

# Pension Update

A newsletter for members of the Local Government Pension Scheme participating in the **Cheshire Pension Fund**

## The New Single Tier State Pension and the removal of Contracting Out

Prior to 6 April 2016, the State Pension was made up of two parts: the basic State Pension and the additional State Pension (the additional State Pension is sometimes called State Second Pension S2P or SERPS).

The Government introduced a new 'single-tier' flat rate State Pension for people who reach State Pension age on or after 6 April 2016. This replaces the basic and additional State Pensions.

### What does this mean for LGPS members?

The LGPS was 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 much, if any, additional State Pension. You have been building up pension benefits in the LGPS instead.

From 6 April 2016 the new State Pension ended the contracting-out of the additional State Pension and so the rebate on your National Insurance contributions ceased.

This means all employees pay the standard rate of National Insurance instead of the lower rate that you previously paid. This is an increase of around 1.4% of earnings.

### How will my State Pension be affected?

Under both the old and the new systems, the amount of State

Pension you will receive will take account of any periods when you have been contracted-out of the additional State Pension.

If you have paid into the LGPS between 6 April 1978 and 5 April 2016 and reach State Pension age after 5 April 2016 the amount of new State Pension you receive will be reduced, in respect of this period, to reflect the fact that you and your employer have paid a lower rate of National Insurance (due to the LGPS being contracted-out of the additional State Pension). If this applies to you, you are unlikely to receive the full amount of the new State Pension but this will depend on your individual National Insurance record and how many qualifying years you have after April 2016.

However, in most cases, the pension you get from the LGPS will be at least the equivalent that you would have received from the State Pension had you not been contracted out. The Government refer to this as the Contracted Out Pension Equivalent (COPE) amount. The COPE amount will be shown on your State Pension statement. However, please be aware that the amount shown is only an estimate and will include all the contracted out pension benefits you have built up if you have paid into any other contracted out pension schemes (e.g. the Teachers' Pension Scheme) - it is not identified separately by pension scheme.

## Digital Communication



To reduce both our administration costs and our carbon foot print and provide our members with more flexibility around how and when they can interact with the Fund in this digital age, Cheshire Pension Fund have been developing our electronic communications, with the aim that we will go paperless in 2017.

This means the majority of our communication to you will be by electronic methods – through our website, e-mail and “member self serve” (an online self-service facility where you can view your own pension details).

As we put these plans in place we will keep you updated on progress.

If you don't have online access don't worry you will still be able to opt to receive alternative formats of the information we provide. We will be in touch in the future with further details of how to do this.

# Automatic Enrolment

## Will you be affected?



The Department for Work and Pensions (DWP) has successfully introduced Automatic Enrolment to workplace pensions for large and medium-sized employers, who account for around 20 million workers, according to a report from the National Audit Office.

The Government continues to face significant challenges, however, as a further 1.8 million smaller employers are required to enrol their eligible jobholders by 2018.

You may have seen in newspapers and in adverts the 'workie'. This campaign is part of DWP's drive to promote the responsibility employers have to offer a workplace pension. A number of employers in the

pension fund will be required to re-enrol their employees into the Local Government Pension Scheme (LGPS) as they reach the third anniversary of their auto enrolment staging date."

Existing members of the LGPS will not be affected unless you have multiple contracts, some of which are not pensionable. Here are some examples:

### "I am currently contributing to the 50 / 50 scheme"

Your employer will notify you that from the re-enrolment staging date you will be enrolled back to the main scheme and that you have the option to continue or rejoin the 50 / 50 scheme by completing another election form.

### "I have more than one employment and have chosen not to pay into the LGPS in some of these posts"

Your employer will notify you that from the re-enrolment staging date you will be enrolled in to the LGPS in the posts in which you have previously chosen not to pay contributions. If you do not want to contribute in these posts you can again opt out by completing the necessary form(s).

