Pension Update

For members of the Local Government Pension Scheme (LGPS) **Spring 2015 Newsletter**

SHROPSHIRE COUNTY PENSION FUND
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The 1st year of CARE

It's nearly been a year since the LGPS changed to a Career Average Revalued Earnings (CARE) scheme on the 1 April 2014. So lets recap on the changes that were made and look at how the first year of the CARE scheme has worked.

2014 Scheme Overview

- Introduction of a Career Average Revalued Earnings (CARE) Scheme
- 1/49th build up rate
- Normal Pension Age to receive unreduced benefits now linked to your State Pension Age - with a protected Normal Pension Age (age 65) for membership built up to 31 March 2014
- Opportunity to draw reduced benefits from age 55
- Pensionable Pay definition for membership from 1st April 2014 now includes overtime and additional hours and is actual pay for part time members rather than the full time equivalent
- Flexibility to pay 50% contributions to build up 50% of pension benefit (50/50 section)
- Still provides valuable life cover including death in service lump sum and survivors benefits paid in the event of death

How your pension builds up from 1 April 2014

The LGPS still remains a defined benefit scheme. A defined benefit (DB) scheme means that your pension will continue to be worked out using a set formula. The formula used to calculate your pension from this date changed to a 1/49th of your pay.

How a CARE scheme works:

- For each year in CARE, a pension account is built up based on a 49th of your pensionable pay in the scheme year (April – March)
- Inflation increases will be added annually to ensure that your pension account keeps up with the cost of living

This means if you were in the main section of the scheme on 1st April 2014 and are still in the main section on the 31st March 2015, you will receive 1/49th of your pensionable pay, received in that year, into your pension account by the end of the scheme year. Members will be pleased to know that after nearly a year of the LGPS being a CARE scheme most members will have earned more pension this year because of the increase to 1/49ths of pay rather than a 1/60th of the old scheme.

Here is an example to show you how a CARE account works:

Susan

Susan is in the main section of the Scheme from 1 April 2014 to 31 March 2015 and earned £24,500 in that year.

Scheme Year: 2014/2015
Section of Scheme: Main
Rate of build up: 1/49th of pensionable pay
Pensionable Pay: £24,500
Amount of pension built up: £500
(i.e. £24,500 divided by 49)

So, at the end of the scheme year, £500 is added to Susan's Pension Account. To make sure the amount keeps it value, the total in the pension account will be adjusted in line with the cost of living.

lgps 2008
lgps 2014 for you, for now, for the future

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Your contribution rate from April 2015

The LGPS regulations state that the contribution bandings table must be reviewed each year by the pensionable pay ranges in the table being increased in line with the Consumer Price Index. Your employer will implement the new table in April 2015 and automatically adjust your contribution rate if, according to your pay, your rate changes.

Both the current banding table applicable in 2014/15 and 2015/16 can be found below so you can check the rates up until March 2015 and the rates applicable from April 2015.

If you have worked any additional hours or overtime since April 2014 you will notice that you will have paid contributions on these payments – this is because overtime and additional hours are now pensionable and your employer will take these into consideration when they decide which rate you should pay. By paying contributions on these payments your pension build up will take these into account providing a greater pension.

Remember to check your payslip from April 2015 to ensure the rate that has been applied is correct.

Contribution Table 2014/15 applicable from April 2014 - March 2015		
If your Pay is:	You pay a contribution rate of:	
	Main 100/100 section	50/50 section
Up to £13,500	5.5%	2.75%
£13,501 to £21,000	5.8%	2.90%
£21,001 to £34,000	6.5%	3.25%
£34,001 to £43,000	6.8%	3.40%
£43,001 to £60,000	8.5%	4.25%
£60,001 to £85,000	9.9%	4.95%
£85,001 to £100,000	10.5%	5.25%
£100,001 to £150,000	11.4%	5.70%
Over £150,000	12.5%	6.25%

Contribution Table 2015/16 applicable from April 2015 - March 2016		
If your pay is:	You pay a contribution rate of:	
	Main 100/100 section	50/50 section
Up to £13,600	5.5%	2.75%
£13,601 to £21,200	5.8%	2.90%
£21,201 to £34,400	6.5%	3.25%
£34,401 to £43,500	6.8%	3.40%
£43,501 to £60,700	8.5%	4.25%
£60,701 to £86,000	9.9%	4.95%
£86,001 to £101,200	10.5%	5.25%
£101,201 to £151,800	11.4%	5.70%
£151,801 or more	12.5%	6.25%

How do I cover my pension contributions if I have had an absence from work?

