LOCAL GOVERNMENT PENSION SCHEME REGULATIONS 1 April 2008

Employees Scheme Guide - 5

INCREASING YOUR BENEFITS

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Increasing Your Benefits

In this leaflet we explain how, as a member of the Local Government Pension Scheme, you can pay extra to increase your pension benefits.

Where pension terms are used, they appear in ***bold italic*** type. These terms are defined at the end of this leaflet.

Most of us look forward to a happy and comfortable retirement and in order to have that little bit extra during your retirement years you may wish to consider paying extra contributions, which are a tax efficient way of topping up your income when you retire.

There are a number of ways you can provide extra benefits, on top of the benefits you are already looking forward to as a member of the LGPS.

You can improve your retirement benefits by paying:

- Additional Regular Contributions (ARCs) to buy extra LGPS pension
- Additional Voluntary Contributions (AVCs) arranged through the LGPS (in-house AVCs)
- Free Standing Additional Voluntary Contributions (FSAVCs) to a scheme of your choice
- Contributions into a stakeholder or personal pension plan

You can combine any of these options.

Are there any limits on how much I can pay to increase my pension benefits?

At the present time there is no overall limit on the amount of contributions you can pay (although there is a limit on the extra scheme pension you can buy and on the amount you can pay into the scheme's AVC arrangement). However, tax relief will only be given on contributions up to 100% of your UK taxable earnings (or, if greater, £3,600 to a "tax relief at source" arrangement, such as a personal pension or stakeholder pension scheme).

Additionally, under HM Revenue and Customs tax rules there are controls on the pension savings you can have before you become subject to a tax charge – most people will not be affected by these controls. These controls, and the potential effect of paying extra contributions if you have lifetime allowance enhanced or fixed protection, are explained in more detail later under the heading **Do the tax rules on pension savings limit the extra I can pay?**

As your normal LGPS contributions are currently between 5.5% and 7.5% of your pay this leaves a significant proportion of your taxable earnings that you can invest in ARCs or AVCs.

Can I increase my dependant's benefits?

You can currently pay extra contributions to increase the level of your husband's, wife's, ***civil partner's*** or ***nominated co-habiting partner's*** pension and any pension payable to your ***eligible children*** on your death. You can also increase your death in service life cover as part of an AVC arrangement.

The options explained:

Paying Additional Regular Contributions (ARCs) to buy extra LGPS pension

You can pay more in contributions to buy up to £5,000 of extra annual pension in blocks of £250. The extra annual pension is payable on top of your normal LGPS benefits.

You can buy extra pension for yourself and, if you wish, extra pension for your husband, wife, ***civil partner, nominated co-habiting partner*** and for ***eligible children*** on your death.

Additional contributions are taken from your pay, just like your basic contributions. Your LGPS and ARC contributions are deducted before your tax is worked out, so, if you pay tax, you receive tax relief automatically through the payroll. You qualify for tax relief (normally at your highest rate) on all pension contributions up to 100% of your taxable earnings, including your normal contributions.

You can start to buy extra pension at any time up to your 64th birthday. You decide how long you want to pay extra contributions for, although it must be for a number of whole years and payments must be completed by age 65.

The cost to you of buying extra pension is calculated in accordance with guidance issued by the Government Actuary which can be reviewed by the Government Actuary at any time. The extra pension you are buying will increase in line with the cost of living, both before and after you draw your pension.

You can choose to stop paying ARCs at any time by notifying the Pensions Section and your employer in writing. You will be credited with the extra pension that you have paid for at the time of ceasing payment.

If you leave or retire before completing payments, your contributions will cease and you will be credited with the extra pension that you have paid for at the time of leaving. This will increase the value of your LGPS benefits. However, if you are retired due to permanent ill health and you qualify for the type of ill health pension where your benefits are based on enhanced membership, you will be credited with all of the extra pension that you set out to buy, even if you have not completed full payment for it.

Your extra pension will be paid at the same time as your LGPS benefits.

If you choose to retire early and draw your benefits before age 65, or you are retired on redundancy or business efficiency grounds, the extra pension you have bought will be reduced for early payment.

If you draw your benefits on flexible retirement, you can, if you wish, draw all the extra pension you have paid for too, although it will be reduced for early payment. If you choose to draw the extra pension on flexible retirement, your ARCs contract will cease (although you will be able to take out a new ARC contract).

