



Government
Actuary's
Department

Briefing on the 'McCloud' Public Consultation

Scottish Teachers' Pension Scheme
Scheme Advisory Board

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Agenda

- 1 Overview of the consultation
- 2 Member choice
- 3 Timing of member choice
- 4 Next steps
- 5 Appendix



Public service pension schemes:
changes to the transitional
arrangements to the 2015
schemes
Consultation

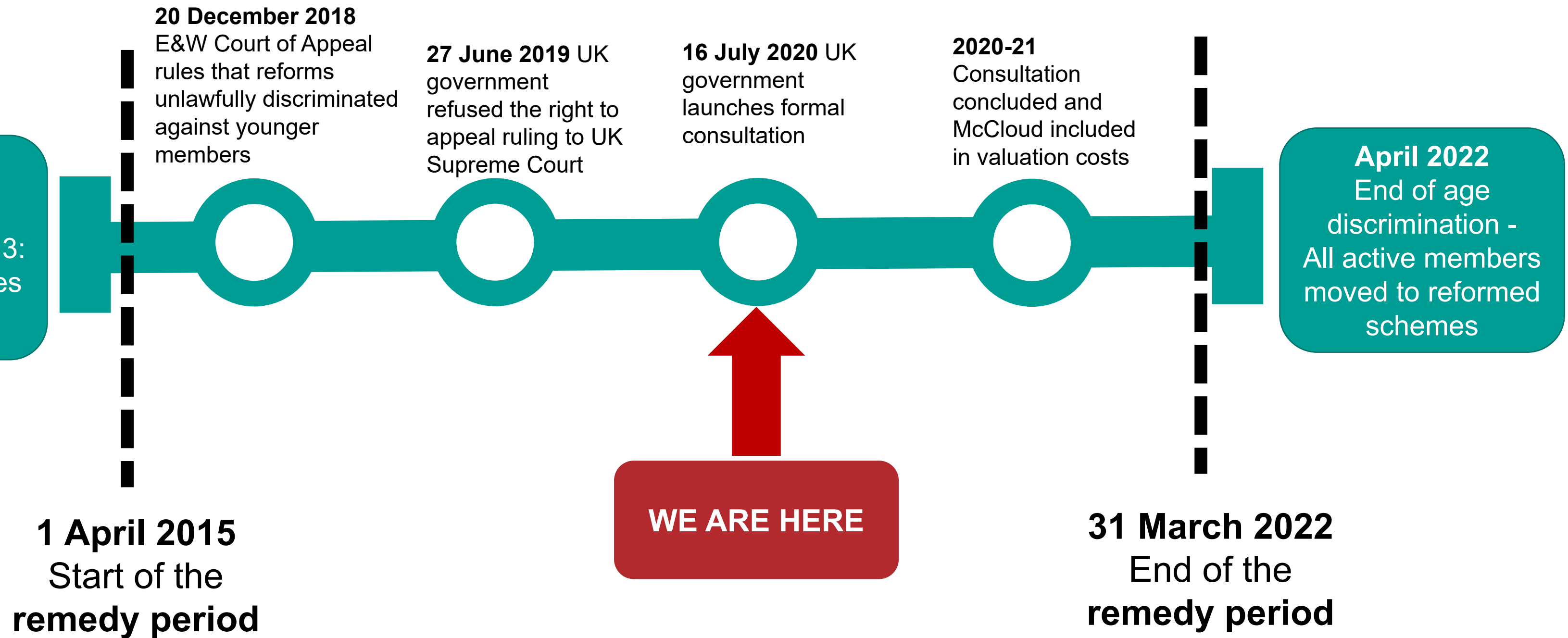
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Overview of the consultation



The McCloud/Sargeant journey



Consultation scope

Purpose

- To seek feedback on UK government's proposals for removing the discrimination identified in the 2015 reforms.

