

- **Information**

## **Contributions adjustment process for FRAs**

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## Background

1. This note concerns the issues and process to be adopted where a Deferred Choice member has received their ABS-RSS or DBABS-RSS and wishes to settle their contribution adjustment prior to retirement.

## Immediate and urgent actions to take – for all

2. Read this guidance and use it to set up or check the steps in your contribution adjustment process.

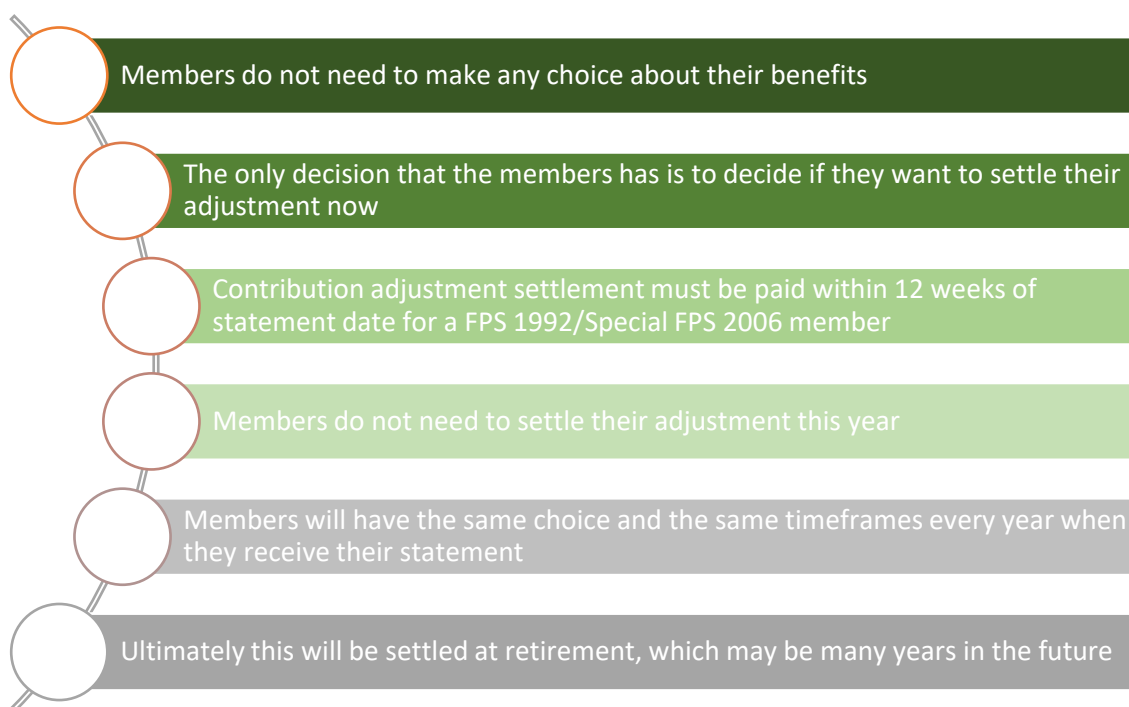
3. Make sure that you and others in your organisation know and understand what your contribution process is and how to direct members when queries or requests are received.

a. Scheme managers should also ensure that they have liaised with their pension administrator and fire service finance/payroll contacts on the agreed steps.

4. Provide some internal communications for your active members about the process that they will need to follow.

## Key points about the contribution adjustment

5. When the member receives their ABS-RSS or DB ABS-RSS, this will be the first time that they will see their contribution adjustment and there is only one choice the member has to make: **Do I take action on this now or wait?**



## Tax relief

6. Outside of remedy, only active members are entitled to tax relief on pension contributions, and this can be paid either via PAYE from pre-tax income or claimed through Self-Assessment. This is why the Treasury Directions had to specify that for all non-active members (deferred, pensioners and beneficiaries), any adjustments for contributions would be adjusted for tax relief at source (known as the **non-active tax relief method**) and paid as compensation.

