

Pensions Newsletter

Contents

Page 1	The End of Contracting-out
Page 2	Insight Lunches
Page 3	Changes to the tax controls on pensions
Page 4	Contact details

The End of Contracting-Out

You may be aware that from 6 April 2016 a new 'single-tier' State pension will be introduced. This will replace the existing Basic State Pension and Additional State Pension.

What does this mean for members of the Local Government Pension Scheme (LGPS)?

Under the existing arrangements, members of the LGPS are contracted-out of the Additional State Pension and in return pay lower National Insurance contributions. The changes mean that from 6 April 2016, the LGPS will no longer be contracted-out of the Additional State Pension.

These changes will not affect your accrued benefits in the LGPS, or the benefits you build up in the future.

What does this mean for your state pension?

Further information about the new State Pension, including changes to National Insurance arrangements for members of public sector schemes like the LGPS, can be found at the links below.

<https://www.gov.uk/browse/working/state-pension>

<https://www.gov.uk/new-state-pension>

How does this effect National Insurance?

From 6th April, members of the LGPS will no longer receive the NI rebate. This will mean an increase in employee NI contributions of around 1.4% of earnings between the relevant NI thresholds, set each year by HM Treasury.

Overleaf are some examples showing how much extra National Insurance contributions will be payable from 6 April 2016.

Earnings	National Insurance currently payable	National Insurance payable from 6 April 2016	Difference
£15,000 per year (£1,250 per month)	£58.66 per month	£69.36 per month	+£10.70 per month
£27,000 per year (£2,250 per month)	£164.66 per month	£189.36 per month	+£24.70 per month
£45,000 per year (£3,750 per month)	£307.65 per month	£347.56 per month	+£39.91 per month

The above figures are for guidance only. The maximum difference will be an increase of £40.04 per month.

The Pensions Office will issue individual notifications of this change in due course.

Insight Lunches

Want to learn about the LGPS? Why not attend one of our insight lunches:

An introduction to the LGPS – March 29th & May 26th at 12pm

Increasing your pension benefits – June 21st at 12pm

For course outlines and to book contact your HR Business Unit.

Changes to the Tax Controls on Pensions Savings

As a member of the LGPS you receive tax relief on your contributions as they are deducted from your pay; because of this tax relief HM Revenue and Customs (HMRC) impose two controls on the amount of pension savings you can have before you have to pay extra tax. The two controls are known as the **lifetime allowance** and the **annual allowance**; the government have announced further reductions to the lifetime allowance from April 2016.

Lifetime Allowance- 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 lifetime allowance you will have to pay tax on the excess benefits.

The lifetime allowance is currently £1.25 million but will reduce to **£1 million** from **April 2016**. It is then expected to increase by CPI from 2018/19 onwards.

Despite this reduction most people will not be affected by the lifetime allowance charge. However, for those who are affected or believe they will be, HMRC have stated they intend to implement certain protections as listed below:

Individual Protection (IP2016) - If your pension rights are valued at more than £1 million on 5 April 2016 you can apply for Individual Protection.

Individual Protection will protect your lifetime allowance to the value of your pension rights on 5 April 2016 (up to a maximum of £1.25 million). IP2016 is available even if your pension savings on 5 April 2016 have a value of more than £1.25 million.

If you successfully apply for IP2016 you will be given a protected lifetime allowance equal to the value of your pension savings on 5 April 2016 subject to a maximum of £1.25 million.

Fixed Protection (FP2016) - If you have or expect your pension rights to be valued at more than £1 million you can also apply for Fixed Protection but Fixed Protection is lost if there is benefit accrual above the consumer Price Index which may mean you would need to opt-out of the LGPS for the protection to remain valid.

You will be able to apply for IP2016 or FP2016 by post after 5/4/2016 and then online later in the year. There is no deadline when applying for these protections but it must be done before you retire.

Further information can be found here - <https://www.gov.uk/government/publications/pension-schemes-newsletter-73-october-2015/pension-schemes-newsletter-73-october-2015#lifetime-allowance-reduction--protecting-pension-savings>

Annual Allowance - this is the amount by which the value of your pension benefits may increase in any one year without you having to pay a tax charge. The limit is remaining at £40,000 so if your pension savings increase by more than £40,000 in any year you may have to pay extra tax. For the LGPS, the pension saving year has run from 1 April to 31 March but going forward all schemes will now have a year end of the 5th April.

Most scheme members are not affected by the annual allowance tax charge, however, if you have built up a lot of LGPS membership and you receive a significant pay rise you may exceed the limit. The amount of annual allowance you have used in the year is detailed on your annual benefit statement.

Further information can be found at www.hmrc.gov.uk/pensionschemes/understanding-aa.htm

Contact Details

If you would like more information about any of the items included in this newsletter or about any other aspect of your pension please contact the Pensions Service:

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The Pensions Office is located on the 3rd Floor North Wing, Guildhall.

Our Newsletters

The City of London's Pensions Service produced this newsletter. This newsletter is not an interpretation of the pension scheme or any other regulations. The relevant regulations will be used to reach a decision in any dispute or disagreement. Information about the scheme is available at www.lgps2014.org or www.yourpension.org.uk/CityofLondon

Previous versions of newsletters in addition to our standard pension forms and guides are also available on our website www.yourpension.org.uk/CityofLondon