If you draw your pension after age 65, the amount of your extra pension will be increased to account for late payment.

On retirement, you can choose to exchange some of the extra pension you have bought for a cash lump sum in the same way as your main LGPS pension. For more information on exchanging part of your pension for a lump sum see the leaflet on **Your LGPS Retirement Benefits.**

If you die in service and you opted to pay for dependant's benefits when you took out your original ARC contract, then extra benefits will be payable to your husband, wife, ***civil partner***, ***nominated co-habiting partner*** and to ***eligible children*** as if you had completed all payments. If you did not opt to pay for dependant's benefits when you took out your original contract, then no extra benefits will be payable.

If you die after leaving but before retirement and your benefits are held in the LGPS for payment (deferred benefits), then a lump sum of 5 times the extra annual pension you paid for will be payable. If you die on pension when under age 75, a lump sum of 10 times your extra annual pension minus any extra pension already paid to you may be payable. If you opted to pay for dependant's benefits when you took out your original ARC contract, then extra benefits will be payable to your husband, wife, ***civil partner***, ***nominated co-habiting partner*** and to ***eligible children***.

For more details and a quotation, contact the Pensions Section. You may be required to undergo a medical examination at your own expense before being allowed to buy extra pension.

Paying Additional Voluntary Contributions (AVC) arranged through the LGPS (in-house AVCs)

All local government pension funds have an AVC arrangement in which you can invest money, deducted directly from your pay, through an AVC provider (often an insurance company or building society).

If you choose to pay AVCs under the LGPS, the AVCs are invested separately in funds managed by the AVC provider. You have your own personal account that, over time, builds up with your contributions and the returns on your investment, and will be available to you when you retire. You can often choose which investment route you prefer.

You decide how much you can afford to pay. You can pay up to 50% of your ***pay*** into an in-house AVC in each job where you pay into the LGPS.

AVCs are deducted from your pay, just like your normal contributions. Your LGPS and AVC contributions are deducted before your tax is worked out, so, if you pay tax, you receive tax relief automatically through the payroll. You qualify for tax relief (normally at your highest rate) on all pension contributions up to 100% of your taxable earnings, including your normal contributions.

Deductions start from the next available pay day after your election has been accepted and you may vary or cease payment at any time whilst you are paying into the LGPS.

If you have previously paid AVCs to the LGPS in England or Wales (in-house AVCs), these can be transferred to the AVC arrangement offered by your new pension fund administrator. If you have paid AVCs to a different scheme, you can transfer these to the

LGPS to purchase extra membership but an election to do so must be made within 12 months of joining the LGPS, unless your employer allows you longer. This is an employer ***discretion***; you can ask your employer what their policy is on this matter.

You can also pay in-house AVCs to provide extra life cover. Your membership of the LGPS already gives you cover of three times your pay if you die in service, but you can pay AVCs to increase this or to provide additional benefits for your dependants in the event of your death in service. This may be subject to satisfactory completion of a medical questionnaire. Any extra life cover paid for through AVCs will stop when you retire or leave.

Here are the different ways you may be able to use your in-house AVC Fund on retirement:

- **Buy an Annuity**

  This is where an insurance company, bank or building society of your choice takes your AVC Fund and pays you a pension in return.

  You can do this at the same time as you draw your LGPS benefits or you may be able to choose to delay payment until any time up to the eve of your 75th birthday. If you work after age 65 you cannot buy an annuity until you stop working and retire, or you reach the eve of your 75th birthday if this is earlier.

  An annuity is paid completely separately from your LGPS benefits.

  The amount of annuity depends on several factors, such as interest rates and your age. You also have some choice over the type of annuity, for example whether you want a flat-rate pension or one that increases each year, and whether you also want to provide for dependants' benefits in the event of your death.

  Annuities are subject to annuity rates which in turn are affected by interest rates. When interest rates rise, the organisation selling annuities is able to obtain a greater income from each pound in your AVC fund, and therefore can provide a higher pension. A fall in interest rates reduces the pension which can be purchased.

- **Buy a Top-up LGPS Pension**

  If you retire with immediate payment of your benefits you may be able to use some or all of your AVC fund to buy a top-up pension from the LGPS. This automatically provides an inflation proofed pension and dependants' benefits and is based on set purchase factors which do not tend to change.