7. Initially these Directions also specified that for any active members making a contribution adjustment that tax relief would be given in the usual way i.e. through PAYE or Self-Assessment (known as the **active tax relief method**).

8. We now know that HM Treasury will be making amendments to these Directions to allow active members to be treated in the same way as non-active members; in other words, the **non-active tax relief method** can be used.

9. This change in policy has come very late in the day, and too late for amendments to be made to the ABS-RSS or to software. The expectation is that revised legislation will be laid in the Autumn, but HMT have given assurance to schemes that they can act ahead of that legislation.

## What does the change in Directions mean?

10. This change in Direction affects the contribution adjustment for FPS 1992/Special FPS 2006 legacy scheme members.

11. Standard members of the FPS 2006 legacy scheme are unaffected by this change as tax relief has already been given to these when they paid their contributions. As they have now overpaid those, the difference in tax relief that they will be due and have already received will be deducted from the amount that is due to them as a compensation payment.

12. The [GAD contribution adjustment calculator](#) has already provided outputs on both the active method of tax relief and the non-active method of tax relief for each member, so this does not need to be re-run. But please be aware that the calculation date in the calculator may need to be changed to reflect a settlement date.

13. Interest that is to be paid on amounts due from a member is to be added to the net amount. Therefore, on the ABS-RSS which for this year is set up to use the active method of tax relief, it means that interest has been applied to the gross amount of contributions. In other words, tax relief is not taken into account and the **total amount shown is overstated**.

14. When a member requests to settle their contribution adjustment, it means that they will need to be provided with a revised contribution adjustment, before they can make payment – Details on this process and supporting member communications are provided further down in this document.

# Process for contribution adjustments

## Overview

15. Whilst there are some obvious steps for this process, there are also several decisions that the scheme manager will need to consider. The scheme manager will also need to work with the pension administrator to create the best possible process for all concerned.

16. Consideration will also need to be given to any variations where it is a FPS 1992 /Special FPS 2006 member that needs to **pay** contributions or a Standard FPS 2006 member that is **owed** a compensation payment.

17. There are two sections below, one is the process for a FPS 1992/Special FPS 2006 member who owes money **to** the scheme, and one is for a Standard FPS 2006 member who is owed money **from** the scheme

## FPS 1992/Special FPS 2006

18. The key steps in the process are highlighted in more detail below and draw out the questions and considerations that should be considered when determining the process for the settling of the contribution adjustment. The key steps are:

- a. Member requests to settle their contribution adjustment.
- b. Acknowledge receipt of request.
- c. Revised contribution adjustment form to be completed.
- d. Identify your process for the recalculation of any additional interest accruing after the date of the statement (e.g. 1 September 2024) up to the date of payment.
- e. Identify your process for receiving payment from member.
- f. Revised contribution adjustment form to be sent to the member.
- g. Payment to be made by member & record keeping.

19. There is no 'one-size fits all' process, in each of these steps, the scheme manager will have to consider their own local arrangements to determine the best way forward for them

### **Member requests to settle their contribution adjustment**

How will this request be received? e.g. form, email, telephone, other

Who will receive this request? How will requests be directed to this place, person, email address

How and where will these requests be recorded?

### **Acknowledge receipt of request**

Who will do this?

What timescales will be applied to dealing with this acknowledgement?

20. For a FPS 1992/Special FPS 2006 member, the acknowledgement letter should advise the member that a revised adjustment amount will need to be recalculated to take account of tax relief and apply the correct amount of interest and that this will have the effect of **reducing the amount quoted on the ABS-RSS**. The letter should also include the timescales for providing this revised information and that when the revised amount is sent, that details of how to make payment will also be included.

21. Suggested template wording for this acknowledgement can be found in [appendix A](#)

### **Revised contribution adjustment form to be completed**

Who will do this?

Who has the right information? i.e. the GAD contribution file with the non-active tax relief adjustment and the interest to 31 August 2024? Was the most current version of the calculator used?

Can the administrator extract this information from their system?

