Cronfa Bensiynau Clwyd

Clwyd Pension Fund

Gweinyddwyd gan
Administered by

Cyngor Sir y Fflint
Flintshire County Council

Flintshire County Council

Administering Authority for Clwyd Pension Fund

Policy for Administration and Communications of Tax Allowances to Scheme Members

March 2022

Introduction and Background

Flintshire County Council (the "administering authority") is responsible for the local administration of the Fund, which is part of the Local Government Pension Scheme (“the LGPS”). The Fund comprises around 50 employers with active members, and approximately 50,000 scheme members (including active, deferred and pensioner members).

The Annual Allowance (AA) and the Lifetime Allowance (LTA) thresholds were introduced by HMRC in 2004 (effective from April 2006) with a view to ensuring that pension scheme members would pay tax charges where they were to benefit from large pension savings, either on an annual basis or at the point of retirement or another crystallisation. These thresholds apply to all UK pension savings arrangements, including the Clwyd Pension Fund. Originally very few pension scheme members were impacted by the thresholds, and those that were impacted tended to be employees with high earning levels. For example, in the LGPS, this only tended to affect some of the higher paid Chief Executive officers. However, since then, the amount of the AA and LTA thresholds have decreased significantly so that situations such as a one-off job role promotion can now impact employees, particularly in a scheme such as the LGPS where there can be significant accrued benefits, with a link to salary growth, for long standing members.

The responsibility for ensuring that a scheme member identifies where a threshold has been exceeded, and therefore where a tax charge might be due, does not clearly lie with one party. Although much of the responsibility falls to the scheme member, there are a number of circumstances where the scheme manager or administering authority (e.g. Flintshire County Council) must notify the scheme member and/or HMRC where a threshold has been breached. There are many circumstances where the scheme member will not realise a breach has occurred unless they pro-actively ask the right questions. Similarly, there are several situations where a scheme manager/administering authority will not be aware of a scheme member breaching the thresholds, due to not having information relating to wider pension arrangements or income that the scheme member may have.

Given that the AA and LTA thresholds are now impacting a much wider audience, and the complexity of calculations and rules as to how benefits are compared with the thresholds, the Clwyd Pension Fund (“the Fund”) has developed this policy to clarify how this complex area of pensions will be communicated to scheme members and how the Pensions Administration team will support the members of the Fund.

There are a number of terms that are used throughout this policy that are explained in the appendix.

There are a number of figures included in this policy and these are correct as at the date of publication of this policy. Where the figures relate to an AA or LTA threshold that subsequently changes, the figure should change proportionately.

Our Aims and Objectives

Mission Statement

The Clwyd Pension Fund Mission Statement is:

- to be known as forward thinking, responsive, proactive and professional, providing excellent customer focused, reputable and credible service to all customers.
- to have instilled a corporate culture of risk awareness, financial governance, and to provide the highest quality, distinctive services within the resource budget.
- to work effectively with partners, being solution focused with a ‘can do’ approach.

In addition, we have specific aims and objectives in relation to our communication responsibilities as set out below.

Communication Aims and Objectives

The Fund's Communications Policy has a number of specific objectives relating to how we communicate with our stakeholders, including;

- Promote the Scheme as a valuable benefit and provide sufficient information so members can make informed decisions about their benefits
- Communicate in a clear, concise manner
- Ensure we use the most appropriate means of communication, taking into account the different needs of different stakeholders, but with a default of using electronic communications where efficient and effective to do so.
- Look for efficiencies and environmentally responsible ways in delivering communications through greater use of technology and partnership working.
- Regularly evaluate the effectiveness of communications and shape future communications appropriately.

In applying these objectives to the specific area of pension tax communications, the Fund will aim to:

- provide regular information to all scheme members on the AA and LTA thresholds, including where further information may be found
- identify specific groups of individuals who may be impacted by either of the thresholds in the near future, and highlight this risk to them
- communicate with individuals where it appears that they have exceeded either of the thresholds, providing information beyond the minimum legal responsibilities to assist the scheme member in fully understanding the impact on them.

The following sections of this policy explain how these objectives will be met.