Scope

- It covers all public service pension schemes in the UK, with the exception of:
 - schemes covered by Northern Ireland Executive
 - judicial and local government pension schemes
- Separate consultations will be carried out for these schemes.

Duration

- The consultation will last for twelve weeks.
- It closes on 11 October 2020.

Consultation proposals

Service between:
1 April 2015 and 31 March 2022

Service after 1 April 2022

- Eligible members will be given the option to choose between their legacy and reformed scheme benefits.
- Two proposals have been put forward on how the choice might work...

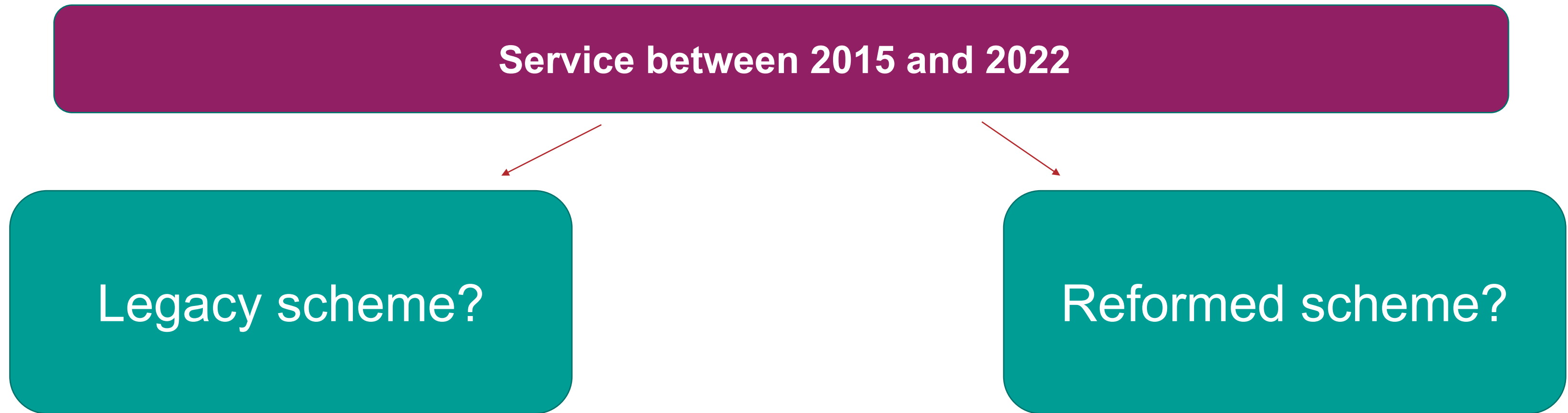
- All active members will accrue benefits in reformed scheme

- Eligible members are all those who were in service:
 - on or before 31 March 2012 **and**
 - on or after 1 April 2015including those with a qualifying break in service of less than 5 years.

Member choice



Choice



- Moving all unprotected members back to legacy schemes would be detrimental to members who would be better off in reformed schemes
- Members who were protected and remained in legacy schemes, may be in fact better off in the reformed schemes

Choice driven by personal circumstances and priorities

Consultation – member pension examples

Example 1

A **nurse** who is a member of the **NHS Pension Scheme** (2015 scheme and 2008 section).

In 2012 they were 45, and so did not receive transitional protection. However, they will now be given a choice of pension for their service over the remedy period, of either:

| Legacy scheme (2008 section) | or | Reformed scheme |
|--|----|---|
| 1/60 th of final salary each year Optional lump sum Payable unreduced from age 65 | | 1/54 th of revalued salary each year Optional lump sum Payable unreduced from State Pension age (age 67) |

If they had a **salary of £30,000 in 2015**, experience future annual **salary increases of 1% above inflation** and **retire at 65**, their choice with respect to the remedy period will be between the following pension amounts at retirement:

| | | |
|-----------------------------|----|-------------------------------|
| Legacy scheme: £5,450 pa | or | Reformed scheme: £6,040 pa |
|-----------------------------|----|-------------------------------|

Assuming they choose to not give up any pension for a lump sum and allowing for the reformed scheme benefits being reduced for early retirement.

