

Hampshire Fire and Rescue Authority

Fire Pension Board

Item 7

8 January 2016

Pensions Issues Log

Report by Head of Finance

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1 Summary

1.1 This report summarises the range of current issues related to the administration and management of Firefighters pensions which largely arise from recent changes to schemes and employment tribunal matters. Progress toward resolution of these issues is summarised below and in the pensions issues log attached to this report.

2 Recommendations

2.1 That the contents of this report which summarises progress toward resolution of pensions issues for Hampshire Fire and Rescue Service be noted.

2.2 That the Board considers whether or not the Additional Pension Benefit issue detailed in Section 5 should be reported to the Pension Regulator as a breach.

2.3 That any other matters raised by the Board be added to the log for future monitoring.

3 Introduction and background

3.1 The purpose of this report is to summarise, for awareness of the Board, the full range of current pension related issues which require resolution, to confirm progress on these issues and to report on those aspects which have been completed.

4 Pensions Issues Log

4.1 Attached to this report is the pensions issues log which has been created to assist in the effective management and monitoring of these matters. The log includes the following key updates since the last Pension Board meeting in September 2015:

- A note of further work to progress membership of the RDS Modified Pension Scheme including calculating final backdated lump sum costs for individuals, writing to these individuals to confirm details and making arrangements to collect back-dated monthly pension contributions from current staff.
- An update on the position of tax liabilities for temporary promotions which is

covered in more detail in the body of this report.

- Consolidation of a number of related issues which all require review and revision of LGPS discretionary powers policy.
- Completion of action required to implement the change in pension contributions from April 2015.
- Completion of action associated with making payments under the GAD v Milne case.
- New item added to note the requirement to undertake the required review of the re-engagement policy.
- New item added regarding contributions for those who joined aged 18-20 with over 30 years service following a recent Government announcement. Some Firefighters who meet the criteria may be entitled to a 'contributions holiday' in respect of their pensions.
- New item added following the last Board meeting to note work with the LGA to develop communications for non-members to promote the benefits of FPS membership.

5 Additional Pension Benefits

5.1 Board members will be aware that in the past, temporary promotions that result in a significant increase in a Firefighter's salary can create a major tax liability for the individual if they exceed their annual allowance for contributing to their 'pension pot'.

5.2 This mainly arises because previous schemes (prior to the 2015 scheme) are a defined benefit scheme linked to final salary and a large increase in salary in one year translates into a significant increase in the virtual 'pension pot' which leads to a tax liability often into tens of thousands of pounds. This can happen even if the temporary promotion ends and the Firefighter returns to their normal salary (and therefore potentially never sees any benefit from what has been paid by them, both in tax and contribution terms).

5.3 It was reported at the last board that some Authorities have alleviated this position by treating the pension element of temporary promotions as an Additional Pension Benefit (APB) and an action was given to the Head of Finance to find out more about this issue.

5.4 Following discussions with a senior colleague at Oxfordshire FRS (who has a national lead on pensions) it has come to light that the regulations around the pension treatment of temporary promotions were changed in July 2013 after the Government recognised the tax problems being caused for Firefighters. At this time all Fire Authorities were required to make a decision about whether or not temporary promotions would be treated as pensionable.

5.5 If the Authority had decided they were pensionable then ALL future pension contributions made by Firefighters when on temporary promotion have to be treated as an Additional Pension Benefit. APB's are treated separately for tax purposes in that they count against annual allowances as an absolute sum rather than through a calculation relating to final salary and defined benefits. This helps to significantly reduce any tax liability and some pension benefit is earned irrespective of whether or not the temporary promotion ends.

- 5.6 If the Authority had decided that temporary promotions were not pensionable then no additional contributions were due from the individual on the additional salary they earned but no pension benefit or tax liability was created.
- 5.7 Following further investigation it has been confirmed that HFRA made no decision around this at the time and therefore the previous practice of treating temporary promotions as pensionable has continued to the present day (causing some tax liability issues for individuals) rather than being treated as an APB.
- 5.8 Clearly, this is an oversight on the part of HFRA as Scheme Manager (at the time) and this position needs to be addressed as soon as possible. A formal decision report will therefore be presented to F&GP Committee in January to consider this issue and make the decision retrospectively.
- 5.9 Irrespective of the decision that is made, there will be a significant piece of work to do, either to convert previous pensionable benefits into APB's and re-calculate tax liabilities, or to remove pension benefits that have been awarded and re-calculate tax liabilities.
- 5.10 In effect, HFRA has failed to comply with a change in Regulations which could be seen an issue that should be reported to the Pension Regulator given that there will be an impact on a large number of Firefighters. The Board is asked to give a view on this matter, but an initial view from legal services will be provided at the meeting.

6. Future Issues

- 6.1 At the last Board there were a number of specific action points and an update on these will be given verbally at the meeting. One of these was to explore a communication strategy in the context of the national and regional boards and as yet no response has been received from the LGA. Until we understand the wider picture it is felt premature to pursue a communications strategy at this point.
- 6.2 Some initial work has been undertaken by Alex Rhodes as the training lead for the Board, but it is recommended that a more formal training plan is put in place that can be considered at the next meeting. This will include a Training Needs Analysis for Board Members.
- 6.3 There has also been some material released on the 'New State Pension' which it is recommended Board Members be made aware of and this can perhaps be included as part of the overall training plan.

7 Conclusion

- 7.1 The management and administration of Firefighters pensions continues to be complex and drawing significant capacity from corporate shared services. With the addition of further national developments and to ensure necessary progress is maintained additional resource has been agreed for a temporary period to support the management of Fire Pension matters, both at a senior and operational level. This resource will be located within the Finance Service and will commence in January 2016 and Directors have already agreed one off funding to support these additional resources.