

HM Revenue and Customs

Email to: pensions.policy@hmrc.gov.uk

12 September 2023

Consultation: Abolition of the Lifetime Allowance

Thank you for your policy paper setting on the proposal for abolishing the Lifetime Allowance (LTA).

I respond on behalf of the Local Government Association (LGA) and the Local Government Pensions Committee (LGPC).

The LGA is a politically led, cross-party membership organisation that works on behalf of councils to ensure local government has a strong, credible voice with national government. 331 councils in England including district, county, metropolitan, unitary, London boroughs and the City of London are members of the LGA. There are 22 Welsh unitary authorities in membership via the Welsh Local Government Association (WLGA). The LGPC is a committee of councillors constituted by the LGA, the WLGA and the Convention of Scottish Local Authorities (COSLA). The LGPC considers policy and technical matters affecting the Local Government Pension Scheme (LGPS).

I hope the content is helpful. Please do not hesitate to contact me if you have any questions about this response.

Yours faithfully



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Background to the response

This response is submitted in the context of the Local Government Pension Schemes (LGPS) in England and Wales, and Scotland. The LGPS is one of the largest defined benefit schemes in the world. In England and Wales there are over 19,000 employers, 6.3 million members and assets of £400 billion. The scheme is administered locally by 86 administering authorities in England and Wales, and 11 in Scotland.

Comments on proposals

1. Whilst we are supportive of any policy that simplifies the pensions tax regime and encourages people into the workplace, we do not think the proposals will deliver this for the local authority workforce and other LGPS employers.
2. The concept of having two separate limits for lump sums will be confusing for members. This will be particularly confusing where a lump sum will count towards both limits, which will be the case for PCLS and UFPLS.
3. As a result of the changes to the LTA, the maximum lump sum amount a member can take as PCLS will be frozen at £268,275. If the Government is committed to encouraging people back into the workforce, this figure should be increased in line with the Consumer Price Index.
4. We do not understand why trivial commutation lump sums will count towards the new threshold of £1,073,100 if the policy is to limit the amount of tax-free lump sums a member can take. For a member to be entitled to a trivial commutation, the value of their total pension savings must be less than £30,000 on the nominated date and the member must have reached normal minimum pension age.
It therefore seems highly unlikely that these individuals will have the capacity to build up pension savings that will allow them to take a lump sum anywhere near the new limit following the payment of a trivial commutation lump sum. Asking members to track these payments going forward seems completely unnecessary and burdensome. Also, because the payment of a trivial commutation of uncrystallised benefits is not a BCE, there has been no requirement for members to keep a track of the amounts paid previously. Asking members to provide information about payments that were made years ago will be fruitless in many cases, meaning that the implementation of this policy will fail.
5. There is a more general problem about the information that members will be able to

provide about tax-free lump sums they received in the past. Pension schemes are required to provide members with a statement telling them what percentage of the standard lifetime allowance is used up when a BCE occurs. They are not required to split this between the amount paid tax-free and the taxable amount. Nor are they required to provide a cash value, only a percentage. Members will now need to re-visit past lump sum payments to find out the amount of tax-free cash paid. Some of these payments were made 17 years ago. Pension schemes will have changed administrators and software suppliers in this time. Some schemes will no longer exist. Depending on the type of payment, some schemes may have decided that under GDPR rules they no longer need to retain information about payments made to members that extinguished their rights under the scheme.

Further thought is needed on how these members should be treated. What steps must a pension administrator take to establish an individual's available lump sum allowance before they can make a tax-free payment to them?

The approach taken in 2006 in relation to benefits claimed before 6 April 2006 was to assume a lump sum amount based on the level of pension in payment on the BCE date. This was reflected in the multiplier of 25 being used for pre 2006 pensions. A similar approach may be needed after 6 April 2024 in those cases where information about past lump sum payments is simply not available.

6. The draft regulations do not cover how to value lump sums paid before 6 April 2006 for the purpose of establishing an individual's available lump sum allowance or lump sum and death benefit allowance. Draft sections 637U(3) and 637W(3) of the ITEPA both say that the whole allowance is available "if no relevant benefit crystallisation event has occurred in relation to the individual before the current event". The regulations in their current form ignore any pension commencement lump sum paid before 6 April 2006. A member who took a pension and lump sum at age 50 in January 2006 may have a further BCE up to age 75 in 2031. They will be in a more favourable position in terms of tax than a member who took their first pension after 5 April 2006.
7. In our view, there is insufficient time to implement such large-scale reform by 6 April 2024. Public sector pension schemes are currently in the process of implementing the McCloud remedy which is a major project taking up all available resource. Vacancy rates in the LGPS are around 10 per cent on average. Setting up new processes to accommodate the need to track previously untracked payments is therefore very unwelcome.

8. Communicating these changes to members will be particularly challenging given that the policy, in our view, is confused and unclear.