This means they would likely be **better off receiving reformed scheme benefits**.

Example 2

A **teacher** who is a member of the **Teachers' Pension Scheme** (Normal Pension Age 60 section).

In 2012 they were 50, and so received transitional protection. However, they will now be given a choice of pension for their service over the remedy period, of either:

| Legacy scheme (NPA 60) | or | Reformed scheme |
|--|----|---|
| 1/80 th of final salary each year Automatic lump sum (3x pension) Payable unreduced from age 60 | | 1/57 th of revalued salary each year Optional lump sum Payable unreduced from State Pension age (age 67) |

If they had a **salary of £40,000 in 2015**, experience future annual **salary increases of 2% above inflation** and **retire at their State Pension age (67)**, their choice with respect to the remedy period will be between the following pension amounts at retirement:

| | | |
|---|----|---|
| Legacy scheme: £5,710 pa (+ £17,130 lump sum) | or | Reformed scheme: £6,570 pa (+ £17,130 lump sum) |
|---|----|---|

Assuming, for ease of comparison, that under the reformed scheme benefits, they would choose to give up pension for a lump sum equivalent to that they would have automatically received under the legacy scheme.

This means they would likely be **better off receiving reformed scheme benefits**.

Low pay increases – better off receiving REFORMED SCHEME benefits

Consultation – member pension examples

Example 1 revisited

Example 1 considered a **nurse** who is a member of the **NHS Pension Scheme** (2015 scheme and 2008 section), who if they were to retire at age 65 would choose between the following pension amounts with respect to the remedy period at retirement:

Legacy scheme:
£5,450 pa

or

Reformed scheme:
£6,040 pa

If the same nurse as set out in example 1, gets promoted twice, receiving **an additional 10% salary increase** at the end of the remedy period **and an additional 5% salary increase** five years later, their choice if retiring at age 65 now becomes, either:

Legacy scheme:
£6,270 pa

or

Reformed scheme:
£6,040 pa

This means they would likely be **better off receiving legacy scheme benefits**. Therefore, for this hypothetical member a change in future career progression has changed which scheme is expected to be more beneficial.

Example 2 revisited

Example 2 considered a **teacher** who is a member of the **Teachers' Pension Scheme** (Normal Pension Age 60 section), who if they were to retire at their State Pension age (67) would choose between the following pension amounts with respect to the remedy period at retirement:

Legacy scheme:
£5,710 pa
(+ £17,130 lump sum)

or

Reformed scheme:
£6,570 pa
(+ £17,130 lump sum)

If the same teacher as set out in example 2 **chose to retire aged 60** instead, then their final salary would be lower and the reformed scheme benefits would be reduced for early retirement. Their choice is now:

Legacy scheme:
£4,340 pa
(+ £13,020 lump sum)

or

Reformed scheme:
£3,490 pa
(+ £13,020 lump sum)

This means they would likely be **better off receiving legacy scheme benefits**. Therefore, for this hypothetical member a change in retirement age has changed which scheme is expected to be more beneficial.

Promotion and high salary increases – better off receiving LEGACY SCHEME benefits

Timing of member choice



Timing of member choice

- Member can choose to accrue benefits in legacy scheme or the reformed scheme for service between 1 April 2015 and 31 March 2022
- **BUT when** will they be asked to make this decision?
- Two options have been proposed:

Immediate Choice

- Members will be offered the choice within a few years after 1 April 2022
- Schemes will provide information to help members forecast their pension entitlements under both the legacy and reformed schemes
- If the member does not make a choice, they will remain in their current scheme by default

Deferred Choice Underpin (DCU)

- Members would remain in, or be returned to, the old/legacy schemes for service between 2015 and 2022.
- At the point benefits become payable, members would be then able to choose to instead receive new scheme benefits for that period.