**If you have any questions concerning Automatic Enrolment and how it affects you, please contact your employer.**

## Tax and the LGPS

HM Revenue and Customs impose two controls on the amount of pension savings you can make without having to pay extra tax. These controls are known as the Annual Allowance and Lifetime Allowance. This is in addition to any income tax you pay on your pension once it is in payment.

### Annual Allowance (AA)

The AA is currently set at £40,000 a year and is the maximum pension savings an individual can make, in any one year, before incurring a tax charge. From April 2016 a taper has come into force limiting the AA amount for some members.

### How will the taper work?

You will only be affected by these changes if **both** of the following

criteria are met, a) your net income (basic salary plus any income from investments and property) is over £110,000; and b) your net income plus the value of your pension growth over the tax year is over £150,000. This is referred to as your "adjusted income".

The taper will reduce the AA limit by £1 for every £2 of adjusted income received over £150,000, down to a minimum AA limit of £10,000. Any pension savings made in excess of an individual's personalised AA limit will be subject to a tax charge at the individual's marginal income tax rate. The facility to carry forward up to three years' allowance will remain in force.

### Change in Pension Input Period

For testing against the AA, benefits are valued over the 'pension input period' (PIP). The LGPS PIP is from 1 April to 31 March. The budget announced that all pension schemes will be required to align their PIPs with the tax year. All previous PIPs ended on the 8 July 2015 (the day of the Summer Budget) and a new PIP was introduced from 9 July 2015 to 5 April 2016.

### Lifetime Allowance (LTA)

The LTA is the limit on total pension arrangements an individual can draw over their lifetime before incurring a tax charge. From 6 April 2016 the LTA reduced from £1.25m to £1m. There will be two transitional protections introduced alongside the reduction for members with pension savings close to or exceeding £1m.

### They are:

- Fixed Protection 2016
- Individual Protection 2016

You will be able to apply for these new protections by using a new on-line self-service system which will be available from July 2016. The new self-service system is still being developed by HMRC and we will provide updates when this is available.

**If you think you might be affected by the changes brought about by the budget, you should contact HMRC.**

### Contacting HMRC:

**Telephone:** 0300 200 3300

**Write:** HM Revenue and Customs, BX19 1AS. United Kingdom

# LGPS Protections

## Are you covered?

In recent years, the LGPS has seen significant changes to its legislation. Some of the changes included protection for certain members who were in the scheme at the time of the change. Some of the main protections are listed below but remember to always contact the Pension's Team before making any decisions about your benefits.

### Normal Pension Age (NPA)

Any pension built up before 1 April 2014 has a protected NPA, which is age 65. If you retire and draw all of your pension at your protected NPA, your pension built up in the scheme before 1 April 2014 will be paid in full.

If you choose to take your pension before your protected NPA the pension you have built up before 1 April 2014 will normally be reduced taking into account how many years early it is being paid.

The benefits you build up under the CARE Scheme from April 2014 have an NPA linked to your State Pension Age (SPA) (but with a minimum age of 65). All pension benefits built up pre and post 2014 have to be drawn at the same time (except in the case of Flexible Retirement).

### Reduction in pay

If you joined the LGPS before 31 March 2014 you will have membership in the Final Salary Scheme and your benefits, in respect of pre April 14 service, will be based on your Final Salary at leaving. If you have a pay cut - for example because of a pay and grading exercise - there are some protections which continue to apply to the calculation of your Final Salary pay.

To ensure your benefits are calculated using the best possible pay you can:

- Choose to have your benefits calculated on the best year's pay in the last three years
- Choose to have your benefits based on the best 3 consecutive year average average in the last 10 years.

### Underpin

Protections are in place if you are nearing retirement to ensure that you will get a pension at least equal to that which you would have received in the scheme had it not changed on 1 April 2014. This protection is known as the 'underpin'.

