



**City of Westminster**

## Superannuation Committee

<b>Date:</b>	<b>20<sup>th</sup> February 2013</b>
<b>Classification:</b>	<b>For Publication</b>
<b>Title:</b>	<b>Chancellor's Autumn Statement summary of pension changes and implications</b>
<b>Report of:</b>	<b>Acting Director of Human Resources</b>
<b>Wards Involved:</b>	<b>Not Applicable</b>
<b>Policy Context:</b>	<b>Tax changes to the Life time and Annual allowance</b>
<b>Financial Summary:</b>	<b>There are no financial implications arising from this report</b>
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### **1. Summary**

- 1.1 The purpose of this report is to provide committee members with a summary of the LGPS pension implications arising from the Chancellors autumn statement.

### **2. Recommendation**

- 2.1 That the Committee note the report.

### **3. Background**

- 3.1 In December 2012 The Chancellor of the Exchequer confirmed that from April 2014 the lifetime allowance (LTA) will be reducing from £1.5million to £1.25million.
- 3.2 The Annual allowance will also reduce from April 2014 from £50,000 per annum to £40,000 per annum.

## **4. Detail of changes and implications**

### **Lifetime allowance**

- 4.1 The Lifetime Allowance refers to the total value of an employee's pension benefits, which include employee's contributions and any Additional Voluntary Contributions.
- 4.2 The annual pension element is dependent upon the length of service and the level of contributions which in turn is dependent upon the salary level. Typically the employees affected are senior staff with long service.
- 4.3 The individual limit currently permissible without attracting additional tax charges is £1.5m however under these changes this will be reducing to £1.25m from April 2014.
- 4.4 The implications of these changes could mean more scheme members are subject to tax charges.

### **Annual Allowance**

- 4.5 The Annual Allowance is a measure of the total value of how much your pension benefits grow in any one financial year before any tax charges are applied.
- 4.6 The change from 50K to 40K detailed in the announcement relates the amount it is permissible for an employee's pension to increase in any financial year.
- 4.7 Causes of an employee possibly exceeding the Annual Allowance are:-
  - If they have received a significant salary increase in the last 18 months and have a significant amount of membership this would increase their benefits on a year to year basis.
  - If they have received a significant one off payment.
  - If they have any other pension benefits to which they have contributed into the previous tax year.
  - If they start or increase Additional Voluntary Contributions. (AVC's).

## **5. Action plan to communicate changes**

- 5.1 Following the submission of the 2012/2013 end of year pension records to the LPFA, a report will be produced around October 2013 to identify employees who have a Life Time Allowance totalling more than £1million.
- 5.2 These employees will be contacted in writing by the LPFA confirming the amount of their Life Time Allowance compared to the new rate of £1.25M. The

employee's who will be impacted by the changes will be advised to seek individual financial advice.

- 5.3 Members who have already exceeded the £1.25M will be able to apply for interim protection from HM Revenue and Customs and again they will be advised accordingly.
- 5.4 The LPFA will produce a list of employees who fall within the new 40K annual allowance regulation. They will be contacted in writing confirming their Annual Allowance.
- 5.5 Members who have already exceeded the £40,000 Annual Allowance limit can offset this against unused allowance from the previous 3 years.
- 5.6 Communication of these tax changes will be circulated via the WIRE in 2013. Useful website links for more information and how to calculate each allowance will also be available to staff.
- 5.7 Employees will be receiving an Annual Benefit Statement after 1<sup>st</sup> April which confirms their Lifetime and Annual Allowance.
- 5.8 Information of all of these changes will be available on the Westminster pensions website.