

Report of the Treasurer

Firefighters Pension Schemes – Voluntary Scheme Pays (VSP)

Purpose of report

1. To seek approval for the implementation of a Voluntary Scheme Pays (VSP) arrangement in respect of Firefighters Pension Schemes
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Recommendation

The Treasurer recommends that the Committee approve the operation of a Voluntary Scheme Pays (VSP) in relation to the Firefighters Pension Schemes.

Background

2. There is a maximum amount by which an individual can increase their pension savings each year. HMRC's standard Annual Allowance Limit is currently set at £40,000 (although any unused Annual Allowance from the previous 3 years tax years can be carried forward to further offset charges). Different limits apply to anyone earning more than £150,000 pa but the Authority does not currently employ anyone in that category. Individuals whose annual growth in pension savings exceeds the annual allowance are subject to a tax charge on the excess.
3. For a defined contribution scheme the limit relates to the actual cash contributions made in year. However, for a defined benefit scheme (public service schemes) it is a multiple of the increase in annual pension earned in that year. This can become a particular issue for staff in the Firefighters Pension Schemes because of the way they are structured to provide double-accrual in the last 10 years of service.
4. An individual can choose to pay the annual allowance tax charge from their own personal finances, however, the Finance Act 2004 provides that a pension scheme must provide a 'Scheme Pays' facility where all of the qualifying conditions are met. This is known as **Mandatory Scheme Pays (MSP)**.
5. **MSP** means that the Scheme pays the tax charge in exchange for reduced future pension payments. I.e. ultimately the tax bill is paid by the individual.

Current Position

6. In certain circumstances the **MSP** provisions do not apply namely:
 - a. Where an individual has exceeded the annual allowance but over separate schemes where neither scheme in itself exceeds the limit.

- b. Where the individual is subject to a tapered allowance (those earning over £150,000 pa).
7. With the introduction of the 2015 Firefighters Pension Scheme, members of the 1992 Firefighters Pension Scheme ('1992 Scheme') and 2006 Firefighters Pension Scheme ('2006 Scheme') who have transferred into the 2015 Scheme on or after 1 April 2015 will effectively be members of two pension schemes and will see pension benefit growth in both schemes until retirement.
 8. As a consequence there is potential for members of the Firefighters Pension Schemes not being able to access **MSP** to offset significant tax bills. It is recognised that this could have a major impact on the willingness of individuals to seek promotion, with consequential serious implications for service delivery.
 9. At their meeting on 6 March 2017, the Firefighters Scheme Advisory Board considered and agreed an initial proposal from the Home Office to amend the Firefighters Pension Regulations to allow the charge to be met in the circumstances using **Voluntary Scheme Pays (VSP)**. However any legislative amendments will take time and therefore will not be introduced in the short term.
 10. In the interim, the Local Government Association (LGA) have taken legal advice and suggest that each Pensions Scheme manager (i.e. the Fire Authority) permits a **VSP** arrangement in the circumstances outlined in paragraph 6 above.
 11. There are no direct financial implications to the Fire Authority, but there is a potential cash flow implication for the Firefighters Pension Account. In the short term government grant to support the Accounts would increase, but this would equalise over time as a result of reduced pension payments on retirement.
 12. This is in exactly the same way the MSP currently works and, as indicated, the Home Office is supportive of changes to regulation to make VSP mandatory.

Conclusion

13. The Fire Authority, as Scheme Manager has discretion to permit the proposed VSP, and has delegated the authority to approve this to the Policy and Resources Committee.

Corporate Considerations

Resource Implications (identify any financial, legal, property or human resources issues)	On Firefighters Pension Account cash flow only – as outlined in paragraph 11
Strategic Policy Links (identify how proposals link in with current priorities and policy framework and if they do not, identify any potential implications)	

Risk Management / Health & Safety (identify any risks, the proposed control measures and risk evaluation scores)	n/a
Consultation (identify any public or other consultation that has been carried out on this matter)	n/a
Equalities (has an Equalities Impact Assessment been completed? If not, why not?)	n/a

Supporting Information

None

Background Information

None

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