The underpin applies if you were:

- Paying into the Scheme on 31 March 2012 and,
- you were within 10 years of your NPA on 1 April 2012,
- you haven't had a disqualifying break in service of more than 5 years,
- you've not drawn any benefits in the LGPS before NPA and
- you leave with an immediate entitlement to benefits.

The underpin will not apply if you:

- opt out of the scheme before your protected NPA (65) or before the scheme changed, and may not apply if you voluntarily draw benefits at a time when you would have required employer consent to do so under the pre 1 April 2014 scheme (normally pre age 60).

If you are covered by the underpin, the Pensions Team will carry out the underpin check when you retire.

### Rule of 85

The rule of 85 protects some or all of your benefits from the normal early payment reduction. To have rule of 85 protection you must have been a member of the LGPS on 30 September 2006. The rule of 85 is satisfied if your age at the date when



you draw your pension plus your Scheme membership (each in whole years) adds up to 85 years or more. The only occasion where this protection does not automatically apply is if you choose to voluntarily draw your pension on or **after age 55 and before age 60**.

If you would not satisfy the 85 year rule by the time you are 65, then all your benefits are reduced if you choose to draw your pension before your NPA.

If you will be age 60 or over by 31 March 2016 and choose to draw your pension between age 60 and your NPA, then, **provided you satisfy the 85 year rule when you start to draw your pension**, the benefits you build up to 31 March 2016 will not be reduced.

If you will be under age 60 by 31 March 2016 and choose to draw your pension between age 60 and your protected NPA, then, provided you satisfy the 85 year rule when you start to draw your pension, the benefits you've built up to 31 March 2008 may not be reduced. Also, if you will be aged 60 between 1 April 2016 and 31 March 2020 and meet the 85 year rule by 31 March 2020, some or all of the benefits you build up between 1 April 2008 and 31 March 2020 may not be subject to a full reduction.

Further information on the Rule of 85 is available on our website at: [www.cheshirepensionfund.org](http://www.cheshirepensionfund.org)

# The Fund is taking part in the National Insurance Database Here's how it affects you

## What is the LGPS National Insurance Database?

Cheshire Pension Fund will be participating in a data sharing exercise with other LGPS pension funds in England, Wales and Scotland. This is to help comply with legal requirements contained in the LGPS's Regulations.

If a member of the LGPS dies with an entitlement to a death grant, it is necessary for the scheme's administrators to know if the individual also had other periods of LGPS membership elsewhere in the country so that the correct death benefits are paid out.

As the LGPS is locally administered, each pension fund has its own membership records and it can be difficult to tell if an individual has other LGPS records and if so where these are held. To comply with the requirements set out above, a National Insurance Database has been developed that will enable funds to check if their members have LGPS pensions records in other pension funds.

## What data is shared?

For each member of the LGPS, the Database holds a short entry containing:

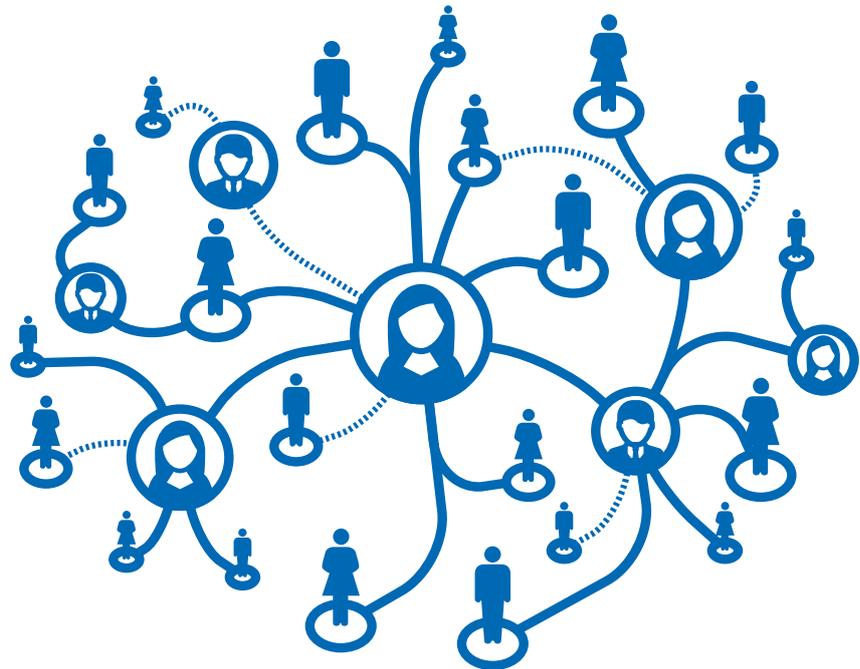
- The individual's National Insurance number,
- A number to denote the individual's membership status,
- The last calendar year that the membership status changed, and
- A four digit number confirming the LGPS pension fund where that member's record is held.

