



PENSIONS COMMITTEE

9 DECEMBER 2024

REPORT TITLE:	LOCAL GOVERNMENT PENSION SCHEME (LGPS) UPDATE
REPORT OF:	DIRECTOR OF PENSIONS

REPORT SUMMARY

This report provides an overview of the Government's budget announcement on 30th October and the associated impact on stakeholders of the Local Government Pension Scheme.

RECOMMENDATION/S

That the Pensions Committee be recommended to note the report.

SUPPORTING INFORMATION

1.0 REASON FOR RECOMMENDATION

- 1.1 There is a requirement for the Pensions Committee to be fully informed of national directives and legislative developments to ensure the appropriate governance and stewardship of the Fund in their capacity as Scheme Manager.

2.0 OTHER OPTIONS CONSIDERED

- 2.1 This is the most appropriate option for informing Pension Committee of legislative developments.

3.0 BACKGROUND INFORMATION

3.1 Autumn Budget 2024

- 3.2 The Chancellor, Rachel Reeves, used the new Government's first budget to raise £40 billion in extra taxes each year. Despite widespread speculation that there would be several changes to pensions tax relief, only a single measure was announced, specifying that unspent defined contribution pension pots including death grants would form part of a person's estate for inheritance tax purposes from 6 April 2027.

3.3 Inheritance Tax & Death Grants

- 3.4 The LGPS regulations allow for the payment of the following death grants on the death of a member:

- Death in service - three times assumed pensionable pay.
- Death in deferment – five times pension that would have been payable.
- Death of a pensioner aged under 75 - balance of ten years' pension guarantee.

- 3.5 The recipient of the death grant is at the complete discretion of the administering authority which places the death grant outside of consideration for inheritance tax.

- 3.6 There are a small number of public sector pension schemes that are non-discretionary with regard to the payment of death grants, specifically the NHS Pension Scheme and the Judicial Pension Scheme, where the death benefits are treated as part of an individual's estate and are subject to inheritance tax.

3.7 Policy Proposal

- 3.8 The Government is proposing to remove the distinction between discretionary and non-discretionary schemes so that all death benefits and unused defined contribution pension pots will form part of the deceased member's estate and will be liable for inheritance tax from April 2027.

- 3.9 Whilst dependant pensions will not be impacted, lump sums payable on the death of a member, where the recipient is not the spouse or civil partner, could result in a 40% charge on these benefits where estates are above the inheritance tax threshold.

3.10 Government Consultation on the Operational Impacts for LGPS stakeholders

- 3.11 The Government has published a consultation on the technical aspects of how pension scheme administrators will report and pay any inheritance tax due on unused pension funds and death benefits.
- 3.12 The consultation is limited to the implementation of the new tax regime rather than whether to implement it and what benefits should be in scope. A link to the document is provided below under the Background Papers section.
- 3.13 Under the proposals, it will be the responsibility of the deceased's personal representative to obtain the value of certain death benefits payable from any former pension arrangements.
- 3.14 The personal representative will then calculate whether inheritance tax is due on the member's estate, using an HMRC online calculator. Where inheritance tax is due, the personal representative must provide details to the relevant pension schemes. It will be for pension administrators to calculate the tax due, deduct it and pay it across to HMRC, before paying the death grant to the appropriate beneficiary.
- 3.15 The removal of the discretionary provision for schemes to discharge death grants, will limit the scope currently afforded to members of the LGPS to set out their preferences in advance as to who will receive payment of any death grant. However, any removal of Fund discretion will simultaneously remove the ability for disgruntled individuals to invoke the formal Internal Dispute Resolution Procedure.
- ### **3.16 LGPS Assets and the New Investment Fiscal Rule**
- 3.17 The budget also confirmed the introduction of the "Investment Rule" which targets a reduction in net financial debt by changing the measure of public debt from Public Sector Net Debt (PSND) to Public Sector Net Financial Liabilities (PSNFL) to achieve the government's fiscal target of greater investment into the economy to stimulate growth.
- 3.18 This broader definition of public debt includes assets and liabilities held by funded public sector pension schemes, which predominately relate to the LGPS.
- 3.19 The main reason for adopting PSNFL is to provide extra borrowing headroom for the Chancellor, but it is likely that including the LGPS assets and liabilities in the metric will lead to increased scrutiny on the Scheme's health, as this may fundamentally impact on the Government's ability to borrow and invest into the economy.
- 3.20 It is noteworthy that whilst the change in the public debt measurement brings the LGPS into scope, the LGPS assets and liabilities were already included in the 'Whole of Government Accounts'.

4.0 FINANCIAL IMPLICATIONS

- 4.1 The decision to include unused pension pots and death grants into the value of a person's estate for inheritance tax purposes is based on the government estimate

that during the year 2027/28 - 49,000 estates will face an inheritance tax bill; 10,500 estates that would not have been subject to inheritance tax if pensions were excluded, and 38,500 estates will be paying more inheritance tax than would previously have been the case.

- 4.2 Failure by the Fund to meet statutory requirements of effective governance and administration could result in fines imposed by the Pensions Regulator (tPR).

5.0 LEGAL IMPLICATIONS

- 5.1 The administering authority solicitor, acting for the Fund, provides advice as to the implementation and interpretation of legislative and governance requirements.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

- 6.1 The inclusion of pension pots within the estate for inheritance tax purposes will require LGPS Funds to communicate with members about the changes and overhaul administrative processes.

7.0 RELEVANT RISKS

- 7.1 As the payment deadline for inheritance tax is six months after the end of the month in which the death occurs, and obtaining grant of probate can be a protected process, administrators will have a relatively short and challenging timescale to discharge death grants and make payments to HMRC with a material risk of incurring late payment interest.

8.0 ENGAGEMENT/CONSULTATION

- 8.1 The Government has launched a consultation on inheritance tax, pensions liability, reporting and payment with a closing date of 22 January 2025

9.0 EQUALITY IMPLICATIONS

- 9.1 Ministry of Housing, Communities and Local Government (MHCLG) and the Pensions Regulator undertake equality impact assessments regarding the provisions of the LGPS Regulations and the administration and governance of public service pension schemes.
- 9.2 The Equality Statement published on the introduction of the Local Government Pension Scheme 2014 can be viewed at: <https://mpfund.uk/lgpsequalitystatement>
- 9.3 MHCLG and HM Treasury undertake equality impact assessments with regard to the statutory reform of the public sector pension schemes and LGPS.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

- 10.1 The Fund continues with its digital strategy across all operational areas and communications with stakeholders, with the aim to improve service delivery and to reduce its internal carbon footprint.

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 There are none directly arising from this report.

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BACKGROUND PAPERS

<https://www.gov.uk/government/consultations/inheritance-tax-on-pensions-liability-reporting-and-payment/technical-consultation-inheritance-tax-on-pensions-liability-reporting-and-payment>.

TERMS OF REFERENCE

This report is being considered by the Pensions Committee in accordance with Section D of its Terms of Reference:

(d) To monitor the Local Government Pension Scheme including the benefit regulations and payment of pensions and their day-to-day administration and to be responsible for any policy decisions relating to the administration of the scheme

Subject History (last 3 years)

Council Meeting	Date
Standing Agenda Item	24 September 2024