Generic communications to all scheme members

The purpose of the generic communications are to raise general awareness around the AA and LTA thresholds, and particularly to stress that scheme members with multiple pension schemes or taxable income from other sources need to consider whether they are impacted overall, even if they are not individually impacted by their benefits in CPF.

Annual benefit statements – active members

The information on annual benefit statements is estimated and the statement has a caveat highlighting this. The statement includes:

- A small paragraph explaining LTA and AA, including any changes to the threshold levels or any other recent changes, and where further information can be found
- The percent of the estimated benefits compared with the current LTA (or, where possible, any protected LTA)
- Clarity over whether a protected LTA is included in the calculation and reminding the member to let the Fund know if they do have any form of LTA protection.

Notification of Deferred Benefits – deferred (including pension credit and deferred pensioner) members

Generally speaking, as the CPF benefits are not being added to for a deferred benefit, there is less risk of AA and LTA thresholds being exceeded due to the growth in the deferred benefit in that year. However, as the deferred benefit could already be exceeding LTA or be part of a wider group of pension benefits, the information on the notification includes the percent of the actual deferred benefits compared with the LTA at date of leaving.

In addition a small paragraph explaining LTA and AA will be provided in the CPF's newsletter for deferred members which accompanies the Annual Benefit Statement. This will include any changes to the threshold levels or any other recent changes, and where further information can be found,

Notification of Pension Benefits – pensioner members

On retirement, all members receive notification of the percentage of the LTA their CPF benefits have used at the date of retirement (or other point of crystallisation).

Annual Lifetime Allowance Statement – pensioner members

In accordance with HMRC requirements, where a CPF pension commenced after 6 April 2006, the pensioner will be provided with an annual statement reminding them of the percentage of the LTA they have used up within the CPF. There are circumstances when this statement is no longer required, for example, when a member is age 75 or over for the whole tax year.

CPF website

Some basic information will be provided on the CPF website on both the AA and LTA. It will also provide:

- When and how the Fund will communicate with members
- Any specific situations where scheme members may need to consider further even if they don't hear from the Fund (e.g. members who may be subject to tapered AA due to other taxable income, or who have a number of pension arrangements)
- Where further information can be found (LGA and HMRC) including a link to any Fund specific information such as the Voluntary Scheme Pays Policy.

Any specific changes to AA and LTA rules (including changes in threshold levels) will be included as a rolling article on the home page, with a link taking members to the details of the change.

Other newsletters or alerts

Newsletters or other alerts to scheme members will also be utilised for communications relating to AA and LTA as follows:

- Any specific changes to the AA and LTA rules, including in all circumstances where there is a change to a threshold level, will be included in a newsletter or alert, unless it is already included in the annual benefit statement. A more significant change will be incorporated into a newsletter, whereas something quite simple like a change in threshold level will be included in an email alert. In all circumstances, the wording will include details of where further information can be found (including links).
- Where the Fund is issuing any newsletter or other alerts to scheme members that include a variety of information about the Fund, the Fund will aim to also remind members about the impact of AA and LTA and include where further information can be found.

In the circumstances above, it is assumed that a newsletter will be issued both electronically and as a hard copy (the latter for those who have opted out of electronic correspondence) whereas an email alert, containing a short update, will be issued purely to those who are registered to receive electronic communications. Updates will also be on the Fund's website. The Fund will consider to which category of member the information should be provided but it is expected that changes will be usually notified to all active and deferred members.

Targeted communications for at risk members

This section considers communications that will be delivered to specific groups of members who are more likely to exceed AA thresholds at some point during their membership of CPF. It is also a further opportunity to highlight the risk if the member has other pension arrangements which, when aggregated with the CPF benefits, might result in them exceeding the AA and/or LTA. The various target groups will be determined as follows:

LTA at risk – active members

These members will mainly be identified each year by calculating the % of LTA based on the accrued benefits and projected benefits on the annual benefit statement extract. All members who have a % of LTA that is 90% or greater based on accrued benefits will be identified as being at risk.

