



Reimagine Local Government

**Senior public sector pensions hit: how to
manage the fallout**



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“I think there’s power in education, communication and good understanding of the whole issue.”

- Recent changes to pensions taxation have particularly affected the public sector
- Fears senior staff may quit as pension allowances bite
- 'Analyse, control, engage' is the bedrock of an effective strategy

When George Osborne dropped plans to substantially alter tax relief on pension contributions in the 2016 Budget, high-rate tax payers breathed a sigh of relief. Yet Steve Simkins, Partner at KPMG, argues this "stay of execution" must not conceal the potential impact of changes to pensions taxation already in play.

Why should local government leaders pay attention to the issue of pensions tax?

"Changes to the rules around tax and pension savings mean allowances have been steadily dropping. Three or four years ago, it might only have been a council's chief executive who was impacted by pensions tax. Now we're looking at the top 20 people in a medium-sized council: the whole of the senior leadership team now effectively on a lower net pay package."

"With your top people affected – and it could impact on some other people too – you now have a business issue, not just a personal one."

How aware are leaders to the impact of these changes?

"The notion that these changes are going to impact senior officers below chief executives hasn't fully hit home yet. Even where individuals are aware of the issue, they will rarely understand the actual impact."

"People know about pensions tax if they have already been affected, but part of the issue is the lag effect. If the amount you can save to your pension each year drops on 5 April 2016, you don't actually find out if it affects you until your pension scheme tells you in the early autumn of 2017, this is too late to do anything about it and will be quite a surprise."

Where there is awareness, what's been the reaction?

"For those who realise that there is a potential impact, a common reaction is to consider leaving the scheme. But pension savings over the Lifetime Allowance can still be valuable because of the contribution by the Council. Even so, if net pay is reduced, the obvious consequence may be that people leave or become demotivated at a time when local government really needs a motivated senior leadership team. Changes to pension allowances could actually cause a reduction in performance in a local authority."

"It is more likely to impact on the higher performing people; those who are aware of their value and who are therefore not prepared to work for a higher marginal rate of tax."

How do you advise employers to manage these risks?

"I would advise employers to help their employees: don't just leave this to individuals to sort out themselves, because it's so complicated. We advise our clients to 'analyse, control and engage' (ACE for short).



Time to analyse

Do you know who has been impacted, who is being impacted, and who will be impacted in the future? That gives you your constituency to work with."

"This isn't going to impact anybody earning £30,000 per year, but you get up to £60,000 per year and you could get scenarios where they could be impacted in some years. From around £80,000 per year, they are quite likely to be affected each year, and over £110,000 per year, the impact will be very significant."

What can local authorities do to control the situation?

"When these new lower pension tax allowances were introduced it was generally envisaged employers would reduce the amount of pension that they provide, because it is so tax efficient, and instead provide pay, which is taxed in the normal way."

"The challenge in the public sector is employers have fixed pension arrangements, which they have to provide, and can't be flexed. Some employers are naturally cautious and say, 'if I try and control this, it could be tax avoidance'. So employers need to decide whether they are going to do something to try to enable a better balance between pay and pension, and to carefully consider the implications."

Engagement is key

"But, regardless of the steps employers take to control the position, engagement is key. Much of the problem can be dealt with when high quality communication is provided early enough to avoid any surprises that are too late in the day."

How should local government employers engage with staff?

"I would start from the premise that it's good to communicate with as many people as possible and to engage with all of those potentially affected."

"An extension of talking about pensions tax changes is talking about pensions themselves – what you pay, and what you get back. Presentations and quality communications material work especially well when an organisation hasn't covered the changes in isolation. Instead, they've thought about it in the context of the wider pension provision and have communicated about pensions more generally. It then starts to integrate those messages into a wider total reward programme."

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