Timing of member choice

Immediate Choice

- Positives for member:
 - Addresses issue relatively promptly
- Negatives for member:
 - Decision based on assumptions around, for example, future earnings and future family circumstances

Deferred Choice Underpin (DCU)

- Positives for member:
 - Decision based on known entitlements
- Negatives for member:
 - Relative uncertainty about pension entitlements until you retire

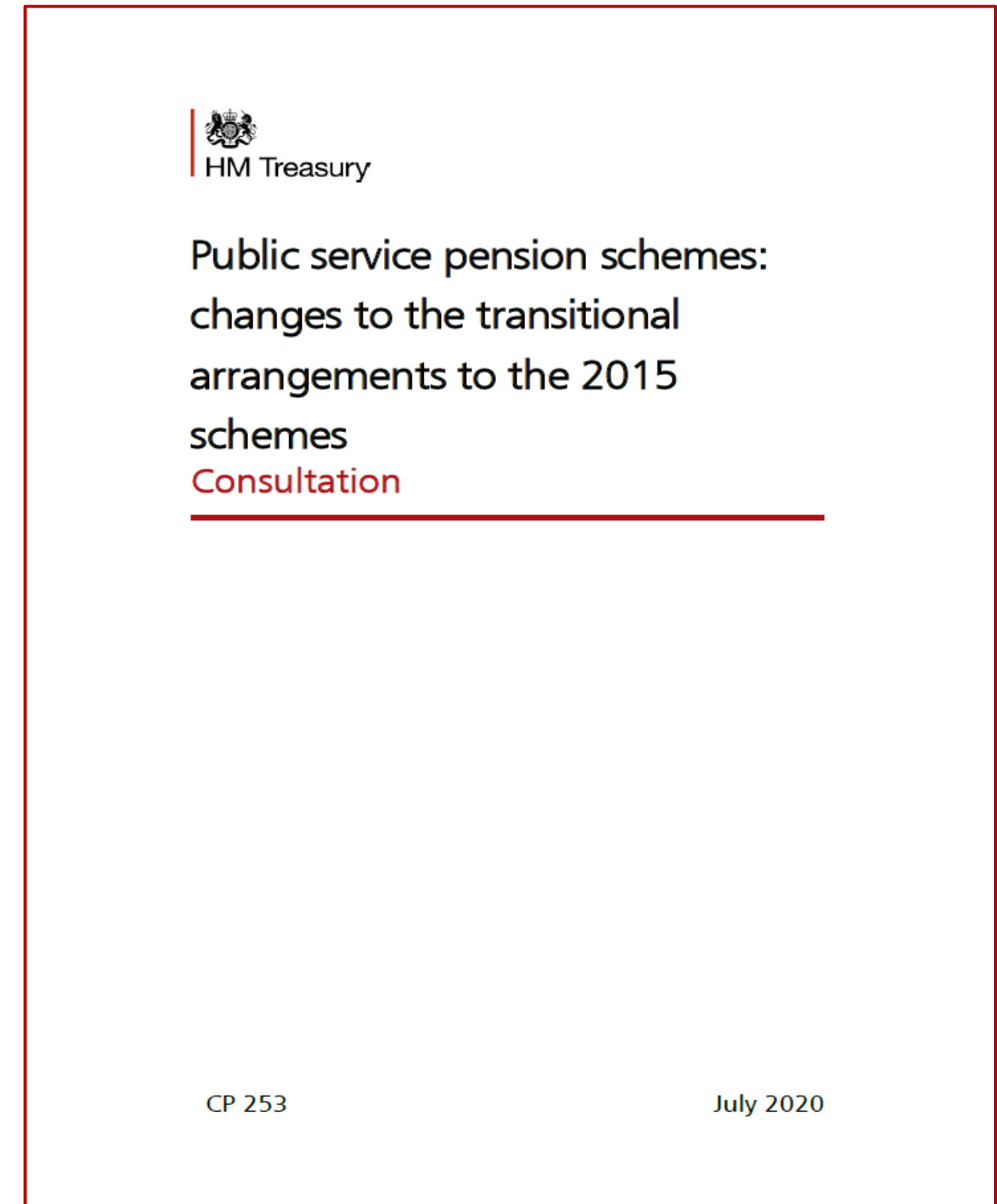


Next steps

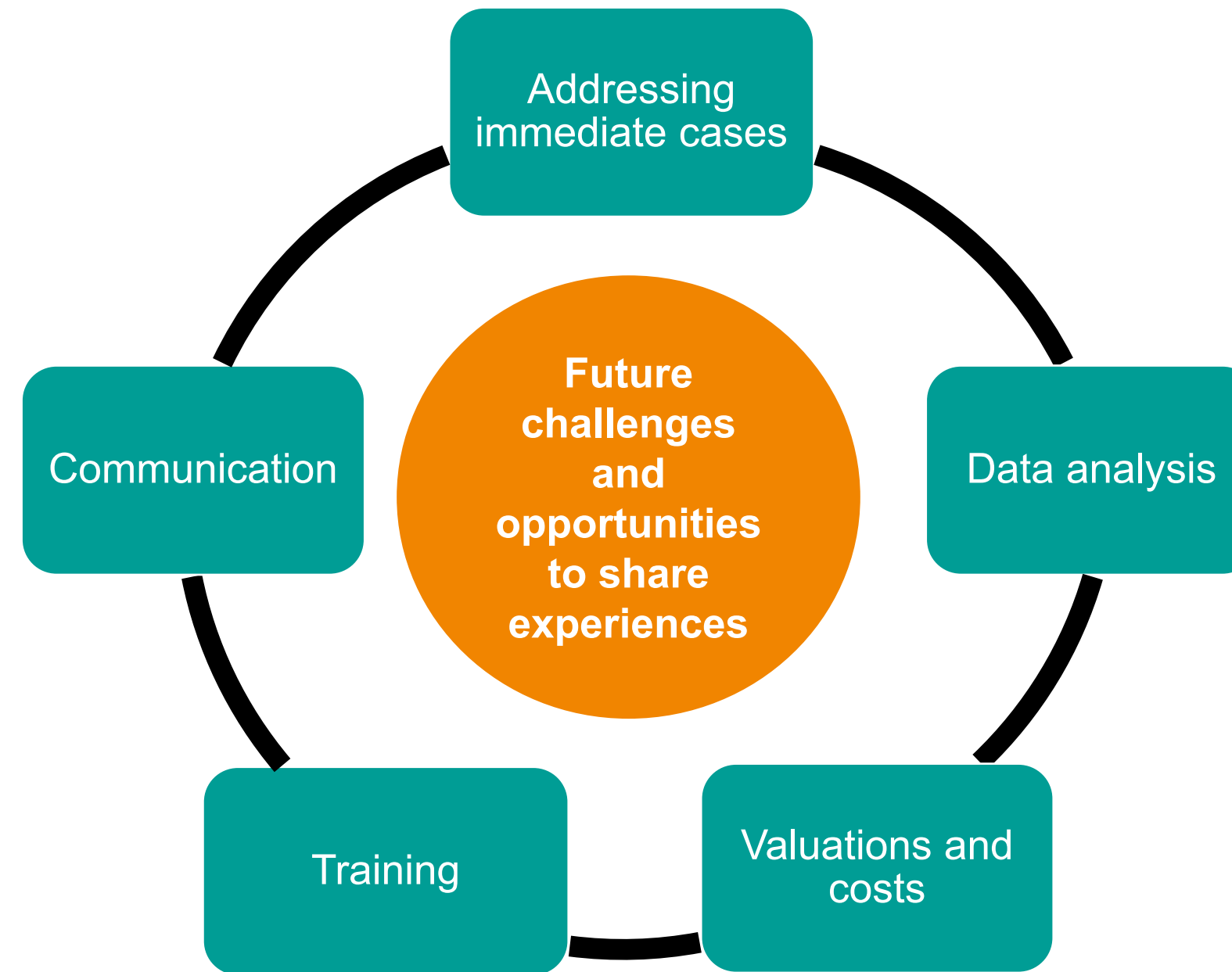


Have your say

- More information is available at:
<https://www.gov.uk/government/consultations/public-service-pension-schemes-consultation-changes-to-the-transitional-arrangements-to-the-2015-schemes>
- Responses can be submitted by email to:
PensionsRemedyProjectConsultation@hmtreasury.gov.uk



