

Pensions News



March 2016

An update for active members of the Local Government Pension Scheme (LGPS)

Dear Colleague

We have produced this newsletter to let you know about changes that are likely to affect you as a member of the Local Government Pension Scheme (LGPS).

STATE PENSION REFORMS

The government is introducing a flat rate pension to replace the existing basic and additional State Pension for people who reach their State Pension age after 5 April 2016. This will mean the end of 'contracting out' of the additional State Pension for members of occupational pension schemes.

- Most members of public sector pension schemes such as the LGPS will pay increased National Insurance contributions from April 2016 as a result of the end of 'contracting out'
- The new flat rate pension will be adjusted to reflect any LGPS membership you built up before 5 April 2016 when you were paying a reduced rate of National Insurance contributions

You can read more about these reforms on pages 2-4 of this newsletter.



TAXING YOUR PENSION BENEFITS

The government sets limits on the total amount of pension benefits you can build up in all schemes – the Lifetime Allowance (LTA), and the amount by which your pension savings can increase in a year – the Annual Allowance (AA), before you become subject to a tax charge.

Some LGPS members may be affected by changes in the LTA and AA that come into force from April 2016. More information about these changes can be found on page 4-7.

This Newsletter has been produced by Orbis Pension Services on behalf of:



CONTRIBUTIONS FROM 1 APRIL 2016

As a member of the LGPS, the contribution rate that you pay depends on your annual pensionable salary. This is reviewed on 1 April each year but your employer can also choose to review your contribution rate each time your pay changes. The pay ranges are normally increased each April in line with changes in the Consumer Prices Index (CPI). As the CPI did not increase in the 12-month review period to September 2015, it is very likely that the pay ranges will remain the same as those in use from 1 April 2015:

Actual yearly pay		You pay
From	To	
Up to	£13,600	5.5%
£13,601	£21,200	5.8%
£21,201	£34,400	6.5%
£34,401	£43,500	6.8%
£43,501	£60,700	8.5%
£60,701	£86,000	9.9%
£86,001	£101,200	10.5%
£101,201	£151,800	11.4%
More than	£151,801	12.5%

THE NEW STATE PENSION AND WHAT IT WILL MEAN FOR LGPS MEMBERS

The Government is introducing a new single tier flat rate pension for people who reach State Pension age on or after 6 April 2016 to replace the existing basic and additional State Pensions. Their aim is to introduce a simpler, fairer system where you have a clearer idea about what pension the state will provide, making it easier to plan for your retirement.

There are no plans to alter the benefits the LGPS provides as a result of these changes. However, membership of the LGPS will affect how your new State Pension entitlement is calculated and many LGPS members will see an increase in the rate of National Insurance contributions they pay.

Will I receive the new State Pension?

You will be able to claim the new State Pension if you're

- a man born on or after 6 April 1951
- a woman born on or after 6 April 1953

and, normally, have at least 10 qualifying years on your National Insurance record.

If you reach State Pension Age before 6 April 2016 you'll get your State Pension under the State Pension scheme in place before April 2016.

Will I have to pay more National Insurance contributions?

Yes you will, but it is important to understand that these extra payments will contribute towards your State Pension.

The current State Pension is made up of the basic State Pension and additional State Pension (sometimes known as the State Second Pension or SERPS).

The LGPS is 'contracted out' of the additional State

Pension. This means that during your membership of the LGPS you have been receiving a rebate on your National Insurance contributions and have not been building up any additional State Pension. You have been building up pension benefits in the LGPS instead.

In almost all cases, the pension you will get from the LGPS will be more than you would have received from the additional State Pension had you not been contracted out.

From 6 April 2016 the new State Pension will, for those who attain State Pension Age on or after that date, replace the existing basic and additional State Pensions with a single tier flat rate pension. This will end contracting out of the additional State Pension and so the rebate on your National Insurance contributions will stop.

How much more in National Insurance will I have to pay?

The National Insurance rebate is 1.4% of monthly pay between £486 and £3,337 (2015/16 figures). From 6 April 2016 you will no longer receive this rebate and will pay the standard rate of National Insurance. Below are some examples of the National Insurance payable before and after these changes are introduced.

Earnings

£15,000 per year - £ 1,250 per month
 £27,000 per year - £ 2,250 per month
 £45,000 per year - £ 3,750 per month

Monthly National Insurance payable

Before 6 April 2016	From 6 April 2016
£58.66	£69.36
£164.66	£189.36
£307.65	£352.76

The figures in this table apply to employees over age 21 and below State Pension Age

You will not see a change if:

- You are over State Pension Age
- Your earnings are below £486 per month
- You are paying the Married Woman's / Widow's Reduced Rate of National Insurance





HOW CAN I FIND OUT MORE INFORMATION?

More information about the new State Pension can be found at www.gov.uk/yourstatepension

The government has issued a wide range of publications that you may find useful including:

Factsheets about the new State Pension

and Guides about the end of contracting out.

I cannot afford to pay the increased National Insurance contributions. What can I do?

