

Annex B - Pension Scheme Compensation Policy

INTRODUCTION

The Council is committed to ensuring that its pay and grading structure is established fairly for all employees. In recent years, employees who receive a significant internal promotion or step up on appointment have as a consequence suffered financial detriment resulting from charges associated with their pensionable pay.

As an organisation, we wish to attract the best employees but have experienced proven difficulties in attracting the correct calibre of candidates for certain posts. We therefore need to have a range of management tools at our disposal to help with the recruitment process.

Recent changes to the pension regime have introduced a new challenge, which is now acting as a barrier to recruitment and retention. The changes impose a limit on the value of pension savings that an individual can build up (with the benefit of tax reliefs) each year. The limit is referred to as the “Annual Allowance” (AA) and the figures have changed significantly in the last few years, with AA decreasing from over £200,000 to £40,000.

The AA for pension savings applies each year and if the limit is exceeded, it is subject to a free-standing pension liability and it is charged at the appropriate marginal rate. Therefore, if a candidate were offered an appointment with the Council they could inherit a pension liability as a result and this is proving to be a barrier to recruitment and retention because a promotion is likely to result in financial burden for the successful candidate.

Some candidates are likely to decline the offer of a job because of this financial burden or, in other cases, the employee will request that they are paid a lower salary than they are entitled to. This position is clearly not sustainable.

A pension liability is in most cases a one off scenario, however it could continue for some employees each year until reaching the top of their grade.

Recognising that this has become a growing issue, the Council has introduced a Pension Scheme Compensation Policy to aid employees and address such issues.

SCOPE

The policy applies to all employees who are eligible to be members of the Local Government Pension Scheme and have a current pension liability or are about to attract a pension liability as a result of pension tax thresholds.

This policy does not form part of any employee’s contract of employment and the Council may amend or remove it at its sole and absolute discretion.

In some cases employees will have unused allowance which can be rolled forward to the following financial year and reduce their pension liability and as a result this policy may then not apply.

PAYMENT ARRANGEMENTS

The below arrangements are available to employees to address a pension liability.

Scheme Pays

If the pension liability is more than £2,000, the employee can request that their pension scheme pay some, or all of, their annual allowance liability charge if:

- the pension savings with that scheme are more than the annual allowance (currently £40,000) for that tax year
- the pension liability is more than £2,000 for that tax year
- this instruction is given before the deadline of 31 July of the year after the following tax year (for example, 31 July 2022 in the case of 2020/21)

By choosing scheme pays the employee will have their annual pension reduced as a result of the liability being paid. In order to ensure that employees do not suffer a detriment to their pension, the Council will pay them a corresponding amount to compensate them for the lost pension.

The terms of the payment awarded will be set out in a separate agreement which will need to be signed by the employee prior to any payment being made. Should an employee cease employment with the Council within two years of the payment being made then they will be required to repay in full.

JUSTIFICATION

The justification for any payment will be reviewed periodically according to the circumstances. Should the employee move to a different post within the Council and no longer be affected by a pension liability, be under notice, give notice or be summarily dismissed then their entitlement to the payment will cease. Equally a pay arrangement will cease when an employee reaches the top of their grade.

The Chief Executive Officer, as Head of Paid Service, has delegated power to use their discretion in relation to payment arrangements in line with the spirit of this policy.

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