Challenges lie ahead



Many of the challenges faced by schemes are similar



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Appendix A: Further technical details



Further technical details (1)

Revisiting old cases

- Eligible members who have already retired would make a retrospective choice to receive benefits from the legacy or reformed scheme for post 2015 benefits.

Member contributions

- If members move from one scheme to another, a “rebalancing payment” or “rebalancing refund” would be required.

Additional pension

- All benefits purchased via voluntary contributions could be converted into the equivalent value of AP in the scheme the member is not currently in.
- Where the member chooses to move schemes, any breaches on the overall limit on the total AP that can be purchased would be ignored.

Option to buy-out reduction to pension if benefits are taken before NPA

- Not possible to convert into an equivalent benefit in the legacy schemes
- Members who are returned to the legacy scheme for the remedy period would therefore receive a refund of contributions to such arrangements (with any refund being taxable in the usual way).

Further technical details (2)

Money purchase schemes

- These schemes are outside the scope of the consultation.

Annual Benefit Statements (ABS)

- If Immediate Choice:
 - no changes to the ABS contents until after member exercised their choice.
- If Deferred Choice Underpin:
 - scheme administrators required to produce ABSs containing information on:
 - Remedy period benefits under both reformed and legacy scheme designs
 - Legacy scheme benefits for service before 2015
 - Reformed scheme benefits for service after 2022

Ill health retirement (IHR)

- Any member who was refused an IHR pension in one scheme may be eligible for IHR in alternative scheme.
- Members who have already retired on IH grounds would be able to retrospectively choose the benefits in the alternative scheme (subject to eligibility).
- Tax implications for post-award adjustments will depend on individual circumstances

Further technical details (3)

Deaths since 1 April 2015

- Options on how to deal with cases:
 - Where increase is due, schemes could notify the estate
 - More complex approach of presenting survivors with choice between two packages of benefits
 - Potential complications in cases where dependent children are in receipt of survivor pensions
 - Some legacy schemes did not provide for unmarried partners pensions
 - In cases where no higher payment would be due, no contact should be made with relevant parties
 - Any tax charges would not fall to the member or their survivors

Further technical details (4)

Contingent decisions

- Decisions that individuals took as a result of the implications of the introduction of reformed schemes will be reviewed on a case by case basis.

Voluntary pension transfers (club and non-club)

- If a member transferred under club before remedy choice, one option would be to bring forward the choice to date of transfer so that only one set of benefits for remedy period considered.
- Alternatively, member could be given a single choice that covered their pension accrued in their old and new employment.

Divorce cases

- Any cases where a CETV has already been issued or which needs a CETV before remedy legally effected, may need to be revisited

Further technical details (5)

Interest on under- or over-payments and refunds

- Interest should be awarded on amounts due to member.
- UK government to decide whether it is appropriate to charge interest where a member owed a debt