**Identify your process for the recalculation of any additional interest accruing after the date of the RSS (e.g. 1 September 2024) up to the date of payment**

22. As set out in [Direction 15\(13\)](#) interest is payable on amounts owed right up to the date of payment, but this may prove difficult to manage adequately, time consuming and require payment dates to be known.

23. This may vary depending on either the date used for the GAD calculator, or the version of the calculator used.

24. Each scheme manager will have to decide whether they have powers to waive the recalculation of interest between the date calculated and date paid under [Direction 4\(1\)\(b\)](#):

*“apply a presumption in favour of recovering the liability unless it is uneconomic to recover it.”*

### **Identify your process for receiving payment from member**

How will the member make payment to you?

If it is through payroll it must be from net pay, do you have appropriate processes in place to deal with this?

How will it be determined if the member has sufficient pay for this payment to be taken from their salary?

Will an invoice need to be raised?

How will all the various elements of the payment be recorded so that they can be reported at a later date?

### **Revised contribution adjustment form to be sent to the member**

Who will do this?

What are the payment process details?

25. When this is sent to the member, they should also be sent details about the process for paying and the timescales for payment. All payments **must** be received 12 weeks after the date of the ABS-RSS (e.g. where the statement is issued 31 August 2024, this date is 22 November 2024).

26. The letter to member will also need to explain that tax relief has been calculated based on the salary that has been paid from their employment as a firefighter only. If the member believes that the tax relief applied is incorrect then they can provide the scheme manager with additional evidence to appeal this.

27. Suggested template wording for this letter can be found in [appendix B](#)

### ***Payment to be made by member & record keeping***

28. When the final amount is known, payment will be made from the member. All elements will need to be recorded by the FRA, and details of the payment will need to be passed to the pension administrator so that it can be appropriately noted on the members pension record.

39. The tax-relief that is offset from the gross contributions owed is treated as compensation and must be reported to the Home Office, following the reporting requirements for the compensation scheme that are available within the [Home Office accounting and funding guidance](#).

## **Standard FPS 2006**

30. Standard FPS 2006 members have the option to reclaim any contributions payment from receipt of their RSS or defer receiving payment. To assist member with making an election on this a [contribution payment election form](#) has been made available.

31. This form only relates to Standard FPS 2006 members as there is a statutory obligation to pay the refund 'as soon as reasonably practicable' after the RSS has been issued. However, in some cases, it is expected that FPS 2015 benefits could be more beneficial for the member and therefore some member may be more likely to want the contributions to be held on account.

32. The key steps in the process are highlighted in more detail below and draw out the questions and considerations that should be taken into account when determining the process for the settling of the contribution adjustment. The key steps are:

- a. Member returns election form about the settlement of their contribution adjustment
- b. Acknowledge receipt of request
- c. Identify your process for the recalculation of any additional interest accruing after the date of the statement (e.g. 1 September 2024) up to the date of payment
- d. Identify your process for making payment to member
- e. Notification to be sent to member of increased amount and payment details
- f. Payment to be made to member and record keeping

g. Reminder to those who have not returned their forms

**Member returns election form about the settlement of their contribution adjustment**

How will the form for this request be received? e.g. email, post, other

Who will receive this form? How will forms be directed to this place, person, email address

How and where will these forms be recorded?

33. It will be necessary to keep a central list of Standard FPS 2006 members and a note of those that return their election form and their respective decisions. As forms that are not received within three months of the statements being issued will need to be sent a reminder.

**Acknowledge receipt of request**

Who will do this?

What timescales will be applied to dealing with this acknowledgement?

34. For a Standard FPS 2006 member, where they have elected to receive the payment, the acknowledgement letter will need to confirm that a revised amount will need to be provided to add additional interest and the timescales for providing this.

35. Where they have elected to defer their compensation payment, this should be acknowledged and made clear that the member can change their mind at any time and details of the process of how to do this.