- **Take your AVCs as cash**

  If you draw your AVCs at the same time as your LGPS pension, you may be able to take some or all of your AVCs as a tax-free lump sum.[1] If you retire (other than on flexible retirement) and draw your AVCs later, you can normally only have up to 25% of your AVC fund as a lump sum.

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[1] Provided, when added to your LGPS lump sum it does not exceed 25% of the overall value of your LGPS benefits (including your AVC fund) and the total lump sum does not exceed £375,000 (2012/2013 figure) less the value of any other pension rights you have in payment.

- **Buy extra membership in the LGPS**

  If your election to start paying AVCs was made before 13 November 2001 you may be able in certain circumstances (such as flexible retirement, retirement on ill heath grounds, or on ceasing payment of your AVCs before retirement) to convert your AVC fund into extra LGPS membership in order to increase your LGPS benefits. To find out how benefits are calculated on this membership see the leaflet **If You Joined the LGPS Before 1 April 2008**.

If you draw benefits on flexible retirement and your AVC contract started on or after 13 November 2001 you can choose to take all of your AVC fund at the time you draw your flexible retirement benefits, and, if you wish, continue paying AVCs. If your AVC contract started before 13 November 2001 and you draw your pre 1 April 2008 benefits on taking flexible retirement, your AVC contract will cease and you will have to use all of your AVC fund in one of the above ways at the time you draw your flexible retirement benefits. If your AVC contract started before 13 November 2001 and you do not draw your pre 1 April 2008 benefits on taking flexible retirement, you cannot use your AVC fund at the time you draw your flexible retirement benefits.

If you leave before retirement, your contributions will cease when you leave. The value of your AVC fund will continue to be invested until it is paid out. Your AVC plan is similar to your main LGPS benefits: it can be transferred to another pension arrangement, drawn at the same time as your LGPS benefits or you may be able to defer payment until the eve of your 75th birthday at the latest.

Payments into in-house AVCs will stop when you leave or retire.

Paying Free Standing Additional Voluntary Contributions (FSAVCs)

These are similar to in-house AVCs but are not linked to the LGPS in any way. With FSAVCs, you choose a provider, usually an insurance company. You may want to consider their different charges, alternative investments and past performance when you do this.

You choose how much to pay into an FSAVC arrangement. You can pay up to 100% of your UK taxable earnings, less your normal pension contributions.

Your AVC fund should grow as it is invested and will be available later in your life to convert into an additional pension of your choice. You can often choose which investment route you prefer.

You can take up to 25% of the value of your FSAVC fund as a tax-free lump sum[2].

You can also pay FSAVCs to provide additional life cover. Your LGPS membership already gives you cover of three times your pay if you die in service, but you can increase this amount via an FSAVC or use the FSAVC to provide additional dependants benefits on your death in service. This may be subject to satisfactory completion of a medical questionnaire.

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[2] Provided the lump sum does not exceed £375,000 (2012/2013 figure) less the value of any other pension rights you have in payment.

Contribute to a concurrent personal pension plan or stakeholder pension scheme

You may be able to make your own arrangements to pay into a personal pension plan or stakeholder pension scheme at the same time as paying into the LGPS. With these arrangements, you choose a provider, usually an insurance company. You may want to consider their charges, alternative investments and past performance when you do this.

You choose how much to pay into the arrangement. You can pay up to 100% of your total UK taxable earnings in any one tax year into any number of concurrent pension arrangements of your choice (or, if greater, £3,600 to a "tax relief at source" arrangement, such as a personal pension or stakeholder pension scheme) and be eligible for tax relief on those contributions.

If you pay into a personal pension plan or stakeholder pension scheme, the contributions you make to it are invested in funds managed by an insurance company. You have your own personal account that, over time, builds up with your contributions and the returns on your investment, and will be available later in your life to convert into additional benefits. You can often choose which investment route you prefer.

When the benefits are paid, you will be able to take up to 25% of your Fund as a tax-free lump sum[2], with the remainder available to buy you an annuity from an insurance company, bank or building society.

The amount of annuity depends on several factors, such as interest rates and your age. You also have some choice over the type of annuity, for example whether you want a flat-rate pension or one that increases each year, and whether you also want to provide for dependants' benefits in the event of your death.

