Department for Levelling Up, Housing & Communities

Open consultation

Annual revaluation date change in the Local Government Pension Scheme (LGPS)

Published 10 February 2023

Applies to England and Wales

Contents

This publication is available at https://www.gov.uk/government/consultations/annual-revaluation-date-change-in-the-local-government-pension-scheme-lgps/annual-revaluation-date-change-in-the-local-government-pension-scheme-lgps

Scope of the consultation

Topic of this consultation:

This consultation seeks views on changing the Local Government Pension Scheme for England and Wales (LGPS) annual revaluation date from 1 April to 6 April. This is to mitigate against the impact of high inflation on LGPS revaluation this year and consequent tax liabilities arising as a result. These tax liabilities would arise because the timing of LGPS revaluation on 1 April is not aligned with HMRC's process for assessing the annual allowance tax charge. The proposed change would bring it into alignment. We are also seeking views on draft regulations to effect this change.

Scope of this consultation:

The Department of Levelling Up, Housing and Communities (DLUHC) is consulting on changes to the LGPS Regulations 2013 to give effect to the change in the annual revaluation date from 1 April to 6 April.

Geographical scope:

These proposals relate to England and Wales only.

Basic Information

Body/bodies responsible for the consultation:

The Department for Levelling Up, Housing and Communities.

Duration:

This consultation will last for 2 weeks from 10 February 2023 to 24 February 2023.

Enquiries:

For any enquiries about the consultation please contact: lgpensions@levellingup.gov.uk

How to respond:

You may respond by completing an online survey (https://consult.levellingup.gov.uk/local-government-finance/annual-revaluation-date-change-in-the-lgps/).

Alternatively, you can email your response to the questions in this consultation to lgpensions@levellingup.gov.uk.

If you are responding in writing, please make it clear which questions you are responding to.

Written responses should be sent to:

> Local Government Finance Stewardship
> Department of Levelling Up, Housing and Communities
> 2nd floor, Fry Building
> 2 Marsham Street
> London
> SW1P 4DF

When you reply, it would be very useful if you confirm whether you are replying as an individual or submitting an official response on behalf of an organisation and include:

- your name,
- your position (if applicable),
- the name of organisation (if applicable),
- an address (including post-code),
- an email address, and
- a contact telephone number

Introduction

Annual revaluation and annual allowance

The Local Government Pension Scheme (LGPS) for England and Wales is designed to offer significant value in retirement to people who have chosen to dedicate part or all of their careers to serving the public through local government. The LGPS offers the security of a guaranteed income in every year of retirement for all its members.

Currently in the LGPS, the scheme year runs from 1 April to 31 March. The scheme's revaluation occurs on 1 April each year, which is the first day of the LGPS scheme year. This means that on 1 April each year, active members' CARE pensions are revalued to take account of the impact of inflation over the previous scheme year. We set that date in scheme regulations.

The tax year runs from 6 April to 5 April, and it is the growth in a member's pension over this period (known as the "Pension Input Amount", or PIA) which determines if there is a tax liability. A pension may grow in line with inflation (based on CPI in the September before the start of the tax year) without contributing to the "Pension Input Amount", but growth in the pension above that level is assessed against the annual allowance. Annual allowance is the maximum amount of pension savings an individual can make in any one year before potentially facing tax charges. The annual allowance is currently £40,000 for most people. Typically, a tax liability would arise where growth over the period is more than the annual allowance of £40,000. Currently the calculation of the pension on 5 April takes account of 1) the increase in accrued pension during the tax year due to additional length of service and 2) the increase for inflation through the scheme revaluation process on 1 April, based on CPI during the scheme year. For the 2022/23 tax year, a pension may grow 3.1% without contributing to the PIA (based on September 2021 CPI), but LGPS pensions are expected to increase by 10.1% on 1 April 2023 (based on September 2022 CPI). Individuals may face tax liabilities because while the PIA and LGPS are both based on CPI, they are based on CPI figures as at different dates. The proposed changes to LGPS regulations would defer future revaluation increases to 6 April, so for example the 10.1% increase would apply 6 April 2023, during the 2023-24 tax year. For the 2023/24 tax year, a pension may grow by 10.1% without contributing to the PIA (based on September 2022 CPI). In short, LGPA revaluation will be aligned with the tax calculations.

Background on making the change

Consumer Price Index (CPI) and its impact on annual allowance

Before 2016/17, the period over which pension growth was measured for tax purposes, the pension input period (PIP), was the scheme year. The LGPS revaluation and the inflation growth allowed without contribution to the PIA were aligned, so that the growth in pension for tax purposes reflected only the pensions accrued during the PIP due to employment contributions. Changes made in 2016/17 to require the PIP to be the tax year, not the scheme year, changed the position. From that point, the LGPS revaluation on 1 April used the CPI figure at the preceding September and the HMRC uplift for that tax year used the CPI figure at the September before the start of the tax year that is, 18 months before.

