

## **PENSION FUND COMMITTEE – 1 DECEMBER 2017**

### **DISCRETIONARY POLICIES**

#### **Report by the Director of Finance**

##### **Introduction**

1. This report is to seek member's views regarding changes to the administration strategy and whether a new discretionary policy should be introduced to give scheme members a "voluntary scheme pays option" for instances where they have breached HMRC's annual allowance limits.

##### **Administration Strategy**

2. The proposed changes, which are highlighted in the attached document – annexe A - are to facilitate the processing of end of year data and to simplify proposed charges which would make to whole scheme easier to operate: -
  - To give employers a revised, earlier, deadline for the submission of their annual return which would bring it in line with deadline for monthly returns.
  - To update the return so that the Scheme employer reconciles the information on the annual return with the contributions paid to the Fund
  - To rationalise the charges for late or incorrect information so that it is easier to administrate and more transparent to the employer what the change are being made.
  - To require scheme employers to attend at least one meeting per year with the Fund
3. Subject to any changes by the Committee the document will then be sent to all scheme employers for consultation with the aim of having the final document in place in March 2018.

##### **Scheme Pays**

4. An option for voluntary scheme pays is being introduced alongside the mandatory scheme pays for scheme members who breach the HMRC Annual Allowance limit on increase in their pension savings during a financial year.
5. The introduction of a voluntary scheme pays option will be at the discretion of the Oxfordshire Pension Fund.

### Annual Allowances

6. The annual allowance is the limit of the tax relief given on pension savings during any financial year. If pension savings exceed this allowance then a tax charge is payable. The limit in 2016/2017 and for 2017/2017 is £40,000.
7. However, during 2016/2017 HMRC amended the rules of the annual allowance by the introduction of tapered annual allowance for employees with a taxable income over £150,000. For these scheme members every £2 of income above £150,000 will reduce their annual allowance by £1, although this cannot be reduced below £10,000.

### Mandatory Scheme Pays

8. Where a member has exceeded the £40,000 annual allowance and incurred a tax charge of £2,000, or more they can elect for the Fund to pay part or full amount of tax due to HMRC on basis that their future pension benefits will be reduced.

### Voluntary Scheme Pays

9. If agreed, this option could allow scheme members with tapered annual allowances to elect for the Fund to pay their tax charge to HMRC on basis that their future pension benefits would be reduced. These pension reductions are made in line with the factors issued by the Government Actuaries Department which are cost neutral to the Fund.
10. The mandatory scheme pays applies to benefits accrued in the Oxfordshire Pension Fund and it is envisaged that should a voluntary scheme pays option be introduced this would also only apply to benefits accrued within the Oxfordshire Pension Fund.

### Administration

11. HMRC has different deadline for the payment of tax due under the above options and penalties for late payment is applied. In order to reduce administrative complications and avoid incurring any potential late payment charges it is suggested that for scheme members wishing to elect for voluntary scheme pays, this election would be in line with the mandatory scheme pays option: -
  - Tax charge must be in excess of £2,000
  - Election must be made by 30 November following tax year end
  - Payment of monies to HMRC by 31 January following tax year end
12. The option for voluntary scheme pays would also be introduced for Fire-fighters within the Oxfordshire Pension Fund and apply to the benefits accrued within that Fund.

## **RECOMMENDATION**

**13. The Committee is RECOMMENDED to:**

- (a) comment on and approve the proposed changes to the Administration Strategy; and**
- (b) confirm whether the Committee wishes to introduce a voluntary scheme pays option, providing criteria in paragraph 11 are met.**

Lorna Baxter  
Director of Finance

Background papers: N/A

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November 2017