



HUMBERSIDE FIRE AND RESCUE SERVICE

Finance & Procurement

Pensions – Voluntary Scheme Pays (VSP) Policy

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Responsible Person	Head of Finance
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What we must
do well



How we support our
communities



We value and support
the people we employ



We efficiently manage
the Service

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1. INTRODUCTION

Annual Allowance Limit ('AA Limit') is a limit to the total amount that a member's pension savings can grow in a defined benefit pension scheme each year, for tax relief purposes.

If the AA Limit is not reached in a particular tax year, the unused allowance can be carried forward to subsequent tax years.

Individuals whose annual growth in pension savings exceeds the AA Limit, and who have no unused annual allowance to carry forward from the previous three tax years, will be subject to an Annual Allowance Tax Charge ('AA Tax Charge').

Most people will not be affected by the AA Tax Charge because the value of their pension savings will not increase in a year by more than the AA Limit. Those who are most likely to be affected are members who have a lot of scheme membership and receive a significant pay increase in the year, and/or they are a higher earner, amongst other influences.

This policy applies to employees of Humberside Fire & Rescue Service (HFRS) only, who are members of:

- the Firefighters' Pension Scheme 1992 ('1992 Scheme')
- the New Firefighters' Pension Scheme 2006 ('2006 Scheme')
- the Firefighters' Pension Scheme 2015 ('2015 Scheme')
- the Firefighters' Retained Modified Scheme ('Modified Scheme'), collectively known as "The Firefighters' Schemes".

The policy applies in relation to The Firefighters' Schemes, where the member exceeds the AA Limit in one or a number of these schemes only.

Core Code of Ethics

HFRS has adopted the Core Code of Ethics for Fire and Rescue Services. The Service is committed to the ethical principles of the Code and strives to apply them in all we do, therefore, those principles are reflected in this Policy.

National Guidance

Any National Guidance which has been adopted by HFRS, will be reflected in this Policy.

2. EQUALITY AND INCLUSION

HFRS has a legal responsibility under the Equality Act 2010, and a commitment, to ensure it does not discriminate either directly or indirectly in any of its functions and services nor in its treatment of staff, in relation to race, sex, disability, sexual orientation, age, pregnancy and maternity, religion and belief, gender reassignment

or marriage and civil partnership. It also has a duty to make reasonable adjustments for disabled applicants, employees and service users.

3. AIM AND OBJECTIVES

- This policy provides clarity of detail around the options available to a pensions scheme member where they have been impacted by a tax charge being levied against their pension benefits in relation to the tax legislation which is in place at the time.
- This policy applies to both members of the Firefighters pensions Scheme and Local Government Schemes where their pension benefits are affected by Lifetime and Annual Allowance tax rules.

4. ASSOCIATED DOCUMENTS

- [Equality Impact Analysis](#)
- Legal References or
 - Finance Act 2004
- National Guidance Reference
There is no specific National Guidance relevant to this policy.

5. MANDATORY SCHEME PAYS

Where a member's pension savings exceed the AA Limit, the member can pay the resulting AA Tax Charge from their own personal finances. However, the Finance Act 2004 provides that a pension scheme must provide a scheme pays facility, known as a Mandatory Scheme Pays ('MSP') arrangement.

6. OPERATING MANDATORY SCHEME PAYS

A member will be eligible to make an MSP election where all of the following qualifying conditions are met:

- The AA Limit has been exceeded in the pension scheme in which the MSP election is made.
- An AA Tax Charge exceeding £2,000 has been triggered.
- The member is within the relevant time limit to make an MSP election.

HFRS will pay the AA Tax Charge to HMRC on behalf of the member and the AA Tax Charge will be repaid by way of a debit which is added to the member's pension once it comes into payment.

7. VOLUNTARY SCHEME PAYS

Where a member does not meet the conditions for MSP to apply, or they do not make their election in time, then a member may apply to pay the AA Tax Charge under a Voluntary Scheme Pays ('VSP') arrangement.

Scheme members with income in excess of £150,000 per annum are subject to a Tapered Annual Allowance ('Tapered AA') which reduces from £40,000 to £10,000 incrementally for those earning between £150,000 and £210,000. Members who are subject to a Tapered AA will incur an AA Tax Charge where their pension growth exceeds their Tapered AA. These members cannot use MSP to pay the AA Tax Charge.

Members of the 1992 Scheme and 2006 Scheme who have transferred into the 2015 Scheme on or after 1 April 2015 ('Transitional Members') will effectively be members of two pension schemes and will see pension savings growth in both schemes until retirement.

By virtue of accruing their pension growth across two pension schemes, rather than one, there is an increased likelihood that although the member's total annual pension growth across both schemes may exceed the AA Limit, the pension growth in any one of the schemes may fall short of the AA Limit. As such, they will not be eligible to use MSP to pay the AA Tax Charge.

8. OPERATING VOLUNTARY SCHEME PAYS

A member will be eligible to make a VSP election, where all of the following qualifying conditions are met:

- The AA Limit across one or more of The Firefighters' Schemes has been exceeded, and the qualifying conditions for MSP have not been met.
- One or more AA Tax Charges, individually or collectively exceeding £2,000, have been triggered.
- The member is within the relevant time limit for making a VSP election.

HFRS will pay the AA Tax Charge(s) to HMRC on behalf of the member and the AA Tax Charge(s) will be repaid by way of a debit which is added to the member's pension once it comes into payment.

9. IMPLEMENTATION

Members with pension savings growth exceeding the AA Limit across one or more of The Firefighters' Schemes, who do not meet the criteria for MSP, shall:

- Make an election to use the pension fund to pay the corresponding AA Tax Charge to HMRC.
- Agree to repay the AA Tax Charge by way of a pension debit, which will be added to the member's pension when it comes into payment.

If a member exceeds their AA, they will be required to contact Pensions in order to utilise the option of either MSP or VSP (subject to meeting the relevant criteria).

Contact details 01482 567410 or e-mail at pensions2@humbersidefire.gov.uk

10. MEASURING PERFORMANCE

Voluntary Scheme Pays cases may be monitored on a quarterly basis by HFRS if it is required.

**If anyone requires any further guidance/information regarding this document
please contact Finance & Procurement.**