If you have been on unpaid child related leave or authorised unpaid leave you have not been building up benefits, as you have been receiving no pay. As a result the amount in your pension pot will be affected.

In circumstances such as unpaid child related leave or authorised unpaid leave of absence, you have the option of paying Shared Cost Additional Pension Contributions (SCAPCs) to cover the 'lost' pension for the unpaid period. To pay SCAPCs you must elect to do so within 30 days of your return to work following your absence. If you elect to do this within 30 days of returning to work, then your employer covers 2/3rds of the cost with the remaining 1/3rd being covered by you.

If you make the election outside of 30 days of returning to work then this will be solely funded by you via an Additional Pension Contribution (APC). If you were absent from work due to a strike then the 'lost' pension cannot be covered by a SCAPC as this must be solely funded by you via an APC.

Electing to purchase additional pension by an APC or SCAPC

After your period of unpaid leave if you decide to buy back the lost pension you will need to contact your employer (normally your payroll department) and ask for the amount of lost pay during your period of unpaid leave.

Once you know the amount of lost pay you will need to use the online calculator to determine the cost. A form to provide to your employer and the pension fund is also available via the calculator should you wish to purchase the lost pension.

The on-line calculator can be found at:
www.lgps2014.org/content/how-do-i-buy-extra-or-lost-pension

You can make regular payments (depending on pay frequency and amount) or pay by a single lump sum. All APC/SCAPC contributions made as a deduction from your salary will receive tax relief at source. If you make a direct lump sum payment you will need to contact HMRC in order to request the tax relief.

Pensions in the news: Freedom and Choice

In the 2014 Budget report George Osborne announced a change to the way people can take their pensions. You may have heard this being referred to as 'Freedom and Choice'.

Currently individuals who contribute to their own pension pots (known as Defined Contribution schemes) have to take part of their pension pot as a yearly income (an annuity) with the opportunity to draw some tax free cash depending on their scheme or policy rules. However, from April 2015, individuals aged over 55 with Defined Contribution pension savings, will now have the option to draw their pension as a cash amount, but this amount will be subject to a marginal rate of income tax.

What is?

A Defined Contribution pension: with a Defined Contribution pension a pot of money is built up which is used to provide an income at retirement. The income received from a Defined Contribution scheme depends on how much is paid into the scheme, the fund's investment performance and the price of a pension at the point of retirement.

A Defined Benefit pension scheme; with a Defined Benefit pension scheme, like the LGPS, the pension you receive at retirement is not dependent on the funds investment performance and will be based on how long you have been in the scheme, your pensionable earnings and the rate of accrual.

How does the changes affect members of the Local Government Pension Scheme (LGPS)?
The LGPS is not a Defined Contribution Scheme it is a Defined Benefit Scheme, therefore these new pension changes do not directly apply to the LGPS.

Safeguarding transferring pension benefits to an alternative arrangement.
Members contributing to the LGPS, can elect to continue transferring pension benefits to alternative providers after 1 April 2015, if they have opted out or left the LGPS. However, the new rules imposes a requirement on the member to take independent financial advice from approved Financial Advisors before proceeding with any transfer of benefits out of the LGPS. If necessary LGPS Funds will be able to exercise powers to delay or reduce transfers out if the receiving scheme does not meet HMRC requirements.

Members transferring LGPS benefits out of the scheme will also be asked to confirm they are aware that they are giving up valuable retirement income for themselves and their dependents and may have a tax bill to pay as well as other costs due to the receiving scheme.

As a result The Pensions Regulator (TPR) have issued guidance for members who are targeted by companies attempting to access their pension savings. An extract from the TPR's website says:

Pensions are changing. From April 2015, pension scheme members can access their pension savings in new ways. Pension scammers will try to lure members with promises of one-off investments, pension loans or upfront cash. Most of these are bogus. Pension scam models are also changing. Many scammers are directing members to transfer into single member occupational schemes in an attempt to escape scrutiny.

If the member is under age 55, they cannot release their pension unless they are in ill health. If members are over 55, they can release funds from their pension from April 2015. They may still be at risk from scammers.

Pension scams are on the increase in the UK. Check the facts to stop a lifetime's savings being lost.
For more information on Pension Scams see TPR website:
www.thepensionsregulator.gov.uk/pension-scams.aspx

Do you have other pension benefits not in the LGPS but are affected by these changes?

If so, you can receive free, impartial advice from the government about how the changes affect you.

The following letter explains what you need to do to use Pension Wise:

A Q&A fact sheet for LGPS Members about Freedom and Choice is available on our website. If you are reading this newsletter online you can click here to view the Q&A or alternatively visit our website: *www.shropshirecounty pensionfund.co.uk*

Pension wise
Your money. Your choice.