Annuities are subject to annuity rates which are affected by interest rates. When interest rates rise, the organisation selling annuities is able to obtain a greater income from each pound in your AVC fund, and therefore can provide a higher pension. Conversely a fall in interest rates reduces the pension which can be purchased.

I am already buying extra LGPS membership. Can I buy any extra benefits?

To buy extra LGPS years (added years) you must have opted to do so before 1 April 2008. If you're already paying extra contributions to buy extra years, you'll continue to pay for them and receive extra benefits on the same basis that you had agreed to buy them. For information on what happens if you are paying for added years on leaving or retirement, see the leaflets on **Leaving Your Job Before Retirement** and **Your LGPS Retirement Benefits**.

Even if you are buying extra years, you can still pay additional contributions to buy extra LGPS pension (ARCs) and / or pay Additional Voluntary Contributions (AVCs), or Free Standing AVCs (FSAVCs), or contribute to a concurrent personal pension plan or stakeholder pension scheme, if you wish.

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[2] Provided the lump sum does not exceed £375,000 (2012/2013 figure) less the value of any other pension rights you have in payment.

Can my employer award me any extra pension benefits?

Your employer, at their ***discretion,*** can award you up to 10 years extra membership to improve your retirement benefits. They can also grant you up to £5,000 extra annual pension.

These are ***discretions*** your employer can use if they so wish; you can ask your employer what their policy is on this.

Your employer can also pay into your AVC scheme arranged through the LGPS (in-house AVCs). This is known as a shared cost AVC arrangement.

What happens if I pay extra and I am absent from work?

If you have:

- entered into a contract to buy extra pension (ARCs), or
- prior to 1 April 2008 entered into a contract to buy extra LGPS membership (added years), or
- prior to 1 April 2011, entered into a contract to count pre 6 April 1988 membership for a surviving ***nominated co-habiting partner's*** pension,

and you are absent from work due to:

- authorised leave of absence, jury service, strike action, maternity, paternity or adoption leave, you must continue to make the extra pension payments and/or payments to buy additional membership you had contracted to pay as if you were not on leave; or
- reserve forces leave, you continue to build up extra pension / membership but you will only have to pay your extra contributions if your reserve forces pay is equal to or exceeds your normal ***pay***.

If you are paying Additional Voluntary Contributions (AVCs) and are absent from work due to authorised leave of absence, jury service, strike action, maternity, paternity or adoption leave you can arrange to continue to make your AVC payments throughout your leave.

If you are paying AVCs for extra life cover you should arrange to continue with these payments throughout your leave or cover may cease.

If you are on Reserve forces leave, your AVC payments will continue unless you choose to discontinue them.

Where necessary, your employer will contact you about making the relevant contributions.

If you have entered into a contract to buy extra pension (ARCs), to count pre 6 April 1988 membership for a surviving ***nominated co-habiting partner's*** pension, or extra LGPS membership (added years) and you are on sick leave you will continue to pay those extra contributions whilst you remain on full pay. You will not be required to pay those extra contributions during a period on reduced or no pay.

If you are paying Additional Voluntary Contributions (AVCs) you will continue to pay the AVCs on any ***pay*** received during sick leave.

If you are paying AVCs for life assurance cover you should arrange for these to continue during any period of unpaid sick leave otherwise the life assurance cover may cease.

Do the tax rules on pension savings limit the extra I can pay?

There are HM Revenue and Customs controls on the total amount of contributions you can make into all pension arrangements and receive tax relief. There are also controls, known as the lifetime allowance and the annual allowance on all the pension savings you can have before you become subject to a tax charge. Most scheme members' pension savings will be less than these allowances.

You can, if you wish, pay up to 100% of your UK taxable earnings in any tax year into any number of concurrent pension arrangements of your choice (or, if greater, £3,600 to a "tax relief at source" arrangement, such as a personal pension or stakeholder pension scheme) and receive tax relief on the contributions.

The lifetime allowance is the total capital value of all your pension arrangements which you can build up without paying extra tax. If the value of your benefits when you draw them (not including any state retirement pension, state pension credit or any spouse's, ***civil partner's*** or dependant's pension you may be entitled to) exceeds your lifetime allowance a tax charge will be made against the excess. The lifetime allowance for 2012/2013 is £1.5 million.

The annual allowance is the amount your pension savings can increase by in any one year without paying extra tax. For the LGPS, the pension savings year runs from 1 April to 31 March. The annual allowance for 2012/2013 is £50,000.

