

**Greater Manchester
Pension Fund**

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Ms S Layne
Local Government and Firefighters' Pensions Division
Department for Communities and Local Government
Zone 2/F7
Ashdown House
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Your ref:

My ref: P/GLD

Date: 14 February 2007

Dear Ms Layne,

LGPS (Amendment) Regulations 2007: AVCs and Trivial Commutation

I respond to Keith Bloomfield's letters of 3 November and 11 January to express the views of Tameside MBC, in its administering authority capacity, on your proposals to change the LGPSR.

AVCs

Limit on contributions

I suspect that very few members would be in a position to pay more than 50% of pay in AVCs, and those who could would often be able to spread contributions over more than one year. By doing so, they may well achieve even greater tax advantages as more contributions would qualify for maximum tax relief.

It is also possible that restricting the scope for paying AVCs may have the effect of increasing the extent of conversion of scheme pension to lump sum on terms that may provide some savings to funds. However, if I am right in thinking that few members would wish to pay more than 50% of pay as AVCs, I suspect the overall effect on employers' costs of restricting AVCs to 50% would be negligible.

The 50% limit will also be useful regarding the policing of the recycling provisions. For this reason, and because few contributors will be disadvantaged by the proposed 50% limit, we support its introduction. We do however strongly recommend that it be introduced with no retrospection as we think it wrong to change the legitimacy of contributions paid, which sometimes have already been withdrawn as lump sums or used to buy annuities. Similarly, those retiring in 2007 or 2008 with long service will have had limited opportunity to build up their AVC pot because of historical constraints.

Also, any limit needs to be clearly defined in regulations. You will have to consider issues such as:

- What measure of pay does the limit apply to (e.g. pensionable pay or taxable pay)? [We understand that from an employer's point of view the former would be simpler.]

Greater Manchester Pension Fund

- Does the limit apply on a payment by payment basis or for each tax year? [We suggest the former, ie the 50% limit applies month by month. This will prevent large sums being paid in immediately prior to retirement, for subsequent withdrawal in possible contravention of the recycling rules.]
- How are members with multiple employments to be treated?

As an aside, I suggest that if changes are to be made to the Scheme's provisions on AVCs, it would be useful to make explicit that accumulated AVCs can be taken in lump sum form, subject to the HMRC's 25% limit on lump sums.

How contributions are paid

In his letter of 3 November 2006, Keith Bloomfield stated that: "AVC payments are intended to be deductions from salary, and that principle should be retained". We support his view, not least because the 50% limit would otherwise be very difficult to police. But regulation 61(1) states that "AVCs must *normally* be payable by an active member on his usual pay day", and regulation 89(1) states that an "employing authority *may* deduct from a person's pay any contributions payable by him". Consequently the current Regulations could allow exceptional payments to be made not on the usual pay day, and not via deduction from pay. To make the intention clear, I suggest deleting *normally* in 61(1) and amending the *may* in 89(1) to read *must*.

Some Scheme members will have made one-off contributions and thus changes should be from a specified date in the future.

AVC elections

The proposal is to introduce the 50% limit in regulation 60(1). Regulation 60(8) deals with elections to vary AVCs. I therefore suggest that you consider amending the latter to make plain that the 50% limit applies to all AVC elections, not just the first one.

Also, some members have already elected to pay more than 50% of their pay in Scheme AVCs. I therefore suggest that you include a clause so that any such election is deemed to be replaced by one to pay 50% of pay, but with effect from the Amendment Regulations coming into force and without any retrospection.

Trivial Commutation

I believe administering authorities and members would welcome a simple facility to commute small pensions. However, I suspect that the complexity of the tax regime may prevent this occurring in many cases. The need to take account of all pension rights in all schemes in comparing with the 1% of LTA limit and the requirement that a commutation payment should extinguish all rights in a scheme may create difficulties in other than very simple cases. Nevertheless the proposed change is a step in the right direction.

I hope these comments are helpful.

Yours sincerely



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