You should think very carefully before making any changes to your LGPS pension position but as a short term option, you could consider joining the 50/50 section of the LGPS. In the 50/50 Section, members pay half their normal pension contributions and build up half their normal pension, while retaining full life cover and ill health cover.

More information about the 50/50 option can be found on the national LGPS members' website www.lgpsmember.org. You can obtain a 50/50 option form from your employer or by contacting Pension Services. Contact details can be found on page 7.

TAXING YOUR PENSION BENEFITS – 2016 CHANGES

In the summer 2015 Budget the Chancellor announced changes to the tax free allowances provided by HM Revenue and Customs (HMRC) relating to your pension.

The two tax free allowances that are changing from April 2016 are:

- **The Annual Allowance**
- **The Lifetime Allowance**



THE ANNUAL ALLOWANCE

Set by HMRC, the Annual Allowance (AA) is a limit on the increase in the value of the pension benefits you can build up each year before you become subject to a tax charge. A three year 'carry forward' rule means that you may not have to pay a tax charge if the increase in your pensions savings exceeds the relevant limit (see below) provided you have sufficient 'unused' allowances from previous years.

In previous years the period from 1 April to the following 31 March was used as the year over which the growth in your pension savings was measured for AA purposes.

An interim arrangement is in place for the 2015/16 year when there will be two assessment periods – 1 April 2015 to 8 July 2015 and 9 July 2015 to 5 April 2016.

From the 2016/17 year onwards the assessment period will be aligned with the tax year – 6 April to the following 5 April.

The Annual Allowance for 2016/17 will be £40,000 for most people, but high earners may be affected by the introduction of the Tapered Annual Allowance.



THE TAPERED ANNUAL ALLOWANCE

From the 2016/17 year onwards the AA will be reduced for high earners on a tapered basis determined by the member's level of earnings. The taper will reduce the AA by £1 for every £2 of 'adjusted income' received over £150,000, down to a minimum AA of £10,000.

'Adjusted income' means your annual gross salary plus the amount by which your pension savings increase in the year.

You will only be affected by the Tapered Annual Allowance if:

- **Your annual income excluding pension contributions is over £110,000, and**
- **Your annual 'adjusted income' (see above) is over £150,000**



THE LIFETIME ALLOWANCE

The Lifetime Allowance (LTA) is the total value of your pension benefits from all sources (except the State Pension) that you can receive before you become subject to a tax charge. The LTA is assessed at the point your retirement benefits are paid to you.

THE LTA IS REDUCING FROM £1.25MILLION TO £1MILLION FROM 6 APRIL 2016.

When the LTA has reduced in previous years, some forms of protection have been available for members who have already built up large pensions and similar protections will be available from HMRC from July 2016 onwards.

HMRC is introducing an interim process for scheme members who wish to claim their benefits after 5 April 2016 but before applications for protection can be made from July 2016.

If you do require protection, it is your responsibility to apply.



How will I know if I am affected?

Pension Services will be contacting members directly who we think may be affected by the reduction in the Lifetime Allowance in the coming weeks.

Please be aware that we can only identify members based on information we hold about the LGPS benefits that you are currently building up and any Local Government Additional Voluntary Contributions fund attached to your main scheme benefits.

You will need to take into account the value of the pension benefits you hold in any other pension scheme or arrangement in assessing whether you are likely to exceed the LTA. The same also applies to the new Annual Allowance outlined above.

What should I do if I think I may be affected by the changes to the LTA?

In all circumstances, we'd recommend that you consult with an independent financial or tax advisor to talk you through the details, taking account of your own particular circumstances.

It is possible some people may need to consider opting out of the LGPS if they want to retain one of the LTA protections introduced by the Government but you are strongly advised to seek independent advice before making a decision.

HOW TO CONTACT PENSION SERVICES

You can contact us in any of the ways shown below. Please note that we can only assist you with enquiries regarding the LGPS and not the state pension changes which are the responsibility of the Department for Work and Pensions:

Telephone the Pension Services Helpdesk:

020 8213 2802

Email: myhelpdeskpensions@surreycc.gov.uk

Fax: 0208 541 9287

Write to: Pension Services
Room 243, County Hall
Penrhyn Road
Kingston upon Thames
KT1 2DN

HOW CAN I FIND OUT MORE INFORMATION?

You can visit our office any time between 9:00am and 5:00pm. You can also arrange an appointment with a member of the Pension Services Team. Further information about the LGPS can be found on the pension fund website www.surreypensionfund.org

Factsheets covering the changes in the AA and LTA can be found in the 'Tax and Pensions' section of the [pension fund website](#)

The government has published a guide that covers taxation of your pension savings:

www.gov.uk/tax-on-your-private-pension

If you wish to consult an independent adviser, it is important that they are qualified and authorised to provide advice. The following organisations provide useful information about how to choose an appropriate adviser, and how to find one in your area:

[The Pensions Advisory Service](#)

[The Financial Services Register](#)

www.unbiased.co.uk

www.thepfs.org

If you have any questions or comments about the content of this newsletter, please contact Pension Services. Our contact details are shown above.