HM Government

Dear Saver,

The government is removing the restrictions on what you can do with your pension savings. From April 2015 you will have the freedom to choose the option that's right for you.

To receive free, impartial guidance from the government, go to **www.pensionwise.gov.uk**

Pension Wise is a new government service that will offer you:

- **tailored guidance** (online, over the telephone or face to face) to explain what options you have and help you think about how to make the best use of your pension savings;
- information about the **tax implications** of different options and other important things you should think about; and
- tips on getting the best deal, including how to **shop around.**

Choosing what to do with your pension savings is an important financial decision; you can often get more for your money by shopping around.

In this pack you'll find important details about your pension. Use them – and Pension Wise – to help you make the decision that's right for you.

Yours faithfully,

The Pension Wise team

Pensions & Tax

The Local Government Pension Scheme (LGPS) is registered with HM Revenue and Customs (HMRC), which means that you receive tax relief on your contributions when they are deducted from your pay. However, there are two HMRC limits on the amount of pension savings you can have before you become subject to a tax charge.This is over and above any tax due under the PAYE system on your pension once it is in payment.

The two limits on pension savings are known as the annual allowance and the lifetime allowance.

What is the annual allowance?

The annual allowance (AA) is the amount your pension savings can increase by in any one year before you become liable to a tax charge.

From April 2011, the AA significantly reduced from £255,000 to £50,000, and has reduced further to £40,000 from 2014/15.

Generally speaking, any pension benefits you have in tax-registered pension arrangements where you have paid contributions during the tax year (or your employer has paid contributions on your behalf) are included in calculating your pension savings in a year. For the LGPS, the pension savings year runs from 1 April to 31 March and is called the Pension Input Period (PIP).

You will only have an AA tax charge if the value of your pension savings increase by more than the AA in a PIP, after having allowed for any unused AA from the previous three tax years (the balance of which which can be carried forward). This means that even if the value of your pension savings increase by more than the AA in a year you may not be liable to the AA tax charge.

Most people will not be affected by the AA tax charge because the value of their pension saving will not increase in a tax year by more than the AA or, if it does, they are likely to have unused allowance from previous tax years that can be carried forward.

Those most likely to be affected by the AA tax charge are those who have:

- a lot of scheme membership and have had a significant pay increase; or
- who pay high levels of AVCs, or who have been awarded a lot of additional pension in the LGPS by their employer; or
- transferred a pension into the LGPS from another public sector scheme who participates in the transfer 'club'; or
- those members who return to the Main Section having elected to enter the 50/50 Section.

We will inform you automatically if your LGPS pension savings in a PIP are more than the AA.

What happens if my pension savings increase by more than the AA?

You will be liable to a tax charge (at your marginal rate) on the amount of increase above the AA (less any carried forward unused allowance) during the PIP. If you exceed the AA in any year you are responsible for reporting this to HMRC on your self-assessment tax return.

What is the lifetime allowance?

The lifetime allowance (LTA) is the total value of all the pension benefits you can have without having to pay a tax charge when you draw them. If the value of your pension benefits when you draw them is more than the LTA you will have to pay tax on the excess benefits.

The LTA covers any pension benefits you may have in all tax-registered pension arrangements – not just the LGPS. This does not include any state retirement pension, state pension credit or any survivor's/dependant's pension you may be entitled to.

The LTA for 2014/15 and 2015/16 is is £1.25 million. Most people will not be affected by the LTA charge as they will not have pension savings of more than £1.25 million.

What happens if the value of my pension benefits is more than the LTA?
If your LGPS benefits are more than your LTA you will have to pay tax on the excess. If excess benefits are paid as a pension the charge will be 25%, with income tax deducted on the ongoing pension payments; if the excess benefits are taken as a lump sum they will be taxed once at 55%.

Remember - most people will be able to save as much as they wish with full tax relief as their pension savings will be less than the annual and lifetime allowances.

Further information on the tax rules is available on HM Revenue and Customs website at:

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

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

Latest News

Budget 2015 Announcement
From 6 April 2016 the LTA will reduce from £1.25m to £1.0m

Reform of the state pension system

Those of you who keep a keen eye on the news will already be aware of the reforms to the State Pension that will start to take place next year. This will see the introduction of a new larger single tier-state pension and the removal of contracting-out from April 2016.

