

The following texts set out the replies provided by GAD in relation to two separate requests for reduction factors in Scheme pays cases. Before issuing a finalised note to this effect funds should follow the advice – in particular the reference to the relevant cetv tables in handling any cases they are holding.

We do not see any issues with allowing a partial payment, and RPSM06109030 confirms that the pension scheme may pay some or all of an annual allowance charge liability. However, it is ultimately up to the scheme administrator to decide this. HM Treasury issued a document in March 2011 outlining the general framework within which 'Scheme Pays' should operate. One of the criterion is minimising administrative burdens, i.e. you may wish to discourage a trivial deduction following a partial payment on the basis that it would not be reasonable from an administrative point of view.

Legislation

Guidance on the Annual Allowance from 6 April 2011 can be found at <http://www.hmrc.gov.uk/pensionschemes/annual-allowance/index.htm>

Where the member elects for Scheme Pays, after meeting certain conditions, then the scheme administrator becomes jointly and severally liable (with the member) for the annual allowance charge and must pay this to HMRC within a given timescale. They must also make a consequential adjustment to the member's pension savings or their benefits under the scheme. The scheme should make sure that the adjustment made to the member's benefits is fair and reasonable, having regard to normal actuarial practice. HMRC would expect a scheme to be able to demonstrate that the adjustment made was fair and reasonable.

Large Public Service Pension Schemes jointly agreed a methodology on recouping the tax charge from the member's pension benefits. The calculation below is in line with the method agreed. However, there are a couple of areas where a final decision was not made, therefore please let me know if you would like the calculation below revised for any changes.

Please note that the tax charge has to be above £2,000 in order for the member to opt for Scheme Pays.

Calculation

I understand that the male member retired on 18 November 2011 and therefore I have used a calculation date of 19 November. At the calculation date the member is age 56 (last birthday).

We will shortly be transmitting updated pensioner cash equivalent factors following the HMT announcement in October of the revised CETV discount rate. Given that the member retired after the announcement of the revised CETV discount rate we believe it is appropriate to use this factor in calculating the debit. The relevant factor for a male aged 56 last birthday under this revised CETV discount rate is 20.18. Note that no adjustment is made to this factor to reflect market conditions.

The reduction to the member's pension ("debit") is therefore equal to the tax charge divided by 20.18 (for example if the tax charge is £5,000 then the member's pension should be reduced by $£5,000 / 20.18 = £247.77$).

The reduced pension then increases in payment in line with the Pensions (Increase) Act 1971, as per normal scheme practice. No debit should be applied to the contingent pension.

If any of the information regarding the member's age or gender in this e-mail is incorrect then the debit should not be applied. Please inform GAD of the correct details so that the debit can be recalculated. Please also let us know if the pension debit is greater than the member's total post-2008 pension.

We are now able to provide a substantive reply to the annual allowance case outlined in your e-mail of 3 February to Brian Town. Thank you for the additional information you supplied with your e-mail of 16 February.

Legislation

Guidance on the Annual Allowance from 6 April 2011 can be found at <http://www.hmrc.gov.uk/pensionschemes/annual-allowance/index.htm>

Where the member elects for Scheme Pays, after meeting certain conditions, then the scheme administrator becomes jointly and severally liable (with the member) for the annual allowance charge and must pay this to HMRC within a given timescale. They must also make a consequential adjustment to the member's pension savings or their benefits under the scheme. The scheme should make sure that the adjustment made to the member's benefits is fair and reasonable, having regard to normal actuarial practice. HMRC would expect a scheme to be able to demonstrate that the adjustment made was fair and reasonable.

Large Public Service Pension Schemes jointly agreed a methodology on recouping the tax charge from the member's pension benefits. The calculation below is in line with the method agreed. However, there are a couple of areas where a final decision was not made, therefore please let me know if you would like the calculation below revised for any changes.

Please note, as a general point, that the tax charge has to be above £2,000 in order for the member to opt for Scheme Pays.

Calculation

I understand that the male member is due to retire on 31 July 2012 so I have used a calculation date of 1 August 2012. The member will then be aged 60 (last birthday). I

have assumed that the member is not retiring due to ill health; please let me know if this not the case as a different factor would apply for an ill health retirement

The appropriate factor for this case is 18.56. [This can be found in table 1.1 of our recently issued suite of tables for LGPS pensioner cash equivalent divorce cases.]

You have advised us that the potential net tax charge is £31,883 [63,765 x 0.5]. We have not carried out any detailed checks on the potential net tax charge.

The reduction to the member's pension ("debit") is **£1,717.83 p.a.** [ie 31,883 / 18.56] on 1 August 2012.

The reduced pension then increases in payment in line with the Pensions (Increase) Act 1971, as per normal scheme practice.

No debit should be applied to the contingent pension or to the member' lump sum. However please let me know if the pension debit is greater than the member's total post-2008 pension, or if any of the above data is incorrect, particularly the potential net tax charge, as the calculations would need to be revised.

Any further enquiries should be sent in the first instance to Brian Town and copied to Andy Lankester.

WPP Division
7 March 2012