

# Pension Update

SUMMER 2013 | ISSUE 5



We are pleased to announce that this newsletter has been produced jointly by the Cheshire, Shropshire County, Staffordshire and Warwickshire Pension Funds, all having contributed to both its design and content. You should still contact your pension fund directly if you wish to change your personal details or have a question about your benefits.



## Keeping up to speed with your LGPS

You will have read in previous newsletters that the Local Government Pension Scheme (LGPS) is changing from April 2014. To keep you up to speed on the latest 2014 changes we have provided an overview of the new scheme. We hope you enjoy reading the newsletter and find the information in it useful. If you have any comments that would help us to improve the service we provide we would be happy to hear from you.

## The LGPS is changing from April 2014

If you are paying into the Local Government Pension Scheme (LGPS), you'll automatically be in the new scheme from 1 April 2014.

If you've retired or left before then, there's no change to your pension.

# Here is how the new scheme works:

## There's increased flexibility around when you can leave and take your pension.

From April 2014 you can choose to leave and draw your pension anytime from age 55 - but the longer you work the more your pension will be.

Your pension will be reduced if you choose to retire before your normal pension age and increased if you retire later. Normal pension age for your new scheme pension won't be fixed at 65 as in the current scheme, it will be the same as your state pension age - with 65 as the earliest age.

As your state pension age increases, so will your LGPS pension age. To find out your state pension age - have a look at:

[www.gov.uk/calculate-state-pension](http://www.gov.uk/calculate-state-pension)

### Your pension builds up in a new way from April 2014

- For each year in the new scheme you build up a pension based on your pay in that year.
- Every year you get a pension that's equal to a 49th of your pay added into your pension account
- **PLUS** - Inflation increases, so your pension account keeps up with the cost of living.
- And it won't cost more for most people.

Whilst the average cost for employees will still be 6.5% of pay, from April 2014 the highest paid will pay more. If you are part time it could cost you less - your contribution rate will be based on your part time pay instead of, as now, the full time equivalent.

If you're worried you can't afford it – think again

- If you pay tax you get tax relief on your contributions.
- And the new scheme gives you more flexibility – it has a new 50/50 option. For times when things are difficult, you can choose to pay half contributions and, during that time, add half pension into your account. But you still keep the full value of your life and ill health cover.

### Remember

- A pension isn't only about your future.
- As a member of the LGPS you still get valuable life cover, with a lump sum of 3 years pay if you die in service, cover for your family, with pensions for your dependents if you die, and ill health cover for you.
- And you can still pay more to buy extra pension.

It's important you know that all of your benefits built up in the scheme to 31 March 2014 are protected. They will still be based on your final salary on leaving and the normal pension age in the current scheme.

Your pension is changing, becoming more flexible & offering you more choice.

### To find out more

More information on the changes, a short video and examples can be found on:

[www.lgps2014.org](http://www.lgps2014.org)

## More detailed information will become available in the run up to April 2014.

## How are my benefits worked out?

**Question:** I have been in the Scheme for a number of years (e.g. have service in pre LGPS April 2008 regulations) how are my benefits worked out?



**Answer:** You will have three parts to your pension that will be combined when you come to retire as shown below:

### Pre 2008 Regulations

- Final salary
- Automatic tax free lump sum
- Pension built up at a rate of 1/80th
- Retirement age of 65 but possibly 60 under the 85 year rule protections

### 2008 – 2014 Regulations

- Final salary
- Ability to exchange some pension for a tax free lump sum
- Pension built up at a rate of 1/60th
- Retirement age of 65

### New LGPS 2014

- Career Average
- Ability to exchange some pension for a tax free lump sum
- Pension built up at a rate of 1/49th
- Retirement age in line with state pension age

# Pension tax changes



**The Lifetime Allowance** is the total capital value of all your pension arrangements, not including your state pension, which you can build up without paying additional tax. The cut in Lifetime Allowance will largely impact high earners with substantial pension savings.

## **The changes to Life Time Allowance are:**

### **Lifetime Allowance**

£1.5 million in 2013/2014

Which is broadly equivalent to £75,000 annual pension if you don't take a lump sum and £56,250 annual pension if you take 25% as a tax free lump sum.

*Decreasing to £1.25 million in 2014/15*

*This is broadly equivalent to £62,500 annual pension if you don't take a lump sum and £46,875 annual pension if you take 25% as a tax free lump sum.*

**The Annual Allowance** is set by HM Revenue & Customs (HMRC) and is the maximum your pension can increase by in a tax year before tax charges are imposed. The cut in annual allowance should only affect members who receive a substantial pay increase.

