SCOTTISH PUBLIC PENSIONS AGENCY

NATIONAL HEALTH SERVICE SUPERANNUATION SCHEME (Scotland)
01/2011

WHO SHOULD READ:	**Chief Executives of Health Boards** **GP/Dental Practitioners** **HR, Payroll, IT and GP Practice Managers** **Other interested parties**
ACTION:	**To read and circulate as appropriate**
SUBJECT:	**Pension Tax Relief** **Automatic Enrolment** **Switch from RPI to CPI**

The purpose of this circular is to bring your attention to:

- **changes to Pension Tax Relief and how this affects the requirements to provide Annual Return information to pension schemes by 6 July 2012**
- **the introduction of Automatic Enrolment from 2012 and**
- **the change from RPI to CPI for uprating public pensions**

Pension Tax Relief

The UK Government is introducing changes to the way pensions are taxed which are aimed at restricting the tax relief granted to the most highly paid. The Finance Bill 2011 has been laid and draft regulations have been issued.

The vast majority of members will not be affected by the new AA. However, those earning over £150,000, those who receive a significant pay rise as a result of being promoted to a senior role, or have a fast accrual (such as Mental Health Officers) may be affected by the reduction in the AA. The AA is based on the growth in the value of your benefits.

Changes to the Annual Allowance (AA)

- from the tax year 2011-12, the Annual Allowance (AA) will be reduced from its current level of £255,000 to £50,000
- from 6 April 2011, the way that pension growth (in defined benefit arrangements) is calculated will change and a new flat rate factor of 16 will be used in calculating the build up of a pension in a year
- individuals will be able to carry forward 3 years' of any unused AA.

Therefore, members, whose pension entitlement increases by more than £3,125 (which is the AA of £50,000 ÷ by the factor of 16) after inflation in the year tested against AA, will exceed the £50,000 limit. However, the introduction of the ability to "carry forward" unused allowances from the 3 previous years may mitigate the affect of the change. Any member ultimately exceeding the AA limit will be liable for a tax penalty which will either be paid directly by the member or by adjustment to pension benefits.

We are still awaiting final confirmation from the UK Government on a number of issues such as the responsibility for payment of the tax penalty, but it is likely that the AA test will not be applied in the year of death or in the case of lump sums paid as a result of a terminal illness. The government are still considering whether enhancements awarded due to serious ill health will be tested against the AA. SPPA are currently awaiting confirmation from HMRC whether the conditions which permit Upper Tier Benefit will meet the HMRC test of severe ill health. Members who have left the scheme and have deferred taking their preserved benefits will also not be affected by the AA test (unless they are accrued in the current Pension Input Period).

The current exemption which applies to accruals (the build up in pension) in the year up to retirement will be removed and it is still unclear whether additional compensation paid by the employer will affect the AA.

Changes to the Pensions Lifetime Allowance (LTA)

From 6 April 2012, the Lifetime Allowance (LTA) will reduce from £1.8m to £1.5 m. This may affect members who have either (a) an annual pension of over £65,217 plus the standard lump sum or (b) an annual pension of £75,000 before taking a lump sum.

For both the AA and LTA change we are planning to contact members who may be affected by the new limits however, anyone who thinks they may be affected can, in the first instance, access our website at www.sppa.gov.uk where a factsheet, Q & A with examples are available. SPPA will update this circular as and when we receive more information from HMRC.

SPPA will provide employers with details of those members who we consider may be affected by the changes. However, we can only do this for active members and employers may wish to consider their employees who are not members of the scheme.

SPPA cannot give financial advice therefore, members who think they may be affected by the changes are advised to seek independent financial advice.

Annual return information from 2012

To facilitate the new arrangements for AA and LTA, employers will be required to provide information about employees' pensionable pay and service to pension schemes within 3 months (by 6 July) following the end of tax year. This deadline has been imposed by HMRC. Similarly pension scheme administrators have 3 months (until 6 October) to provide the information to any member exceeding the AA so that the member may in turn submit the tax assessment to HMRC by the following January. Therefore the first deadline for employers will be 6 July 2012.

