Subject: **Pensions update**
Meeting date: 9 June 2016
Report to: Chairman's Committee
Report of: Sally Hopper, Head of Human Resources

This report will be considered in public

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1. SUMMARY

1.1. This report has been produced to inform the Chairman's Committee as an update and for decision in relation to its response to recent changes to pension legislation.

2. RECOMMENDATION

2.1. **The Committee is asked to agree, on the basis of the findings summarised in section 3.6, that LLDC does not introduce a discretionary payment in response to changes to pension legislation which were introduced from April 2016.**

3. BACKGROUND

3.1. At the 2 March 2016 Chairman's Committee meeting members were updated on government changes to the annual allowance and lifetime allowance.

3.2. The annual allowance values an employee's pension benefits accrued to 31 March of the previous year. This includes allowance in CPI to produce an opening value, this is then compared with the new value of the employees benefits at the end of the next year. If the pension value exceeds £40,000 the employee will be liable to pay tax at their tax rate on the amount in excess of £40,000.

3.3. The Lifetime allowance relates to the value of an employee's pension pot and from April 2016 the amount reduced from £1.25m allowance to £1m allowance. The result of this is any pension allowance in excess of £1m will be taxable at 55%.

3.4. Faced with these changes to what is an employee benefit, it was agreed by the Chairman's Committee at their meeting on 2 March that LLDC would explore the option of paying staff who wished to leave the pension scheme and alternative discretionary payment.

3.5. The Head of HR engaged with the Assistant Director of HR & OD, GLA and she agreed to undertake research across the public sector. The summary of this research is given in 3.6.

3.6. 15 London Boroughs were approached, of all different political persuasions. No one is making or considering any compensating pension payments. Some of those consulted commented that it is legally difficult as they consider the offer of a higher salary is an inducement to opt-out and contravenes s54 of the Pensions Act 2008.

3.7. Transport for London has introduced a discretionary payment but they are not part of the London Pensions Fund Authority, instead they run their own scheme.

3.8. The GLA have no plans to introduce a discretionary payment.

4. FINANCIAL IMPLICATIONS

4.1. This recommendation has no financial implications for the employer.

5. EQUALITIES IMPACT

5.1. This recommendation has no equalities implications.

6. LEGAL IMPLICATIONS

6.1 Section 54 of the Pensions Act 2008 prohibits employers attempting to induce their workers to opt out from, or cease, membership of a qualifying workplace pension scheme and gives the Pension Regulator the power to take compliance action against a contravention. An employer contravenes this prohibition if they take any action for "the sole or main purpose" of inducing a worker or jobholder to give up membership of a relevant scheme. The employer's motivation is central. If the employer is motivated by a desire to give employees at risk of exceeding the lifetime allowance a choice as to whether to continue in the pension scheme with the attendant tax consequences, or to opt out of the pension scheme and receive some other benefit, and the employer does not seek to persuade employees to opt out or stand to materially gain if they do so, it is unlikely that the Pension Regulator would consider that offer a contravention.

7. LIST OF APPENDICES TO THIS REPORT

None

List of Background Papers
Papers to the meeting of the Chairman's Committee 2 March 2016 - Annual Salary Review for Financial Year 2016/17 (exempt information)

Report originator(s): Sally Hopper
Telephone: 020 3288 8893
Email: sallyhopper@londonlegacy.co.uk