

Interest





Interest

Payable to or by members, beneficiaries and personal representatives in specific circumstances

Rates and periods set by HMT Directions

FPS regulations state that interest should be applied in line with the Directions – 58(1)

Government objectives

- 1. Reflect the position members may have otherwise been in** – The determination of interest payment should consider what position the member may have been in had the payments been made on the date they originated from.
- 2. Recognise the circumstances of the award** – The interest payments should reflect the context as to why the remedy is being implemented and what interest rates are being applied elsewhere as a part of the remedy.
- 3. Not unduly burden the taxpayer** – Any interest payments should be proportionate and where possible not result in unnecessary costs to the taxpayer.

Interest: rates and periods



Compensation (Part 4 tax losses)

- Calculated in line with [the Taxes \(Interest Rate\) Regulations 1989](#) as if amount were overpaid tax



Amounts due from member to scheme

- NS&I Equivalent Savings Rate
- From date overpaid benefits were paid to date of payment
- From date contributions due to date of payment
- Some discretion re: start date
- Compounded daily



Amounts due from scheme to member

- On certain amounts depending on timing: rate fixed by [Judgments Act 1838](#) – currently 8%
- From 'mid-point' to 28 days after RSS (conts/pension)
- From date of PCLS to 28 days after RSS
- Direct financial loss
- Simple interest



Amounts due from scheme to member

- On certain amounts depending on timing: NS&I Equivalent Savings Rate
- Compensation for contributions under DC election, from date due to date of payment
- Other conts/pension/ LS more than 28 days after RSS
- Compounded

NS&I

- Not fixed
- Based on direct saver rates
- Updated at regular intervals to reflect economic conditions
 - BoE base rate

Effective from	Gross/AER (taxable)
8 Mar 10	2.00%
19 Jul 10	1.75%
25 Jan 12	1.50%
12 Sep 13	1.10%
6 Jun 16	0.80%
1 May 17	0.70%
1 Dec 17	0.95%
1 Oct 18	1.00%
24 Nov 20	0.15%
29 Dec 21	0.35%
10 Feb 22	0.50%
21 Jul 22	1.20%
25 Oct 22	1.80%
13 Dec 22	2.30%
24 Jan 23	2.60%
14 Feb 23	2.85%
13 Jul 23	3.40%
18 Aug 23	3.65%

Why 8%? Why simple interest?

- In line with the interest awarded to the claimants in the associated employment tribunals.
- [Employment Tribunals \(Interest on Awards in Discrimination Cases\) Regulations 1996.](#)

Simple v Compound

- **Simple interest** is calculated on the original amount.
 - £100 is owed at a simple rate of 3% per year, after the first year the interest is £3 and total owed is £103. In the second year the interest is again £3 and the total owed is £106.
- **Compound interest** is calculated on the original amount and on the interest already accumulated on it.
 - £100 is owed at a compound rate of 3% per year, after the first year the interest is £3 and total owed is £103. In the second year the 3% interest applied to the £103 total owed. This gives interest of £3.09 for a total owed of £106.09.

Unprotected FPS 1992

Legacy

- Contributions = Underpaid
 - NS&I
- Pension and lump sum (IC only)
 - Underpaid – 8% until 28 days after RSS, then switch to NS&I
 - Overpaid – NS&I

Reformed

- No adjustment required

Protected FPS 1992

Legacy

- No adjustment required

Reformed

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Unprotected FPS 2006

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 - Overpaid – NS&I

Taper cases

- Member will have a mixture of legacy/reformed
- Same principles apply
 - Monies owed by the member to the scheme = NS&I
 - Monies owed by the scheme to the member = 8% until 28 days after RSS, then switch to NS&I

Contingent decisions

Optant outs

- NS&I
- Payment options
 - Periodic contribution (14 years)
 - Lump sum
 - Election
 - ABS/RSS
 - Retirement
- Calculator TBC

Added pension

- NS&I
- Payment options
 - Lump sum
 - Election
 - ABS/RSS
 - Retirement

Resources

- [Letter exchanges](#) between HMT and GAD
- Member [FAQs](#)
- Output and interest [guide](#)



View from TPO

What constitutes late?

“It is expected that payment of benefits should be made as soon as practicable after all the information is received for the benefits to be put into payment taking into account various factors such as payment runs etc. However, each case turns on its own merits and there may be other factors that need to be considered.”

Disclosure regulations

Regulation 20

(3) The information mentioned in paragraph (2)(a) must be given—

(a) where benefit becomes payable on or after normal pension age before benefit becomes payable, if practicable and in any event within **one month** after benefit becomes payable, or

(b) where benefit becomes payable on a date before normal pension age, within **two months** of that date.

Recommendations

Understand retirement profile

- Who can retire?
- When can they retire?

Timeframes

- Conversation with administrator
- How long are cases taking?
- Special considerations?

Member communications

- Alert to need for additional notice
- Highlight consequences

Any questions



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Thank you for listening!

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