36. Suggested template wording for this acknowledgement letter can be found in [appendix C](#).

**Identify your process for the recalculation of any additional interest accruing after the date of the statement (e.g. 1 September 2024) to the date of payment**



Who will do this?  
Can the administrator extract this information from their system?  
Can the administrator extract this information? i.e. the GAD contribution file with the interest to 31 August 2024? Was the most current version of the

37. For Standard FPS 2006 members, as the payment is in the form of compensation, the interest calculated up to the date of the statement is 8% simple. This amount will have been calculated correctly and be the amount showing on the ABS-RSS.

38. However, interest will need to be recalculated in all cases, as it will need to be increased accordingly. This is because interest is payable right up to the date of payment.

39. The additional interest that will need to be recalculated is:

a. 8% simple interest - from statement date to 28 days (e.g. 1 September 2024 to 28 September 2024), **plus**

b. NS&I compound interest – from day 29 after statement date to date of payment (e.g. 29 September 2024 to date payment is sent from your account).

***Identify your process for making payment to member***

Do you have bank details to make the payment to?

How will payment be made to the member?

How will this be processed? If it is through payroll it must be added to net pay, do you have appropriate processes in place to deal with this?

What are your timescales for making the payment?

How will all the various elements of the payment be recorded so that they can be reported at a later date?

40. The reporting requirements for the compensation scheme are available within the [Home Office accounting and funding guidance](#).

***Notification to be sent to member of increased amount and payment details***

41. A notification letter will need to be sent to the member confirming that the amount has been increased to take account of the additional interest that has accrued since the date of the RSS. A breakdown of the revised amounts will need to be included along with details of how and when the payment will be made.

42. Suggested template wording for this notification letter can be found in [appendix D](#)

### ***Payment to be made & record keeping***

43. When the final amount is known, payment will be made to the member. All elements will need to be recorded by the FRA, and details of the payment will need to be passed to the pension administrator so that it can be appropriately noted on the members pension record.

### ***Reminder to those who have not returned their forms***

44. Members who have not returned an election will need to be sent a reminder of the options available to them – It is recommended that this is done approximately 8 weeks after the RSS has been issued.

45. The letter should confirm that as there has been no response from the member, the scheme manager will assume that the member wishes to keep the money on their pension account until a future point. If the member wishes to receive the payment, then they can request this as any time.

46. Suggested template wording for this reminder letter can be found in [appendix E](#)

## **Disclaimer**

This document has been prepared by LGA to give informal guidance on the rules of the pension scheme and associated legislation using the regulations as they stand at August 2024. In order to support a consistent national approach, we recommend that FRAs take the guidance into account when considering future cases.

However the document should be used only as an **informal view** of the interpretation of the firefighters' pension scheme as only a court can provide a definitive interpretation of legislation. This factsheet should not be interpreted as legal advice.

Please address any queries on the content of this factsheet to [bluelightpensions@local.gov.uk](mailto:bluelightpensions@local.gov.uk)

August 2024

# Appendices

## Appendix A: - Acknowledgement wording for FPS 1992/Special FPS 2006 members

This letter is to acknowledge receipt of your request to settle your contribution adjustment.

### ***Letter to member***

[We/I] need to advise you that HM Treasury have issued a late change in policy, regarding how tax relief is to be applied to active members with a contribution adjustment, which was too late to be reflected in your ABS-RSS.

The contribution adjustment shown on your ABS-RSS is the gross amount of contributions and interest due. This needs to be reduced to account of the tax relief that is due for the relevant years of the remedy period.

The amount due to be paid by you will therefore be less than what is currently showing on your ABS-RSS.

[We/I] will write to you again by [ENTER DATE] to provide you with an updated amount and we will include details of how and when payment will need to be made.

## Appendix B: - Revised contribution wording and form for FPS 1992/Special FPS 2006 member

### ***Letter to member***

This letter is about your request to settle your contribution adjustment before your retirement.

[We/I] have enclosed a revised contribution adjustment form which sets out the adjusted amount that is now due, which takes account of tax relief.

