payment."
- Adding references to where there has been a change relating to a Pension Input Period to clarify that the deadline for applications for Voluntary Scheme Pays is within 2 months of the notification of the amended pension input
- Other small changes to grammar
- To annual allowance thresholds as announced in the Government's Spring Budget.

**RECOMMENDATION:**

To agree to the tracked changes to the Fund's Voluntary Scheme Pays Policy as shown on the attached version.