

Key issues for recruitment and retention

Exit pay reforms

February 2019

Pensions Tax – quick reminder

- Lifetime allowance £1,030,000 in 2018-19 rises by CPI
- Calculated as pension x 20 plus lump sum – essentially a pension getting towards £50k should prompt some action
- Annual Allowance £40,000 per year with three carry forward
- For an employee with 25 years pre 14 that's a pay rise of £6,000
- Tapering reduces AA by a maximum of £30k (to £10k) when income is over £110 – loss of £1 for every £2 of income (plus pension contributions*) over £150k

*For those in defined benefit or cash balance arrangements, the value of the employer contribution will be calculated using the annual allowance methodology. That is the employer contribution will be the pension input amount for the arrangement, less the amount of any contributions made by or on behalf the individual during the tax year

Pensions Tax - issues

- Lifetime allowance chipping away at membership of high earners
- High earner opt outs undermines cash flows into pension funds
- Annual allowance starting to hit middle earners – not just a top end problem
- Workforce issues starting to emerge
- Leaving the scheme/sector
- Turning down promotion/acting up
- Biggest issue might be ignoring the pension saving statement

Pensions Tax – solutions?

- Public sector exemption not an option in fact.....
- Private Sector DB has reformed - is this now a Public Service Pensions tax
- LGA working with other employers across government to make the case for greater choice in schemes and flexibility in the tax regime
- In the meantime.....
- Increased education – most people still better off
- LGPS 50/50 (CARE only)
- Pay instead of pension – be very careful (Pensions Act 2008)
- Alternative DC schemes

Proposed exit pay reforms

- £95k cap on exit payments (includes LGPS employer pension costs for those 55+)
- Recovery of exit payments made to those earning £80k or more and who return to public sector within 12 months (tapered payback)
- Sub-sector reforms (MHCLG for local government): various options e.g. cap of 15 months' actual pay, pension top-up limits
- When and how??
- Consultation on further draft Regulations
- Affirmative Parliamentary process

Private Member's Bill

- Public Sector Exit Payments (Limitation) Bill 2017-19
- Attempt to place £95k cap on exit pay by 1 April 2019
- Backdating to 1 April 2018?
- Unlikely to pass

Disclaimer

The information contained in these slides has been prepared by the Pensions and Workforce teams of the Local Government Association (LGA). It represents the views of the presenters, based on our current understanding of the law. It should not be treated as a complete and authoritative statement of the law. Readers may wish, or will need, to take their own legal advice on the interpretation of any particular piece of legislation. No responsibility whatsoever will be assumed by the LGA for any direct or consequential loss, financial or otherwise, damage or inconvenience, or any other obligation or liability incurred by readers relying on information contained in these slides.