The tax relief that has been calculated can only take account of the income tax and tax code that relates to your firefighter's salary over the remedy period and will not take account of any additional income you received or other personal tax circumstances.

If you believe that the tax relief applied to your contribution adjustment is incorrect, then you have the right to appeal the amount used. Please send us evidence which supports why the tax relief we have applied is incorrect to [ENTER EMAIL ADDRESS AND POSTAL ADDRESS] and we will consider your case accordingly.

Payment of the contribution adjustment must be made within 12 weeks of the date of the ABS-RSS statement, this means that the payment must be received by [ENTER DATE].

Payment will be

[DEDUCTED FROM YOUR SEPTEMBER/OCTOBER/NOVEMBER 2024 SALARY]

[PAID BY BACS, I ENCLOSE AN INVOICE FOR PAYMENT]

### ***Revised contribution adjustment form***

This is a separate document and not included in this appendix.

This is available to download from the [FPS Regs and Guidance](#) website under the [Retrospective remedy](#) section.

## Appendix C: - Acknowledgement wording for Standard FPS 2006

### ***Member elects to receive payment***

This letter is to acknowledge receipt of your request to receive settlement of your contribution adjustment.

[We/I] need to advise you that the amount due to you will need to be increased to account for additional interest which has accrued.

The contribution adjustment shown on your ABS-RSS is the gross amount of contributions, adjusted for tax relief, but the interest has only been calculated to the date of the statement, however interest is due right up to the date of payment.

The amount due will therefore be more than is currently showing on your ABS-RSS.

[We/I] will write to you again by [ENTER DATE] to provide you with an updated amount and we will include details of how and when payment will be made.

### ***Member elects to defer payment***

This letter is to acknowledge receipt of your request to defer the settlement of your contribution adjustment.

This indicative election is not binding, and you have the right to change your mind at any time up to and including your retirement. I have therefore enclosed a new form, and should you decide that you wish to receive payment before retirement, please complete the form and return to [ENTER EMAIL ADDRESS AND POSTAL ADDRESS]

## Appendix D: - Notification wording for Standard FPS 2006

This letter is to confirm the details of the compensation payment in respect of your contribution adjustment.

Interest is calculated right up to the date of payment, but the rate at which interest is paid changes 28 days after the date of your statement:

| Period  | Interest rate and type              |
|---|-------------------------------------|
| Up to date of statement: -  | 8% simple interest                  |
| From day after date of statement up to 28 days after date of statement: - | 8% simple interest                  |
| From day 29 after date of statement up to date payment made: -            | NS&I Direct Saver compound interest |

The revised amount due to you has been calculated as follows:

|   |   |
|---|---|
| Gross contribution adjustment                   | £ |
| Plus interest to <b>[ENTER DATE OF PAYMENT]</b> | £ |
| Gross contribution adjustment total             | £ |
| Less tax relief                                 | £ |
| Net contribution adjustment                     | £ |

The compensation payment of £**[ENTER AMOUNT]** will be paid to you on **[ENTER DATE OF PAYMENT]** by **[PROVIDE DETAILS OF HOW PAYMENT WILL BE MADE]**

## **Appendix E: - Reminder wording for Standard FPS 2006 members**

This letter is about the settlement of your contribution adjustment.

You received your ABS-RSS on [ENTER DATE], which set out the opportunity for you to claim any overpaid contributions and have them repaid to you. To date we have not received an election form from you which indicates that you would like to receive payment of your contribution adjustment now.

We will therefore assume that if we continue to hear nothing from you, that you are making an indicative choice to defer receiving your payment and that you wish this to be held on your pension account for the time being. Any contributions dealt with in such way will continue to attract compound interest based on NS&I Direct Saver rates.

This is not binding, and you have the right to make an election to receive your payment at any time up to your retirement when your final decision will be made. I have therefore enclosed a new form, and should you decide that you wish to receive payment before retirement, please complete the form and return to [ENTER EMAIL ADDRESS AND POSTAL ADDRESS].