Subject	Pension Savings Statements 2020/21 – Lessons Learnt	Status	For Publication
Report to	Local PensionBoard	Date	28 April 2022
Report of	Head of Pensions Administration		
Equality Impact Assessment	Not Required	Attached	No
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1 Purpose of the Report

1.1 To update members on the results of the 2020/21 Pension Savings Statements exercise and set out the actions being taken to ensure the success of the 2021/22 exercise.

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2 Recommendations

2.1 Members are recommended to:

a. **Note the actions taken to address the late delivery of the 2020/21 Pension Savings Statement exercise and ensure successful completion for 2021/22**

b. **Advise whether any further action is required in relation to the 2020/21 breach.**

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3 Link to Corporate Objectives

3.1 This report links to the delivery of the following corporate objectives:

Customer Focus

to design our services around the needs of our customers (whether scheme members or employers). It is important members are given comprehensive information in relation to the Annual Allowance to understand their own liabilities and reporting requirements.

Effective and Transparent Governance

to uphold effective governance showing prudence and propriety at all times. The Pensions Regulator's Code of Practice 14 places focus on the requirements to manage breaches of the law and the importance of maintaining a system of recording breaches and acting to put things right when issues are identified.

4 Implications for the Corporate Risk Register

4.1 The actions outlined in this report relate to actions to mitigate risk O2 in the Corporate Risk Register which relates to the Authority meeting its statutory requirements for the disclosure of information to scheme members.

5 Background and Options

Annual Allowance

5.1 The Annual Allowance (AA) was introduced by HMRC in April 2006 and in practice represents the maximum amount of tax-free growth an individual's pension "pot" can benefit from in any tax year (i.e., from 6 April to the following 5 April). This includes all pension arrangements (apart from the State Pension) and is currently set at £ 40,000 per year. For the LGPS and other defined benefit schemes, the AA is measured by calculating the difference between the capital value of a member's benefits at the beginning and end of the tax year (after allowing for inflation). For these purposes, any actuarial reductions that might otherwise apply (e.g., if a member had left the scheme at the end of the tax year) are ignored. The following is a simplified example: -

Yearly Pension at 6 April 2021: £ 10,000 x 16 (factor) = £ 160,000 capital value

Yearly Pension at 5 April 2022: £ 13,000 x 16 (factor) = £ 208,000 capital value

£ 208,000 - £ 160,000 = £ 48,000 i.e., in Excess of Annual Allowance

5.2 If a member exceeds the AA the legislation does allow them to carry forward any unused allowance from the previous three tax years. If, after allowing for carry forward, a member still has an excess over the AA then they are required to pay tax on the excess at the marginal rate. The legislation also allows members to elect for SYPA to pay the tax charge (this is known as "scheme pays") and recover this from the member by means of a permanent reduction to their benefits when they eventually retire.

Pension Savings Statements

5.3 As the AA tax is a personal tax liability, scheme members themselves are responsible for assessing their own position in relation to the AA and reporting this to HMRC where required. Separately, HMRC asks schemes to provide information on members who have exceeded the AA.

5.4 For individuals to work out their own assessments, schemes are required under the Registered Pension Schemes (Provision of Information) Regulations 2006 (as amended) to issue Pension Savings Statements where members have exceeded the £ 40,000 limit. The statement should be issued within six months of the end of the tax year (i.e. by 6 October).

5.5 The provision of a Pension Savings statement means that a member has exceeded the AA limit for that specific tax year in respect of their SYPA membership – it does not necessarily mean they will face a tax charge (as they may have carry forward for example). Similarly, a member may also face a tax charge if they have benefits in more than one scheme and the sum of these benefits exceeds £ 40,000.

Lessons Learnt from 2020/21 exercise

5.6 For the 2020/21 year, a total of 105 Pension Savings statements were issued where members had exceeded the £ 40,000 limit. Unfortunately, only 5 of these were issued within 6 months of the end of the tax year.

5.7 **Appendix A** provides a high-level summary of the issues that led to the late production of Pension Savings statements in relation to the 2020/21 exercise. In brief terms these can be summarised as follows: -

Resourcing: Under legacy arrangements, the exercise had traditionally been carried out by one of the small specialist teams (the Support and Engagement Team). This team was under-resourced last year (primarily through the absence of a team manager for six months) which led to delays in completing the exercise.

Process: The processing of monthly MDC files means that it is possible to estimate the AA liability for the year ending 31 March and this estimate is included in the Annual Benefit Statements that are issued to each member. However, for members who exceed the AA they require an accurate calculation to 5 April tax year end and this means additional data is required from the employer. The process of identifying affected members, issuing data requests and ensuring individual employer responses were received in a timely manner was not sufficiently robust for 2020/21.

Systems: We had been due to receive an upgrade from Civica ahead of the 2020/21 exercise which would allow automation of the calculation process (to 5 April instead of 31 March) but in the event this was not available in time for 2020/21 and the actual calculations had to be performed “manually” using spreadsheets.

5.8 **Appendix A** summarises the Action (Improvement) Plan which has been put together to rectify the issues experienced during the 2020/21 exercise and to ensure successful and timely completion of the 2021/22 and future exercises. The status column on the Action Plan highlights that the exercise is currently on target and a further update will be provided to the next meeting of the Board to provide assurance that the statements will be issued on time for 2021/22.

6 Implications

6.1 The proposals outlined in this report have the following implications:

Financial	None
Human Resources	None
ICT	None
Legal	None
Procurement	None

Jason Bailey

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Background Papers	
Document	**Place of Inspection**