AA at risk – active members only

These members will mainly be identified each year as part of the annual allowance exercise for preparing the Pension Saving Statements. The process will be as follows:

- Process to commence after active annual benefit statement data has been finalised (i.e. so the year end CARE and final pay information has all been processed).
- Run the Altair bulk annual allowance calculation. Note it may be necessary to separately add on any AVCs and SCAVCs that have been paid (if these are not added in automatically by the bulk run) to obtain a final PIA.
- Then identify the following categories of member:
    - Those whose Pension Input Amount appears to have exceed the standard AA (e.g. £40k)
    - All members who have a Pension Input Amount of £35k or more
    - All members who have a final pay and/or CARE figure of £80k or more
    - All members who have previously had a PSS issued
    - Any member who has requested a PSS
    - Any member who has advised they have 'flexibly accessed' benefits from a separate money purchase pension arrangement (i.e. they are subject to the MPAA)
    - Any member who has previously advised the Fund that they have other pension benefits that could lead to exceeding the AA
    - Any member who has received a ‘club’ transfer in payment during the Pension Input Period and has been calculated to be at risk.

Some basic reasonableness checks will be done when extracting the members impacted by the above categories, for example, where a high Pension Input Amount is output but the pay rates appear extremely low in previous years, then it would be reasonable to check with the employer to ensure the pay rates are accurate.

Note more detailed calculations will be required for some of these categories of members but this is covered later in this policy.

AA at risk – deferred/pension credit members

Where a scheme member was a deferred member or pension credit member at the beginning of the tax year and the end (i.e. they have not had any pension growth beyond pensions increase on their deferred/pension credit benefits), it is assumed that no additional communications are required for deferred/pension credit members (unless specifically requested by the member) as they should all be lower risk in relation to their ceased CPF membership.

However, where a scheme member has a period of active membership during the year (e.g. they leave and become deferred during the year) it is still possible for them to be impacted. Checks should therefore be done as per the active members above to determine if the member falls within any of the categories shown for active members.

AA at risk – pensioner members

Where a scheme member was a pensioner member at the beginning of the tax year and the end (i.e. they have not had any pension growth beyond pensions increase on their pension benefits), it is assumed that no additional communications are required for pensioner members (unless specifically requested by the member) as they should all be lower risk in relation to their ceased CPF membership.

However, where a scheme member has a period of active membership during the year (e.g. they leave and become a pensioner during the year) it is still possible for them to be impacted in particular where their retirement includes any enhancement to benefits (e.g. ill health or redundancy). AA and LTA will be checked at the point the member retires and if impacted they will be communicated with in accordance with the "communications for impacted members section".

Communications for at-risk members

Further communications will be carried out as follows for these at-risk members (in addition to the generic communications):

a) Letters

All active at-risk members will be sent an appropriately worded letter explaining why they may be at risk, what they need to consider, and where they can obtain further information. This will include a general letter to everyone earning over £80k, who doesn't otherwise receive a PSS, advising them about annual allowance and what they need to consider.

b) Workshops

These will run at least once a year during the Autumn and will initially be run by the Fund's Benefit Consultants (who are Mercer at the time of writing). The workshops will include the following topics (as confirmed by the Fund's Benefit Consultants):

- Information on how the pensions tax regime works
- Worked examples of how the pension tax regime could affect individuals
- Explain how pension tax allowances work in relation to the LGPS Scheme mechanics
- The criteria in order to be affected, and to be eligible for any protections available

- How to calculate annual allowance tax charges
- How to determine which proportion of an annual allowance tax charge is subject to mandatory or voluntary scheme pays
- What affected employees should consider when deciding courses of action
- Where employees can obtain further information or advice.

Workshops can be set up at other times of the year as required. All at-risk members will be invited to the workshops, at least three weeks in advance. The invitations will be personalised and customised to explain why they have been invited (i.e. what category they appear to be in that highlights why this workshop may be relevant to them).

A scheme member can attend multiple workshops during their membership of the CPF.

c) One-to-one guidance sessions

All members who attend a workshop will be offered a one-to-one guidance session with a specialist from the Fund's Benefit Consultants (30-45 minutes) where they can ask questions of a generic nature, if they feel they require further information. This option will be made available by the Fund's Benefit Consultants at the workshop. The one-to-one sessions can also be provided to other at risk or affected members.

