

Pension Update



FOR MEMBERS OF THE LOCAL GOVERNMENT PENSION SCHEME (LGPS) | **DECEMBER 2016**

➤ Pension taxation limits



There are two types of pension taxation that you need to be aware of, the annual allowance and the lifetime allowance. We have covered the limits in previous newsletters and you can find information on your Fund's website.

Annual Allowance

The annual allowance is the amount the value of your pension savings may increase in any one year without having to pay a tax charge. The 'pension input period' (PIP) is the period over which your pension growth is measured. If the value of pension benefits grows by more than the limit, then the excess amount may become subject to a tax charge. However, the three years "unused" annual allowance can be used to offset the tax charge.

The last four years annual allowance amounts are shown in the table below:

YEAR	ANNUAL ALLOWANCE LIMIT
2013/14	£50,000
2014/15	£40,000
2015/16	£80,000 (but split pre and post the date of the 8 July 2015 due to the budget – limit is £40,000 per period, but with a maximum carry over of £40,000)
2016/17	£40,000 but with tapering to £10,000 for some people (this is explained below)

How is pension's growth calculated?

The increase in the value of your pension savings each year is calculated by working out the value of your benefits immediately before the start of the PIP, increasing the value by inflation and then comparing it with the value of your benefits at the end of the PIP.

From 6 April 2016, PIPs for all pension schemes are aligned with the tax year – 6 April to 5 April. Prior to 2016/17 the PIP for the LGPS was 1 April to 31 March, except for the year 2015/16 when special transitional rules applied.

In the Local Government Pension Scheme (LGPS) the value of your pension benefits is calculated by multiplying the amount of your annual pension by 16 and adding any lump sum you are automatically entitled to from the pension scheme, plus any AVCs you or your employer have paid during the year.

If the difference in the value of pension benefits at the end of the

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PIP less the value of your pension benefits immediately before the start of PIP (adjusted for inflation), is more than the annual allowance limit, you may be liable to pay a tax charge.

Each year you will be sent a pensions savings statement if your pension savings in this Fund exceeds the annual allowance limit for that year. The statement is based on the information the Fund holds on your pension record at the time of the calculation. If you breach the annual allowance the statement will provide the options you have in dealing with the tax charge.

From 6 April 2016 the annual allowance was reduced for those individuals who have income over certain levels. Broadly affecting those whose;

- "threshold income" is above £110,000 and,
- "adjusted income" is above £150,000

Threshold income is broadly defined as total earnings, less what you pay in pension contributions.

Adjusted income is broadly threshold income plus the value that your pension grows by over the year. If you satisfy both points the annual allowance will be reduced by £1 for every £2 that the adjusted income exceeds £150,000. However, the maximum reduction that can apply to the annual allowance is £30,000 leaving an annual allowance of £10,000.

HMRC provide information to help you:
www.tax.service.gov.uk/paac

If you have pension benefits elsewhere, you will also need to take these into consideration. It is your personal responsibility to pay the correct amount of tax.

Lifetime Allowance

This is the overall limit on the amount of pension savings you can have during your working life without incurring a tax charge. To calculate your lifetime allowance percentage, multiply your annual pension by 20, adding in any lump sum and Additional Voluntary Contributions

(AVCs), then divide the total of that by the lifetime allowance limit x 100.

On the 6 April 2016 the lifetime allowance reduced from £1.25 million to £1 million.

If you had pension savings in excess of £1 million on the 5 April 2016 you may apply for Individual Protection 2016. This will provide you with a lifetime allowance equal to the value of your pension benefits on that date instead of £1 million. It is not possible to protect pension benefits of more than £1.25 million in this way so if your pension benefits were over £1.25 million on the 5 April 2016 your Individual Protection is capped at £1.25 million. Individual Protection still provides for future pension accrual so you can remain in the pension scheme.

It is also worth noting if you had pension savings in excess of £1.25 million when the lifetime allowance was last reduced in April 2014, you still have until the 31 March 2017 to apply for previous protections with HMRC.

For further information on lifetime allowance including applying for any protection visit HMRCs website:

www.gov.uk/guidance/pension-schemes-protect-your-lifetime-allowance

This newsletter provides an overview of the rules governing taxation of pension savings. It is your personal responsibility to pay the correct amount of tax. The Fund is not able to provide financial advice. If you are unsure about the best course of action, you should contact HMRC using the details below. You may need to take independent financial advice in order to ensure you understand your tax position.