Further information on Pensions Tax relief can be obtained from the HM Treasury website:
http://www.hm-treasury.gov.uk/consult_pensionsrelief.htm

HMRC have created a webpage which may be useful entitled "How does the reduced annual allowance affect me?" and is available at:
http://www.hmrc.gov.uk/pensionschemes/annual-allowance/reduced.htm

Automatic Enrolment

The UK Government is introducing workplace pension reforms to encourage more people to save for their retirement. The purpose of this circular is to give you maximum notice of an impending change to the administrative arrangements concerning members of the NHS. The workplace pensions reform changes have been laid in the Pensions Bill 2011 and one of the changes being introduced from 1 October 2012 is Automatic Enrolment. Auto enrolment is employment law and as such the responsibilities fall on the employer.

What this means for you as an employer is that you must automatically place all eligible jobholders into the appropriate pension scheme and advise them that you have done so. Employers must therefore:

- enrol new jobholders in the pension scheme within 3 months of the jobholder taking up employment (the waiting period) without the jobholder having to take any action. Employers can select a date which suits their payroll
- enrol jobholders during the waiting period if this is requested by the jobholder
- not ask jobholders if they wish to join
- not allow jobholders to “elect not to join”
- enrol all eligible jobholders including those who have previously opted out or did not join
- re-enrol jobholders who have previously opted out and who are still working for them once every 3 years. Employers have been granted a 6 month flexible window to allow this to be carried out.

Jobholders who do not wish to be in the pension scheme must therefore be included by their employer automatically in the pension scheme and then “Opt Out”. For members of the NHS, a copy of the Opt Out form should be submitted to SPPA and this aspect is a key change to current procedures. SPPA will inform employers on how best to progress this.

Further information on Auto Enrolment can be obtained from the DWP website:
http://www.dwp.gov.uk/policy/pensions-reform/workplace-pension-reforms/

The DWP link below is “A Call for Evidence” which gives employers an opportunity to submit evidence on these important issues as well as suggest any potential solutions. The call for evidence closes on 18 April 2011 and the Government will respond in the autumn outlining the actions they intend taking in response to the evidence presented.
www.dwp.gov.uk/docs/personal-pensions-consultations.pdf

Instructions for responding are contained in the document at paragraph 19. Please do not respond to SPPA.

Switch from RPI to CPI and the affect on Additional Pension

The UK Government has confirmed its intention to switch the basis of uprating public service pensions from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI) and will come into force from April 2011. The decision on annual uprating is reserved to the UK Government under the Pensions (Increase) Act 1971 and is automatically applied to the schemes in Scotland. The Act principally covers pensions in payment and deferred awards although there are a number of references to the Act in the scheme regulations. Where the scheme's Regulations refer to the Pensions (Increase) Act, the references will again automatically switch over to CPI.

In maintaining a consistent approach on indexation in the scheme, we have considered how additional pensions are re-valued before they are put into payment. Currently additional pension is re-valued using RPI. The following change is being introduced:

- all contracts taken out to purchase additional pension either by lump sum or regular contributions up to and including 31 March 2011 will continue to be re-valued using RPI for the duration of the contract payment period.

- all contracts taken out to purchase additional pension either by lump sum or regular contributions from and including 1 April 2011 will be re-valued using the indexation applied by the Pensions (Increase) Act which from April 2011 is CPI.

Once an additional pension comes into payment it will be subject to indexation under the Pensions (Increase) Act.

The Government Actuary's Department will review the factors used to calculate the cost of AP in light of these changes. All staff should be alerted to this change so that if they wish to take out a contract for additional pension that is re-valued using RPI they must do so no later that 31 March 2011.

Further information on the change from RPI to CPI can be obtained from HMT website: http://www.hm-treasury.gov.uk/

As indicated elsewhere in this circular, SPPA will provide further instructions and information to employers once we have received final decisions by HMRC and/or UK Government. In the meantime, more details can be found on the websites provided to keep employers up to date with the upcoming changes.

Ian Clapperton
Director of Operations
2 March 2011

Contact Information:

Should you have any enquiries about this circular, or require further information, please contact: SPPAstakeholderliaison@scotland.gsi.gov.uk

Please do not send requests for estimates or benefits statements to the above email address.