Where a member has an Annual Allowance tax charge above £2,000 they can, in certain circumstances, elect for the pension scheme to pay part or all of the charge on their behalf and take a reduction in pension benefits.

## **The changes to the Annual Allowance are:**

### **Annual Allowance**

£50,000 in 2012/13 and 2013/14

*Due to decrease to £40,000 in 2014/15.*

## **Further information:**

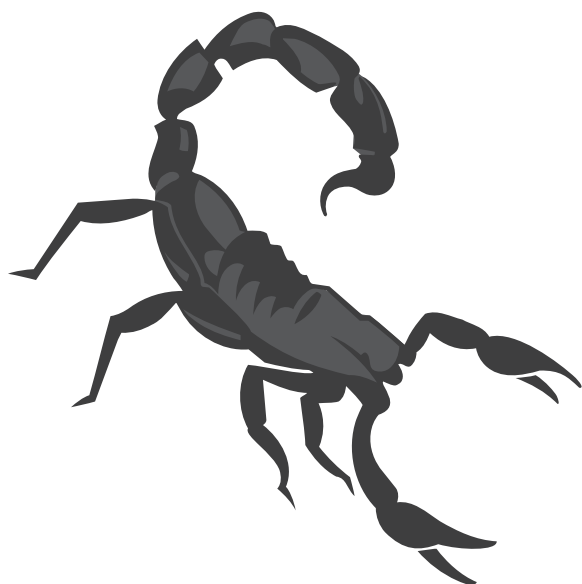
HMRC have an online calculator tool will to help members calculate their annual allowance charge for 2014-15 onwards.

Please contact the pensions team if you have queries about Annual Allowance or Lifetime Allowance changes. However, we aren't tax advisers and do recommend that financial advice is taken when making financial decisions with regard to these changes.

# Pension liberation

## *Beware of pension fraud!*

Companies are targeting people with retirement savings claiming that they can help to cash in your pension early. They could contact you via e-mail, phone or text to tell you that you could be entitled to a cash payment from your pension. However, what they won't tell you is that you will face a tax bill of more than half of your pension savings if you choose to transfer them to another arrangement and receive a cash payment before age 55. This type of arrangement is known as '*pension liberation*'.



### What is pension liberation, and how does it work?

Fraudulent companies will ask you to transfer your pension to another arrangement and '*borrow*' money from your pension fund and pay you a cash lump sum. These companies may also deduct fees from your fund (*often 10% - 20% of your fund*) when it is transferred to their account, which further decreases the amount of cash you would actually receive.

### What can I do to avoid being a victim?

The Pension Regulator has issued five tips to avoid falling victim to the scam:

- Never give information out to a cold caller
- Check the company and any advisers they employ, as they should be registered with the Financial Services Authority
- Ask for a statement showing how your pension will be paid at retirement
- Speak to an independent adviser for unbiased advice
- Never be rushed into agreeing a transfer.

**If you think you have been made an offer to 'liberate' your pension please contact Action Fraud on 0300 123 2040.**

More detailed information can be found on the pensions advisory service website at the following address: [www.pensionsadvisoryservice.org.uk/media/930662/members\\_leaflet.pdf](http://www.pensionsadvisoryservice.org.uk/media/930662/members_leaflet.pdf)

## Contacting your pension fund

**When contacting us please quote your National Insurance Number.**

If you can read this but know someone who cannot, please contact us on (01743) 252130 so we can provide this information in a more suitable format.

### Pension Services

Shropshire Council, Guildhall, Frankwell,  
Shrewsbury, SY3 8HQ

**Email:** [pensions@shropshire.gov.uk](mailto:pensions@shropshire.gov.uk)

**Web:** [www.shropshirecountypensionfund.co.uk](http://www.shropshirecountypensionfund.co.uk)

**Tel:** (01743) 252 130

**Fax:** (01743) 281 040

### Other useful contacts

**Tax Office Tel:** 0845 3000 627

**Department for Work and Pensions**

**(State Pension Queries) Tel:** 0845 6060 265

**Pension Credit Tel:** 0800 991234

**Web:** [www.thepensionservice.gov.uk/pensioncredit](http://www.thepensionservice.gov.uk/pensioncredit)