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24 March 2016

HM TREASURY

OFFICIAL COMMITTEE ON OCCUPATIONAL PENSIONS

Note by HM TREASURY

REVALUATION OF PENSION FOR THOSE WHO RETIRE IN YEAR

We have been made aware of an unintended effect of the recent revaluation provisions where that leads to a scheme needing to negatively revalue a member's pension after they have retired.

Pension tax rules state that if a pension in payment is reduced, this will trigger unauthorised payments (unless it is an excepted provision). This is because under the Finance Act 2004 (as supplemented by The Pension Schemes (Reduction in Pension Rates) Regulations 2006 – SI 2006/138, as amended) reductions in pension, other than in excepted circumstances, are not authorised.

In response to a question asked on this issue during the recent Parliamentary Committee debate, the CST said:

"In terms of pensions in payment, I am prepared to reassure hon. Members that we will deal with this complex matter. It is a slightly anomalous matter, which may require a legislative amendment or a small change to the schemes, but I assure the Committee that members will not be adversely affected in the particular case of an in-year withdrawal from the scheme."

To ensure that the CST's commitment is met, we are writing to you to request that you notify scheme administrators that the pension in payment of those who retired in year should not be negatively revalued.

We expect that this will only apply to either a retirement from the Local Government Pension Scheme in 2015–16, due to the transitional protection that has been put in place, or to a small number of other members (for instance one who has either been ill-health retired or a survivors pension has been paid) in respect of either the LGPS, civil service or judges pension scheme (as the only schemes that will see negative revaluation).

We intend for scheme regulations to be altered, however, as revaluation is set to occur on the 1st of April, these will have to be implemented with effect

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from 1st April. Minister's clear intentions are that no one who has retired in year will be hit by an authorised tax charge as a result of negative revaluation. Further advice will follow.

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