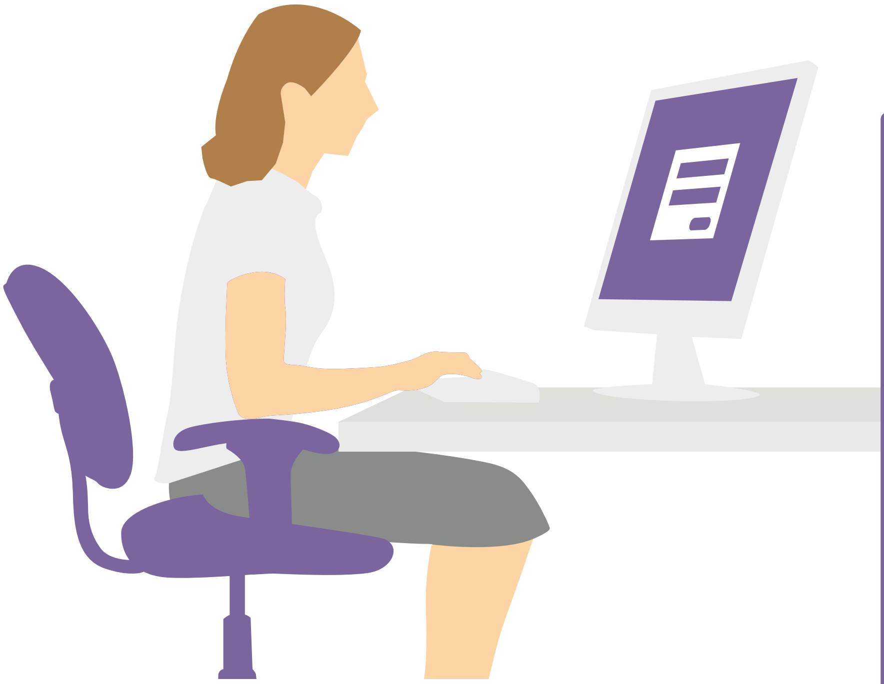
What is contracting-out?
As an employee, if you are paying National Insurance contributions, you will be contributing towards the Basic State Pension (BSP), payable from your State Pension Age (SPA).Some employees though, also contribute to an earnings related pension by paying more National Insurance contributions. This additional pension is known as S2P. Whilst you have been a member of the (LGPS) you will have been paying a lower percentage of National Insurance contributions because you have been contracted out of the earnings related part of the State Pension (S2P). For periods of contracted out employment you have paid National Insurance Contributions towards your BSP but have not built up any rights to the additional pension (S2P).

What happens when contracting out ceases?
The removal of contracting out means that both employers and scheme members will see an increase to the level of National Insurance contribution paid from 6 April 2016 onwards. For scheme members, the increase to their National Insurance contribution will be about 1.4% (currently if their earnings fall between £5,564 and £40,040). Employees retiring after 6th April 2016 will receive a single state pension ranging from £110.15 to a potential £148.40 per week depending upon your National Insurance contributions record. National insurance contributions paid from 6 April 2016 onwards will start counting towards the new level of maximum pension.

As everyone's circumstances are different, there is no simple way of describing how this reform will affect individuals. Instead, if you would like more information about how the reform will affect you, the gov.uk web site has a useful guide to the new State Pension that will provide many of the answers to questions raised.

The guide can be accessed using the web address below:
www.gov.uk/new-state-pension/overview

Other pensions news



Contact Us

Please use the contact details below if you wish to contact the team. If you would like to visit the Shirehall, please go to the main reception and ask to speak to Pensions. Our office hours are 8.45am until 5pm Monday until Thursday and 8.45am until 4pm on Fridays. When contacting us, please be prepared to quote your National Insurance Number in all cases. If you are contacting us to change your personal information please note that to protect your personal data and benefits, we cannot accept changes to personal details over the telephone. You can however update your own personal details by securely logging onto your pension account online via our website. Check out our website for instructions at: www.shropshirecounty pensionfund.co.uk

Don't forget to sign up for LGPS news alerts!

Shropshire County Pension Fund uses GovDelivery as a way to produce email updates. You may even have received a copy of this newsletter via one of our news alerts. We hope that you agree with us that email updates are a fantastic way of keeping our members informed.

Not registered for email alerts yet?

Contact the Pensions Team by phone or email to register your email address. By registering your email address with us you will receive email updates. You will also be able to sign up to securely view your pension account online through the pensions website.

Missed the Annual Meeting?

As part of our commitment to keep you informed about your pension we hold a number of meetings throughout the year covering fund updates and other important news. We are aware that these meetings are not always convenient for all of our members so we have filmed the Annual Meeting for you to view in your own time. The recordings from the past three meetings can be found on our website.

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