## Who hosts the Database?

The Database is hosted at the South Yorkshire Pensions Authority, an LGPS pension fund.

## How will the data held on the Database be processed?

The data held on the Database will be processed in accordance with the Data Protection Act 1998 and other relevant legislation.



## Are there any other purposes that the Database will be used for?

An extract of the membership information contained in the Database will periodically be shared with the Department for Work and Pensions (DWP) so that the LGPS can join the Tell Us Once service. Tell Us Once is a service offered in most parts of the country when an individual registers a death. When the LGPS joins Tell Us Once and the death of an LGPS member is registered, the DWP systems will ensure that the LGPS pension fund is informed of the death, meaning that the member's records can be processed quickly and simply.

## Who is the data shared with?

Other LGPS pension funds. These are all public bodies named in legislation as administering authorities of the LGPS. For the Tell Us Once service, an extract of the Database containing individuals' NI numbers will be securely shared with DWP every month so that they may maintain an up-to-date record of the LGPS's membership.

## How long will this data sharing be undertaken for?

For as long as:

- i. the relevant regulatory requirements remain, and
- ii. the LGPS participates in the Tell Us Once service.

In the event that neither of the above apply, the data sharing will cease to be undertaken.

## Can I opt out of this data sharing?

No. As this data sharing is partly being undertaken to comply with a legal requirement, it is not possible for scheme members to opt out of the data sharing.

## What if I have any queries?

To find out more about this data sharing or if you have any questions, please contact the Pensions Team.

[See page 6 of this newsletter for more information on how your personal information is used...](#)

# Have you thought about how you can boost your retirement income?



## Option to pay lower pension contributions - the 50/50 Option

One of the key features of the LGPS is the 50/50 option, which enables members to pay half rate contributions in exchange for half of their pension accrual.

This may help some members who are temporarily unable, or have difficulty in paying the full amount of contributions if your financial circumstances change e.g. moving house, childcare costs, getting married etc.

The 50/50 option will allow you to remain as an active member of the scheme and pay lower contributions rather than opting out altogether. You would then still be able to take advantage of the benefits of being an LGPS member but contribute a lower, more manageable amount. The 50/50 option would include:

- A reduction to your pension contributions by 50% and build up half of the pension (1/98th) you would have built up in the main scheme (1/49th)
- Full main scheme death benefits should anything happen to you while you are in the 50:50 option so your family is fully protected
- Automatic return into the main scheme should you go out of pay due to sickness or injury so you are not disadvantaged
- Ill health protections should you become unable to work and have to retire because of ill health

## Here's what you need to know...

Even a small increase in your payments can lead to a surprisingly big difference. The longer you leave it, the more you might have to play catch-up or make bigger sacrifices around the kind of life you lead once you have stopped working. Paying more in now could give your retirement fund more opportunity to grow in the coming years.

You may have some spare cash and want to pay more into your pension or you may want to cover 'lost pension' as a result of a period of unpaid absence such as child related leave.