You would only be subject to an annual allowance tax charge if the value of your pension savings for a tax year increase by more than £50,000. However, a three year carry forward rule allows you to carry forward unused annual allowance from the last three tax years. This means that if the value of your pension savings increase by more than £50,000 in a year you may not be liable to the annual allowance tax charge.

Most people will not be affected by the annual allowance tax charge because the value of their pension saving will not increase in a tax year by more than £50,000 or, if it does, they are likely to have unused allowance from previous tax years that can be carried forward.

If you have applied for lifetime allowance enhanced protection or fixed protection from HM Revenue and Customs you will lose that protection if you pay contributions into a money purchase pension arrangement (e.g. pay LGPS in-house AVCs or pay into a stakeholder or personal pension plan). You may not lose this protection if you are paying AVCs at 5 April 2006 purely for extra life cover and the terms of the policy have not varied significantly since then.

You can find out more about HM Revenue and Customs controls on your pension savings from the leaflet on **Tax Controls and Your LGPS Benefits**.

More information

For more information or if you have a problem or question about your LGPS membership or benefits, please contact:

The Pensions Section,
Gloucestershire County Council,
Shire Hall
Westgate Street,
Gloucester, GL1 2TG.

Pension helpline phone number: 01452 426677
e-mail: pensions@gloucestershire.gov.uk
website: www.gloucestershire.gov.uk/pensions

The national web site for members of the LGPS can be found at www.lgps.org.uk

You can find out about what you can do if you are not happy about a decision made about your LGPS pension position from the leaflet **Help with Pension Problems**.

Disclaimer

The information in this leaflet applies to individuals who were contributing members of the Local Government Pension Scheme on 1 April 2008 or who have since joined. This leaflet is for employees in England or Wales and reflects the provisions of the LGPS and overriding legislation at the time of publication in April 2012. The Government may make changes to overriding legislation and, after consultation with interested parties, may make changes in the future to the LGPS. This leaflet is for general use and cannot cover every personal circumstance nor does it cover specific protected rights that apply to a very limited number of employees. In the event of any dispute over your pension benefits, the appropriate legislation will prevail as this leaflet does not confer any contractual or statutory rights and is provided for information purposes only.

Some terms we use

Civil partnership

A Civil Partnership is a relationship between two people of the same sex (civil partners) which is formed when they register as civil partners of each other.

Discretion

This is the power given by the LGPS to enable your employer or your administering authority to choose how they will apply the scheme in respect of certain provisions. Under the LGPS your employer or your administering authority are obliged to consider how to exercise their discretion and, in respect of some (but not all) of these discretionary provisions, to have a written policy on how they will apply their discretion. They have a responsibility to act with ‘prudence and propriety’ in formulating their policies and must keep them under review. You may ask your employer or your administering authority what their policy is in relation to a discretion. Your administering authority is Gloucestershire County Council.

Eligible children

Eligible children are your children. They must, at the date of your death:

- be under 18 and be wholly or mainly dependent on you, or
- be aged 18 or over and under 23, be dependent on you, and be in full-time education or undertaking vocational training (although a dependant child who commences full-time education or vocational training after the date of your death may be treated as an eligible child up to age 23), or
- in some cases, a dependent child of any age who is disabled may be classed as an eligible child.

In all cases, the children must have been born before or within a year of your death.

Nominated co-habiting partner

A co-habiting partner is someone you are living with as if you are married or in a civil partnership. To be able to nominate a cohabiting partner, of either opposite or same sex, to receive a survivor's pension on your death, your relationship has to meet certain conditions laid down by the LGPS. Information on these conditions, and how to make a nomination, are set out in the leaflet **Life Cover – Protection For Your family.**

Pay

The pay on which you normally pay pension contributions is your normal salary or wages plus any shift allowance, bonuses, contractual overtime, Maternity Pay, Paternity Pay, Adoption Pay and any other taxable benefit specified in your contract as being pensionable.

You do not pay contributions on any non-contractual overtime, travelling or subsistence allowances, pay in lieu of notice, pay in lieu of loss of holidays, any payment as an inducement not to leave before the payment is made, any award of compensation (other than payment representing arrears of pay) made for the purpose of achieving equal pay nor (apart from some historical cases) the monetary value of a car or pay received in lieu of a car.