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The Scottish Government
Riaghaltas na h-Alba

Local Government Pension Scheme (Scotland)
Scheme Managers
Alastair McGirr
Chair, Scottish Pensions Liaison Group

28 July 2016

Dear Alastair

In the Budget of 2014, the UK Government announced that it would change the rules to enable individuals with defined contribution (DC) pension savings to withdraw them "at a time of their choosing, subject to their marginal rate of income tax."

The Taxation of Pensions Act 2014 allows greater flexibility in how members access their DC, or money purchase, pension savings. Changes brought in with this Act remove certain restrictions relating to pension annuities to which members, aged 55 or above, become entitled on or after 6 April 2015.

The Taxation of Pensions Act 2014 introduced an uncrystallised funds pension lump sum (UFPLS) as a type of payment that may be paid to a member of a registered pension scheme as an authorised payment. Subject to the availability of lifetime allowance and the age of the member, 25% of the UFPLS is paid free of income tax, and 75% is taxed as income.

As The Local Government Pension Scheme (LGPS) (Scotland) is a defined benefit (DB) scheme, these new provisions do not apply to LGPS(S) pension benefits, however the LGPS(S) additional voluntary contributions (AVCs) arrangement, to which many scheme members contribute, is a DC arrangement and is therefore included in the new flexibilities introduced by the Taxation of Pensions Act.

The LGPS(S) regulations do not currently allow the increased flexibility, provided by the Taxation of Pensions Act 2014, however the Act allows scheme trustees and managers to override their scheme's rules to pay an UFPLS from DC pension savings.

Under the Taxation of Pensions Act 2014, the discretion to exercise the scheme rules override is a decision for the scheme manager which, under the Public Service Pensions Act 2013, for the LGPS(S) is the administering authority. In the interest of avoiding inconsistencies between scheme managers who can make different local decisions, which would not be equitable for members of the scheme, stakeholders have requested that the scheme regulations be amended to include an UFPLS as one of the options available to scheme members when they access their AVCs.

Scottish Ministers have consulted stakeholders and taken advice from the Scottish Local Government Pension Scheme Advisory Board on this matter. The majority of respondents agree that the LGPS(S) regulations should be amended to include UFPLS payments, and that the override should be exercised for the whole of the LGPS(S) in the interim.

Members who wish to access flexible benefits other than UFPLS have the option to transfer their LGPS(S) AVC fund to another DC arrangement that offers those benefits. Members also have the option to transfer the value of their accrued LGPS(S) DB pension rights from the LGPS(S) to a DC arrangement that does offer flexible benefits, independently from their AVC fund.

This letter constitutes guidance to LGPS(S) scheme managers to exercise the permissive scheme rules override to allow UFPLS payments to be made until such time as the legislative changes can be made.

Yours

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