To enable members to get the most effective use of the time in these sessions, the Fund's Benefit Consultants can undertake various calculations in advance of the meeting and will be provided with certain information including:

- Relevant information from the Fund to be aware of the member's AA/LTA position. The Fund's Benefit Consultants would ask each member to sign a letter of authority allowing them to obtain the information from the Fund.
- In order to determine the member's potential current AA/LTA position, the Fund's Benefit Consultants will require personal information from the member (e.g. details of other income etc). The Fund's Benefit Consultants would ask each member to complete a very short questionnaire providing only information in relation to help calculate their AA/LTA.

Whilst these sessions would look more accurately at the individual's personal circumstances e.g. income/carry forward analysis, these sessions will be for education purposes only and no formal advice upon which the member could rely would be provided. The sessions would be limited to:

- showing how individuals might be impacted and explain the options open to them,
- appraising them of the issues to take into account when considering each option, and
- raising implications for self-assessment tax returns and mandatory/voluntary scheme pays.

Due to the cost in providing these one-to-one sessions, the Fund will automatically pay for no more than three one-to-one sessions per member in total. If a member wishes to attend further sessions, this is at the discretion of the Fund and the costs may be passed onto the member.

Individual Financial Advice

Any members wishing to obtain authorised and regulated individual financial advice can do so to supplement these sessions, and source these themselves. Any cost of obtaining this formal advice that members can rely upon in making any decisions will also need to be met by the member.

Communications for impacted members

This section considers communications that will be delivered to members who are at risk of exceeding the AA threshold. In addition to the communications highlighted below, all impacted members will automatically be added to the invitation list for the workshops highlighted above and the one-to-one sessions will also be made available to them.

Pension Savings Statements (PSS) – exceeding AA threshold – active members

Legally a scheme member must automatically be issued with a PSS where:

- their Pension Input Amount exceeds the standard annual allowance (£40k at time of writing) or
- the Fund believes the individual has flexibly accessed a money purchase arrangement and they exceed the MPAA (£4k at the time of writing) or
- a scheme member has requested a PSS (or the information that would be in a PSS) even though they don't meet the criteria above.

The statements must be issued by 6th October, or if later, three months following the date of receipt of the information required to provide the statement, or the date of request in the case of the final bullet above.

The statement must include:

- the total of the Pension Input Amounts for the member for all their arrangements under the scheme for the relevant tax year
- the amount of the Annual Allowance for the tax year concerned
- the total of the Pension Input Amounts for the member for all their arrangements under the scheme for the previous three tax years
- the amount of the Annual Allowance for the previous three tax years.

Note that statements must be issued even if it appears the member won't be subject to a tax charge because they have sufficient carry forward from previous years.

In carrying out this exercise, the Fund will:

- carry out detailed calculations of the Pension Input Amounts for all members who appear to have exceeded the Pension Input Amount. This is because the information that would have originally been produced via the Altair bulk annual run will have been based on pay to 31st March and also pays that may be different than what should be used for Annual Allowance purposes.
- as a minimum, these detailed calculations will be carried out for all members where the Altair bulk annual allowance run has suggested a Pensions Input Amount of £38k or more (based on the £40k AA threshold)
- detailed checks will also need to be carried out in relation to the previous three years, to ensure accuracy of carry forward information.
- provide more than the minimum legal information required in the PSS. It will include (with appropriate caveats about this just relating to CPF pensionable employments):
    - full information relating to what AA is, and how PIA and tax are calculated,
    - estimated carry forward in relation to the previous three years,
    - the responsibilities for the scheme member in completing their tax return and guidance on how to complete it,
    - options in relation to scheme pays if there is likely to be a tax charge (mandatory and/or voluntary as appropriate) together with how a member can request further information, how they elect for scheme pays and the appropriate deadlines for elections,
    - general information (although no calculations) about the tapered annual allowance (see below) and what the member needs to consider to determine if they are affected.

This may be provided by utilising central LGPS resources such as the LGA guides, customised as appropriate.