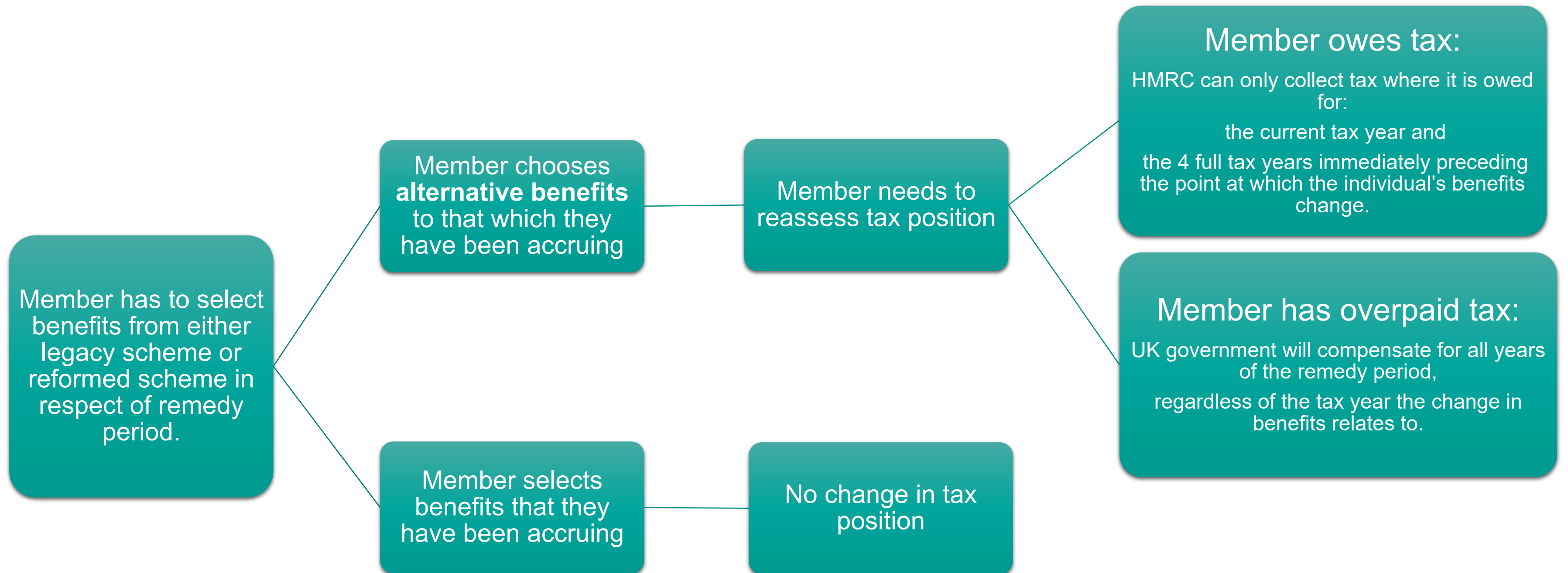
Abatement: Reduction or suspension of a pension in payment in the event of re-employment

- Where choice resulted in increase to a pension and meant that benefits exceeded pre retirement income, abatement would not apply / would not be increased retrospectively.
- Where abatement no longer applies, abatement calculation would be adjusted as necessary.

Appendix B: Taxation considerations



Tax treatment: General



Tax Treatment: Annual Allowance

Immediate Choice

At the point at which the choice between benefits in remedy period is made:

- If opt for alternative benefits in remedy period, tax position will be reassessed
- AA positions for each year of remedy period will need to be recalculated, based on new pension benefits for that year
- Member will need to compare this revised charge with any AA paid to determine if they are owed a tax refund or whether they owe more tax
- 4 year time limit for assessing tax implications applies from date choice is made.

Deferred Choice Underpin

2022

- At this point, all eligible members will be deemed to have been members of **legacy scheme** over the remedy period.
- For those individuals who were not in legacy scheme over this period, this represents a change in benefits
- AA calculations will need to be recalculated based on these “new” pension benefits.
- 4 year time limit for assessing tax implications applies from 2022.

When individual receives benefits:

- If member then opts for reformed scheme benefits in remedy period, tax position will need to be reassessed
- Any increase resulting from their choice would all occur in the single tax year at the point the member chooses which benefits to take
- Charge could be significant and driven due to design of DCU option, so UK government will compensate individuals in relation to any AA charges relating to choice to accrue benefits in reformed scheme