Paying Additional **Pension Contributions (APC's)** either regularly from your salary or as a lump sum (subject to minimum limits) will allow you to top up your pension by up to £6,675 per annum. APC's can also be used to make up the lost pension from a period of absence after April 2014.

You can also pay **Additional Voluntary Contributions (AVCs)** with one of our in-house AVC providers, Standard Life or Clerical Medical.

A really important feature of the purchase of AVCs is that most people can elect to take the whole AVC fund as tax free cash when they retire (subject to HMRC limits) so you can provide a lump sum, without reducing your LGPS pension.

If you elect to pay either Additional Pension Contributions or Additional Voluntary Contributions both are a really tax efficient way of increasing your retirement income.

Further information on how to make APCs including links to a calculator or to purchase an AVC can be found on our website.

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

## Reminder of benefits

**What does the LGPS give you?**  
Let's look at the attractive scheme benefits the LGPS provides:

- Secure pension benefits based on 1/49th of your pay for each year of membership, independent of share prices and stock market fluctuations
- The option to take a tax free lump sum when you retire
- The choice to increase your pension by up to £6,675 per annum
- The right to retire voluntarily at age 55 with reduced benefits
- Early retirement benefits from age 55 on redundancy or with your employers consent
- Flexible retirement option from age 55, with your employer's consent, where you have the chance to draw some or all of your pension and remain in employment
- Immediate benefits at any age if you have to retire due to ill health
- Death in service lump sum of three years actual pay
- Peace of mind - your family enjoys financial security with survivors pensions payable for spouse, partner, cohabiting partners and eligible children
- Fully index linked benefits to keep pace with inflation
- Your employer also contributes to your pension

## Asset Pooling

You may have heard in last summers budget the Chancellor of the Exchequer announced that the LGPS would be asked to bring forward proposals for pooling LGPS investment assets. In the autumn statement the Chancellor expanded on the proposals and announced the intention to create up to six 'British Wealth Funds'.

The Government has invited Pension Funds to develop proposals for pooling assets that meet the specified criteria with each pool holding at least £25bn in assets.

The objective of the pooling is to significantly reduce investment costs whilst maintaining overall investment performance.

Draft proposals were requested by February and final proposals will be submitted in July 2016.

### LGPS CENTRAL

The Cheshire Pension Fund has been collaborating with Staffordshire, Shropshire, Derbyshire, Worcestershire, West Midlands, Leicestershire and Nottinghamshire Pension Funds to develop a proposal that will meet the governments pooling criteria. A joint initial response was submitted by the 8 Funds to government that proposes the creation of 'LGPS Central', a multi asset investment pool of £35 billion in size, meeting the scale sought by the Government.

The Funds will continue to work together to further develop this proposal for a final submission in July.

### What this means for you

While the Government is requiring pension funds to pool investment assets, your pension will continue to be administered locally here in Cheshire by the Cheshire Pension Fund. As your benefits are set out in law, any pooling of investments will have no impact on your benefits whatsoever.

In terms of where the Pension Fund invests its money, these decisions will still be set locally by the Cheshire Pension Fund Committee with the primary long term objective of ensuring that the Fund has sufficient money to meet all its pension payments for many years to come.

The Fund welcomes the opportunities that pooling assets might bring to reduce investment management costs.

## How your personal information is used

**Cheshire West and Chester Council is the Administering Authority for the Cheshire Pension Fund and is registered with the Information Commissioner's Office as a Data Controller.**

Your information is kept for the sole purpose of administering your pension. Your personal details are retained to establish any future entitlement to benefits. The Fund may pass certain details to a third party, where the third party is carrying out an administrative function of the Fund, or where we are legally obliged to do so.

To protect your personal information held electronically, Cheshire West and Chester Council is registered under the Data Protection Act 1998. This allows you to check your details held by the Fund.

### Contacting the Pensions Team

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- @ pensions@cheshirewestandchester.gov.uk
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Cheshire Pension Fund

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