Contacting HMRC:

Telephone: 0300 200 3300

Write: HM Revenue and Customs - Pension Schemes Services, Ferrers House, Castle Meadow Road, Nottingham, NG2 1BB

➤ The LGPS – Implications of the EU referendum

The following statement below was issued by the Department for Communities and Local Government following the decision made in June 2016 for Britain to leave the European Union:

"The vast majority of EU legislation which impacts either directly or indirectly on the LGPS such as the Institutions for Occupational Retirement Provision (IORPs) is already written into UK legislation. Accordingly the scheme will need to continue to comply with such legislation until such time as Britain leaves the EU after which it would of course be the prerogative of a future UK government to seek to repeal some or all of this legislation subject to the terms of any new trade arrangements made with the EU.

With regard to UK government policy and legislative plans for the LGPS the situation is 'no change'. Regulatory changes, policy objectives and the timescales for implementing them remain as they were before the vote."

As the statement confirms there will be no change to the LGPS following the decision to leave the European Union.

Any impact on the Fund's investments caused by the decision for the UK to leave the European Union will be monitored by the Pensions Committee and you can review the papers of the latest committee minutes on the Fund website.

The latest issues affecting the Fund will be covered in greater detail at the Annual Meeting on 2 December. Please see page 5 for further information about this year's meeting.

➤ Ask the Pensions Team



Some of the frequently asked questions received by the Pensions Team can be found here:

Shropshire County Pension Fund has had a dedicated helpdesk team. The helpdesk team are available to answer any questions about your Local Government Pension Scheme benefits.

The helpdesk is made up of 3 members of the Pensions Team Mark, Laura and Victoria. Members of the Scheme contact the helpdesk each day by phone, email or post and some of the questions they have been asked recently are below:

Q. My marital status has just changed. How can I update my pension record?

A. In order to update your pension record with a new marital status, we need to see the original document confirming the change such as your marriage or civil partnership certificate, or your decree absolute in cases of divorce.



Q. Can I retire early and receive payment of my pension?

A. Your LGPS pension is payable in full and without reduction from your Normal Pension Age which is linked to your State Pension Age (but with a minimum of age 65). However, you can choose to retire and draw your pension at any time from age 55, provided you have been in the Scheme for a minimum of 2 years – this is known as the vesting period. If you choose to take your pension before your Normal Pension Age it will normally be reduced, as it's being paid earlier. The amount of reduction you receive depends on how early you retire.

Q. I have just retired, when can I expect payment of my benefits?

A. In order to calculate your pension benefits we require information to be provided by your employer. Such as your pay, leave date and reason for leaving. This ensures we correctly calculate your benefits. We cannot make payment of your benefits until we receive the required information from your employer and you cannot receive payment of your benefits until your employment has ended. If you are paid overtime or you are due to receive any pay in arrears from your employer, then sometimes the information is received after you have left employment.

Once your employer has provided the information we require, we will calculate your retirement benefits and inform you of your retirement options such as for taking or increasing your lump sum retirement grant.

Monthly pension payments are made on or around the 29th of each month and any lump sum retirement grant due is paid within 7-10 days of receiving your returned forms.

Q. How do the contributions I pay into the LGPS each month relate to the pension I build up?

A. The LGPS is a statutory, funded pension scheme and as such it is very secure because its benefits are defined and set out in law. Being a defined benefit scheme means how much you get doesn't depend on investments, instead it is based on your salary and how long you are a member of the Scheme.

The contributions you pay into the LGPS provide membership of the Scheme but do not cover the full cost of providing your benefits, as your employer pays the balance after taking into account investment returns. Every three years, an independent actuary calculates how much your employer should contribute to the Scheme.

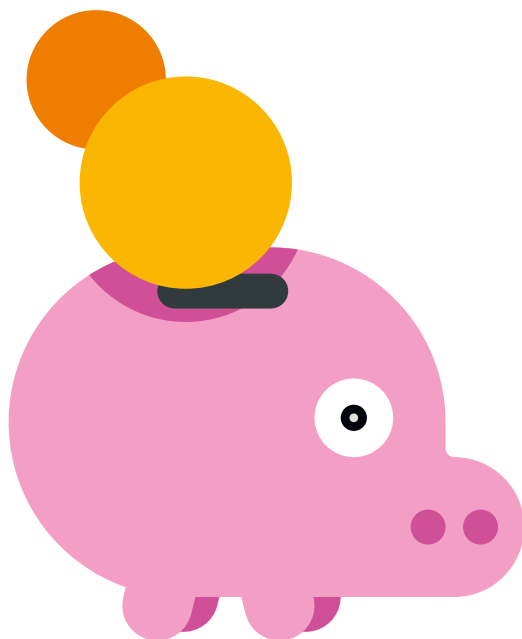
Your employer determines your contribution rate based on your pay and contribution rates are between 5.5% and 12.5%, as set by the regulations. If you are a tax payer you will receive tax relief on your contributions.