Pension Savings Statements (PSS) – tapered AA

One of the more complex situations relates to what is called the tapered annual allowance. This applies where an individual has a threshold income (i.e. allowing for certain reliefs including pension contributions) of more than £200k per annum and an "adjusted income" of above £240k (from all sources including the PIA). Although there is no legal requirement to issue a PSS to a member who has PIA below £40k but who may exceed a tapered annual allowance, it can be relatively easy to identify a group of individuals who are likely to have a tapered annual allowance based on their individual pay rates in the CPF. Therefore all individuals who have a taxable pay (after deducting member pension contributions) of £200k or more will automatically be checked to see if they are impacted by the tapered AA based on their CPF employment and scheme membership. This will generally be done at an individual post level so it should be noted that there is a risk that a person with multiple posts involving taxable pay over £200k may not automatically be picked up.

If they appear to be affected by the taper in relation to CPF employment, the information to be provided will be as per the standard PSS but with clarity as to why it is being issued, and with a tapered AA calculated assuming the taxable income that is available via the CPF employment. This will be appropriately caveated that the information will need to be recalculated by the member if there is any further taxable income and/or any further pension arrangements.

Pension Savings Statements (PSS) – exceeding AA threshold – other circumstances

Annual Allowance should also be checked at the point a member leaves the scheme (especially if a retirement includes enhancement i.e. ill health or redundancy with augmentation). It should also be checked when a member has a Club transfer in – when calculating Annual Allowance the service/pension credit awarded from the transfer is ignored but any increase in benefit as a result of the transfer is included so a Club transfer where there is a reasonable pay rise could have an impact.

The Fund will have processes in place for these checks to be carried out at retirement/leaving and transfer in, and ensure PSS are issued as required, in accordance with the standards mentioned for active members being sent a PSS.

Lifetime Allowance exceeded – on retirement

The main situation where the Lifetime Allowance will impact a scheme member is on their retirement. It is important that a number of steps are taken to ensure the process is as simple as possible and that the scheme member fully appreciates all their options. The process will be as follows:

- Assuming early notification of the retirement is received, the Fund will issue a retirement pack asking for various forms to be completed, including the Lifetime Allowance Declaration confirming if there are any other pension benefits. At this stage, if it has been spotted that they are likely to be impacted by the LTA, they should also be asked to confirm if they have any lifetime allowance protection in place and, if so, provide full details (including any reference and a copy of the HMRC letter/certificate).
- Once forms are returned by the scheme member (duly completed), and the final pay information is received from the employer, the Fund will calculate the potential benefits that can be paid, including options to commute pension to lump sum. At this stage, if the lifetime allowance has been exceeded, further calculations will be done and provided showing all three options of paying the tax charge (scheme pays, commuting pension for further taxable lump sum, pay tax immediately from lump sum), all of which are

calculated with and without maximum commutation. Therefore most scheme members will be provided with six different scenarios.

It is important that any potential annual allowance charge due at retirement in relation to the current tax year is also picked up at this point so the scheme member is provided with information in relation to all charges that may be due.

The member will be provided with the information. They will also be asked to provide confirmation of any lifetime protection that they have, unless that has already been provided

- Once the member has returned the appropriate elections, the benefits will be calculated, the tax charge will be paid by the scheme, and the member will be advised appropriately including highlighting their ongoing responsibilities (i.e. including the information as part of self-assessment and how to do this).

Note that should a scheme member contact the Fund before retirement, the various calculations and options can be provided at an earlier stage in the process, subject to pay information being available. Again, it is important that the Fund asks the member if they have any LTA protection in place.

General points

The information within this policy is focussed on proactive action that will be taken by the Fund. However we would expect scheme members to often request information relating to the AA or LTA. Where doing so, we will follow the objectives of this policy in trying to ensure the scheme member obtains sufficient information for them to make their decisions.

In delivering this policy, the Fund will follow the following principles:

- The Fund will proactively highlight in communications that, should a member want to consider ways of managing tax charges as a result of the AA and LTA thresholds, there are the options to move to the 50/50 Section or opt out, and members may switch between the Main Section, 50/50 Section and opting out as they wish.
- The Fund will encourage the use of Member Self-Service where it is possible to carry out calculations to a reasonable level for scheme members affected by AA and LTA. However, as it is quite unlikely that Member Self-Service will work for all such scenarios, the Fund will carry out specific quotations and estimates as are reasonably requested by the scheme member, including but not limited to:
    - Different scenarios of being in the Main Section, 50/50 Section or opting out
    - Different dates of retirement (being at least three months apart)
    - Different types of retirement
    - Different assumptions for future inflation

    - For AA calculations, assuming different future pay awards.