CPI in September 2022, which is expected to be used for the LGPS revaluation for the 2022-23 scheme year, was 10.1%. This is markedly higher than CPI in September 2021, used for the HMRC uplift, which was 3.1%. As a result, members would have significantly higher total growth in pension for tax purposes (PIA).

Therefore, without changes to scheme regulations, there will be a significant increase in the number of LGPS members breaching the annual allowance threshold, and potentially incurring a tax charge. This is despite the revaluation merely ensuring that accrued pensions of active members keep pace with changes in prices. Changing scheme regulations to move the revaluation date from 1 April to 6 April means that inflation would be reflected in the value of the pension after HMRC assess the value of an LGPS pension for the purposes of annual allowance in tax year 2022/23. Thus, by taking revaluation out of scope of the annual allowance calculation for the 2022/23 tax year, we will reduce the number of members receiving an annual allowance charge for this year.

For tax years from 2023/24 onwards, the LGPS EW CARE revaluation would be aligned with the inflationary growth allowed for when calculating how much a pension had grown for annual allowance purposes, as it was before 2016/17.

For members unaffected by the annual allowance, the proposed change will have no effect on the amount of LGPS pension benefits they are entitled to on retirement.

GAD data on annual allowance breaches

Findings

The Government Actuary's Department (GAD) undertook to illustrate the number of LGPS members that may exceed their annual allowance in the 2022/23 tax year as a result of the forthcoming April 2023 revaluation increase of 10.1%. GAD's findings showed if salary increases were 7% in 2022/23, 26,000 scheme members earning over £50,000 (in 2020) and have larger Career Average Revalued Earnings (CARE) pots with generally longer service, are at a higher likelihood of exceeding their 2022/23 Annual Allowance.

Their findings also showed that if salary increases were 4% in 2022/23, 14,000 scheme members earning over £60,000 (in 2020) and have larger CARE pots with generally longer service, are at a higher likelihood of exceeding their 2022/23 annual allowance limit of £40,000. Due to the spike in CPI this year, these numbers are significantly higher than usual.

Under the proposed change where the revaluation date will change from 1 April to 6 April, GAD expect the number of members likely to exceed their annual allowance to reduce significantly. Under these scenarios, it is estimated that roughly 5,000 members would breach the threshold on a 7% salary increase, and just 1,000 members would breach the threshold on a 4% salary increase.

Policy aims with the proposed regulation changes

Changes would need to be made the LGPS Regulations 2013 to give effect to the change in the annual revaluation date from 1 April to 6 April. The main policy aim is to clarify that the revaluation date would change from 1 April to 6 April and that these changes have no effect on the amount of LGPS pension benefits anyone is entitled to on retirement. DLUHC have outlined the policy rationale for the proposed regulation changes. This is to be read alongside the draft regulations (https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/1135006/Draft_LGPS_revaluation_regulations.pdf) (PDF, 238KB).

Regulation 21 – Assumed Pensionable Pay (APP)

The policy aim is that there should be no change to the calculation of APP. Therefore, whenever the revaluation is applied for APP, while the revaluation date will now be 6 April, it take effect from 1 April.

Regulation 23 – Active members

Currently in the LGPS regulations, the closing balance for a scheme year is calculated as at 31 March, the end of the scheme year, comprising the opening balance for the previous year, the pension accrued during the scheme year, and other adjustments. The revaluation adjustment is applied to the closing balance on 1 April, the beginning of the following scheme year to create the opening balance for that scheme year. The policy aim is for the revaluation adjustment to be applied on 6 April, the first day of the following tax year.

Regulations 24 and 25 – Deferred and pensioner members

The policy aims are:

1. for members changing status between 1 to 5 April, the revaluation adjustment is applied on 6 April and for any pensions in payment takes effect from the date of the change of status.
2. for all members changing status, the balance is revalued on 6 April in the following scheme year rather than on 1 April, and for any pensions in payment takes effect from 1 April.

Regulation 27 – Flexible retirement members

The policy aim is that for all members changing status, the balance is revalued on 6 April in the following scheme year rather than on 1 April, and for any pensions in payment takes effect from 1 April.

Regulations 41, 42, 44, 45, 47 and 48 - Survivor benefits

The policy aims are:

1) for members dying between 1 to 5 April, if a revaluation was due on the 6 April following, that revaluation is allowed for in calculating the survivor pension. This will apply if the member dies in the period 1 to 5 April in the year in which they ceased to be an active member or in the following year. This will ensure that the benefits due to these groups of members reflects the revaluation adjustment that would have applied on 1 April, as if no change had been made.