The LGPS offers a wide range of benefits in addition to the pension paid to you, such as life cover in the event of your death and survivors pensions. In some circumstances your pension can be paid early if you become ill or if your employer makes you redundant.

Q. How can I find out what my pension will be at in the future?

A. If you haven't done so already you can sign up to the 'My Pension Online' service which means you can access your pension record securely via our website. Once registered you can use the online benefit projector to calculate your pension benefits in the future.

➤ Topping up your State Pension



There are two schemes available to top up your State Pension. Which one to use depends on whether or not you have reached State Pension Age.

Class 3 Voluntary National Insurance Contributions

If you have not yet reached State Pension Age but are worried that you might not have enough NI contributions to qualify for the State Pension (or to get the maximum amount), you can make Class 3 National Insurance contributions. This may be of interest to former public sector workers who have:

- Retired, and
- Not yet reached SPA (or have reached their SPA since 6 April 2016).

If this applies to you then you will have your state pension based on the new 'flat rate' system, but as you have been a member of the LGPS, which up until 6 April 2016 was a contracted-out employment, you may find that you have a 'contracted-out deduction' applied to your state pension when you

reach SPA. These contributions are voluntary and allow you to fill gaps in your National Insurance record to improve your basic State Pension entitlement.

State Pension Top Up Scheme

If you have already reached State Pension Age you can increase your State Pension with the top up scheme.

You must be entitled to the State Pension and have reached State Pension age before 6 April 2016 to be eligible for the scheme. The scheme allows you to increase your State Pension by between £1 and £25 per week if you're either:

- A man born before 6 April 1951
- A woman born before 6 April 1953

You'll need to make a lump sum contribution before 5 April 2017.

There is a State Pension top up calculator to find out how much you'll need to pay available at:
www.gov.uk/state-pension-topup

➤ State Pension Age independent review

Under the Pensions Act 2014, the Government must undertake an independent review of the State Pension Age (SPA) each parliament. The independent review for the current Parliament has produced an interim report of its findings prior to its final report which is due to be published in 2017. The final report will make recommendations to Government on possible changes to the SPA.

The interim report contains a number of questions on which the Government is seeking views and evidence. The consultation period closes on 31st December 2016. Further information will be provided once known.

➤ New LGPS national website

The national LGPS website is the website to visit for general information about your Pension Scheme. You can visit the site at: www.lgpsmember.org



➤ Annual Meeting 2016



The Fund's Annual Meeting for 2016 took place on Friday 2 December from 11.00am until 13.00pm. The meeting was held in the Council Chamber at the Shirehall, Shrewsbury.

The Annual Meeting provided an overview of the results of this year's Valuation and the latest news on the Fund's investments, the LGPS Investment Reform project and Fund administration.

Don't worry if you were unable to attend this year's meeting. As with previous years the Annual Meeting was filmed and the video will be hosted on the Pension Fund website.

➤ Valuation

A Valuation of the Fund is undertaken to ensure that the Fund's assets are sufficient to meet the Fund's liabilities.

The Valuation analyses scheme membership by type, assesses the Fund's financial position, sets out the assumptions for future inflation and investment returns and then provides a schedule of the contribution rates for each of the Fund's employing bodies. The Valuation happens every three years with the previous one being undertaken as at 31st March 2013.

Shropshire County Pension Fund's Actuary, Mercer, carries out the Valuation and reports their findings in the actuarial report. Mercer are currently working on the data for the 2016 report. The Valuation reports for 2013 and 2010 can be found on the Pension Fund website, and once released in spring next year, the 2016 actuarial report will also be uploaded to the website.

The 2013 Valuation, showed that the Fund had assets to cover 76% of the Fund's liabilities. The 2016 Valuation will focus on membership up to 31st March 2016 and the results will be released by 31st March 2017. We will report the Actuary's findings on the Fund website.

➤ LGPS Pooling Update

Shropshire County Pension Fund is working with nine other LGPS Funds to pool investments to significantly reduce costs while maintaining overall investment performance. To find out the latest updates on the LGPS pooling project visit the Fund's website.

➤ 'My Pension Online'- Are you registered yet?

Did you know that you can view your LGPS pension benefits online? The secure members' area, called 'My Pension Online', allows you to:

- View your latest benefit statements
- Update personal details
- Make death grant nominations
- Check pay details are correct
- Calculate retirement benefits

To register, visit the Fund's website. You will need your email address and your National Insurance number.

➤ Keep up to date on the latest news!

Don't forget to check out the latest LGPS news by visiting the Fund's website. A recent news item has been added on the Government's reforms to exit payments, read it here.

Contacting the Pensions Team

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