- However, it is expected that a scheme member should not be requesting more than five different scenarios in any one-year period. The Fund may offer to provide further calculations at a cost to be paid by the scheme member, which may include consultant's fees where the calculations are carried out by one of the Fund's consultants.
- Members of staff employed by the Fund are not financial advisers. They cannot and will not provide financial advice to any member.
- The Fund will encourage members to take formal Independent Financial advice provided by FCA authorised advisors. Where a member wishes to do so, the Fund will not pay any of the costs associated with obtaining this advice. The Fund will not endorse any specific financial adviser but appreciate that some members may wish to use advice from the Fund's Benefit Consultants.
- Where deemed necessary, due to the need to tap into wider knowledge or greater resource, the Fund will use consultants to assist in delivering this policy.

Approval, Review & Consultation

This Policy Statement was initially approved by the Pension Fund Committee on 16 March 2022. It will be formally reviewed and updated by the Pensions Administration Manager in consultation with the Head of Clwyd Pension Fund at least every three years or sooner if the LTA/AA arrangements or other matters included within it merit reconsideration. Any proposed fundamental changes to this Policy will be highlighted to the Pension Fund Committee prior to its approval by the Pensions Administration Manager and Head of Clwyd Pension Fund to allow the Committee to highlight any concerns.

Although it is intended as an internal document, it could be provided to a scheme member on request.

Further Information

Any enquiries in relation to the information in this policy should be directed to:

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Appendix – Interpretation

Annual Allowance (AA)	The amount that an individual can save in all pension arrangements in any one tax year
Adjusted income	Broadly total UK taxable income plus the value of pension savings made in the year (including those made by the employer). As the LGPS can cover both Defined Contribution and Defined Benefit arrangements the total pension savings are potentially a combination of: – the total value of any AVC contributions paid; and/or – the value HMRC place on the increase of a defined benefit (i.e. main LGPS) pension each year allowing for inflation (calculated as 16 times the increase in your pension net of inflation).
Carry forward	Individuals are entitled to carry forward any unused AA for up to three years to offset against a breach of the threshold, to avoid or reduce a tax charge
Lifetime Allowance (LTA)	The amount that an individual can save in all pension arrangements across their lifetime
Mandatory Scheme Pays	The circumstances in which a pension arrangement must offer the Scheme Pays mechanism to a member
Money Purchase Annual Allowance (MPAA)	The AA that applies to an individual who has 'flexibly accessed' any pension benefits from a money purchase pension arrangement
Pension Input Amount (PIA)	The increase in value of an individual's pension benefits across the tax year, that is compared to the standard AA to determine if the threshold has been exceeded

Pension Input Period (PIP)	The period in which pension growth is assessed against the AA. For all schemes, this is now the tax year
Pensions Savings Statement (PSS)	The document that a pension arrangement must issue to a member who has exceeded the AA in a tax year
Post alignment period	The second part of the 2015/16 PIP, where the dates became aligned with the tax year. Runs from 9 July 2015 – 5 April 2016
Pre alignment period	The first part of the 2015/16 PIP, where the dates became aligned with the tax year. Runs from 1 April – 8 July 2015
Scheme Pays	A mechanism for a pension arrangement to pay the tax due, with a corresponding reduction to the member's benefits
Tapered member	An individual who is affected by the tapered AA
Tapered Annual Allowance	A personal AA lower than the standard as a result of exceeding the pay thresholds
Tax charge	The amount of tax that an individual may be required to pay as a result of exceeding either the AA or LTA
Threshold income	Broadly UK taxable income, including employment income (e.g. salary, cash bonus, taxable benefits like car or medical plans) and income from other sources, for example, rental property income, pensions in payment, savings and dividend income.
Voluntary Scheme Pays	The circumstances in which there is no legal obligation for a pension arrangement to offer the Scheme Pays mechanism to a member, but is free to do so at its discretion