2) for members who leave active service and subsequently die within the same scheme year, the survivor pension is revalued on 6 April in the following scheme year rather than on 1 April, and takes effect from 1

April.

Regulations 43 and 46 - Death grants for deferred and pensioner members who die in the period 1-5 April

For the purposes of calculating the death grant, the policy aim is that, if a revaluation was due on the 6 April following, that revaluation is allowed for in calculating the death grant. This will ensure that the death grant in relation to these groups of members reflects the revaluation adjustment that would have applied on 1 April, as if no change had been made.

Definition changes to “revaluation adjustment” in Schedule 1

The policy aim is to clarify that the revaluation adjustment is applied on 6 April in the following scheme year. For the purposed of transferred Club Service, the aim is that funds would apply revaluation adjustment for transferred Club Service on 6 April, regardless of the revaluation adjustment date from the sending scheme. Where revaluation of transferred service should apply at a different rate, this would continue to be the case and remain unchanged.

Definition of “revaluation date” in Schedule 1

The policy aim is to change the revaluation date in the Local Government Pension Scheme from 1 April to 6 April.

Impact assessment

Public Sector Equality Duty

DLUHC has analysed the proposals set out in this consultation document to fulfil the requirements of the Public Sector Equality Duty (PSED) as set out in section 149 of the Equality Act 2010. This requires the department to pay due regard to the need to: 1) eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act 2) advance equality of opportunity between people who share a protected characteristic and those who do not 3) foster good relations between people who share a protected characteristic and those who do not.

Summary of the evidence considered in demonstrating due regard to PSED

We have used data from the Government Actuary’s Department’s 2020 LGPS EW valuation to understand spread of average pensionable pay across the membership. This has allowed us to understand impact that either changing the revaluation date or not changing the revaluation date has on different ages.

Assessing the impact

In short, the proposed changes are primarily a technical amendment to address the different CPI figures used by the pension input amount calculation, for annual allowance purposes, and CARE revaluation in the LGPS EW. For members unaffected by the AA, the proposed change will have no effect on the amount of LGPS pension benefits they are entitled to on retirement.

DLUHC has considered the impact of the proposed changes and presents its conclusions below.

Age

DLUHC considers that the proposed changes indirectly engage with age. LGPS EW 2020 valuation data indicates that older members still in employment have higher average pensionable pay than younger members. Therefore, to leave the pension rules regarding inflation unchanged may have a greater impact on older members, who have more service in the LGPS EW and more potential to have higher pensionable earnings. Without the proposed changes these members are more likely to have a tax charge, or a higher tax charge, when, like in September 2022, inflation is higher than usual. This would not affect older members who are already receiving their pension. Nevertheless, these changes do not result in an adverse outcome for younger members. Younger members who have pensionable pay and service that would result in a breach of the annual allowance would also benefit from the proposed change to the revaluation date. That is to say, though the change may on average benefit older members more, there is no disbenefit to younger members.

Other protected characteristics

For the protected characteristics of sex, disability, gender reassignment, pregnancy and maternity, race, religion or belief, and sexual orientation, we do not consider that changing the revaluation date will result in any direct adverse impact. We consider that any differential impact between these other characteristics would be a secondary effect of the differential effects on members of different ages.

For example, while, according to the 2020 LGPS EW valuation data, men have a higher average pay than women in the LGPS EW, the actual number of high paid men and women earning over £50,000 in LGPS EW is similar. Therefore, the number of men and women benefiting from the change may be similar. However, LGPS membership is approximately 70% female and there are more lower paid women than there are lower paid men. Thus, while the numbers of men and women benefiting from the change may be similar the proportion of men benefiting is higher.

Consultation questions

Respondents are invited to answer the following questions.

1. Do you agree or disagree that the annual revaluation date should change from 1 April to 6 April? Please explain why.
2. Do you agree that the policy aim for regulation 21 is delivered through the draft regulations?
3. Do you agree that the policy aim for regulation 23 is delivered through the draft regulations?
4. Do you agree that the policy aim for regulations 24 and 25 is delivered through the draft regulations?
5. Do you agree that the policy aim for regulation 27 is delivered through the draft regulations?
6. Do you agree that the policy aim for regulations 41, 42, 44, 45, 47 and 48 is delivered through the draft regulations?
7. Do you agree that the policy aim for regulation 43 and 46 is delivered through the draft regulations?
8. Do you agree that amending the definition of “revaluation adjustment” and the new definition of “revaluation date” in Schedule 1 delivers the policy aim?
9. Are there any further considerations and evidence that you think DLUHC should take into account when assessing any equality issues or adverse impacts arising as a result of the proposed changes?