

# Pensions Newsletter



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## Pension Events – 4<sup>th</sup> and 20<sup>th</sup> March

If you are paying into the LGPS you will automatically transfer to the new scheme from 1 April 2014. LGPS 2014 is fundamentally different to the current LGPS - you can find out more about the new scheme by attending one of our two pension events:

### Pension Presentations

Tuesday 4<sup>th</sup> March and Thursday 20<sup>th</sup> March at 12pm and 1pm

PLUS

**Bookable drop in sessions** to talk about your individual situation between 9am and 4pm (excluding the presentation times 12pm to 2pm). Sessions will start on the hour and half past the hour and will last 30 minutes.

If you wish to attend a presentation and/or book an appointment to talk about your individual situation please use the link below:

[Pension Events Booking](#)

### LGPS 2014 - Contribution Rates

Most employees will not have to pay more in the new scheme; however the higher paid will pay more. If you are part time it could cost you less – your contributions will be based on your part time pay instead of, as now, the full time equivalent.

We will be writing to all scheme members in April to inform you that have been transferred to the new scheme. The confirmed contribution bands are detailed on the next page.

**Contribution Bands:**

Pensionable Pay	Gross Contribution	Average Contribution after tax relief
Up to £13,500	5.5%	4.40%
£13,501 - £21,000	5.8%	4.64%
£21,001 - £34,000	6.5%	5.20%
£34,001 - £43,000	6.8%	5.44%
£43,001 - £60,000	8.5%	5.10%
£60,001 - £85,000	9.9%	5.94%
£85,001 - £100,000	10.5%	6.30%
£100,001 - £150,000	11.4%	6.84%
More than £150,001	12.5%	6.88%

**What are the main differences between LGPS 2014 and the current LGPS?**

	<b>LGPS 2014</b>	<b>LGPS 2008</b>
<b>Basis of Pension</b>	Career Average Revalued Earnings (CARE)	Final Pay
<b>Build up rate</b>	1/49 <sup>th</sup>	1/60 <sup>th</sup>
<b>Revaluation rate</b>	Consumer Prices Index (CPI)	Based on Final Salary
<b>Pensionable pay</b>	Pay including non-contractual overtime and additional hours for part-time staff	Pay excluding non-contractual overtime and non-pensionable additional hours
<b>Employee contribution rates</b>	5.5% to 12.5% (average 6.5%)	5.5% to 7.5% (average 6.5%)
<b>Contribution flexibility</b>	Yes, members can pay 50% contributions for 50% of the pension benefit	No
<b>Normal pension age</b>	Equal to the individual member's State Pension Age	65
<b>Voluntary retirement from age</b>	55	60
<b>Lump sum trade off</b>	Trade £1 pension for £12 lump sum	Trade £1 pension for £12 lump sum
<b>Death in service lump</b>	3 x Pensionable Pay	3 x Pensionable Pay
<b>Death in service survivor benefits</b>	1/160 <sup>th</sup> build up rate based on tier 1 ill health pension enhancement	1/160 <sup>th</sup> build up rate based on tier 1 ill health pension enhancement
<b>Ill health provision</b>	3 tier ill health pension paid from any age	3 tier ill health pension paid from any age
<b>Minimum membership period to qualify for a pension</b>	2 years	3 months
<b>How your pension increases when in payment</b>	CPI	CPI

**What about the benefits I built up in the scheme to 31 March 2014?**

They will be fully protected and will still be based on your final salary on leaving and the normal pension age in the current scheme.

**Want to know more?**

Further information about LGPS 2014 including videos, member scenarios and a pension modeller can be found on the dedicated LGPS 2014 website [www.lgps2014.org](http://www.lgps2014.org)

## 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 is reducing the allowances for both from April 2014.

**Lifetime Allowance** - is the total value of all the pension benefits you can have without you 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 reducing from **£1.5 million to £1.25 million** from April 2014. Despite this reduction most people will not be affected by the lifetime allowance charge, however, if you have already built up pension savings of more than £1.25 million or expect to do so you can apply for either **Fixed Protection 2014** or **Individual Protection 2014** to help reduce or mitigate your lifetime allowance tax charge.

### Fixed Protection 2014 (FP14)

If your pension benefits are due to come into payment on or after 6 April 2014 and you expect the total value of your pension savings to be more than £1.25 million you can use FP14 to help reduce or mitigate the lifetime allowance charge.

If you have FP14 your life time allowance will be fixed at £1.5 million rather than the standard lifetime allowance, which will be £1.25 million from 6 April 2014. Anyone who does not have fixed protection, enhanced protection or primary protection can apply for FP14. The ability to build up future pension benefits is very limited with this protection. To keep FP14 you

- cannot start a new pension arrangement other than to accept a transfer of existing pension rights
- cannot have benefit accrual – normally benefits that increase at a rate higher than the annual Consumer Price Index
- will be subject to restrictions on where and how you can transfer benefits

If you break one of these conditions you will lose your FP14. If you lose FP14 you must tell HMRC.

You must apply for FP14 before 6 April 2014. Further information about FP14 and how to apply can be found at- <http://www.hmrc.gov.uk/pensionschemes/pension-savings-la.htm>

### Individual Protection (IP14)

Individual Protection will protect your lifetime allowance to the value of your pension rights on 5 April 2014 (up to a maximum of £1.5 million). Unlike FP14 there are no restrictions on future pension savings.

To apply for IP14 your pension rights must be valued at more than £1.25million on 5 April 2014 and you must not have primary protection. IP14 is available even if your pension savings on 5 April 2014 have a value of more than £1.5 million.

If you successfully apply for IP14 you will be given a protected lifetime allowance equal to the value of your pension savings on 5 April 2014 subject to a maximum of £1.5 million.

To apply for IP14 you will need to complete the application form APSS240 which will be available on the HMRC website from the middle of August 2014. You will be able to complete an online application form; the form must be received by HMRC before 6 April 2017.

**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. For the LGPS, the pension saving year runs from 1 April to 31 March. From April 2014 the limit is reducing **from £50,000 to £40,000**. Therefore, from 2014 if your pension savings increase by more than £40,000 in any year you may have to pay extra tax.

Most scheme members will not be affected by the annual allowance tax charge, however, if you are a high earner or have built up a lot of LGPS membership and you receive a pay rise or a bonus you may exceed the limit. You may also exceed the limit if you are paying a significant amount of additional contributions to an AVC or to buy additional pension or added years within the LGPS itself.

The amount of annual allowance you have used in the year 2012/13 will be detailed on your annual benefit statement.

Further information can be found at [www.hmrc.gov.uk/pensionschemes/understanding-aa.htm](http://www.hmrc.gov.uk/pensionschemes/understanding-aa.htm)

### **Additional Voluntary Contributions (AVCs)**

You can increase your pension benefits by paying AVCs through the City's in-house AVC scheme provided by Prudential and Standard Life.

The additional contributions you pay are deducted directly from your salary and receive tax relief at source. You choose how you want to invest your money and how you want to receive your benefits at retirement.

The current scheme rules allow you to pay up to 50% of your salary into your AVC each month and potentially take up to 100% of your AVC pot as a tax free lump sum when you draw your AVC benefits at the same time as your LGPS pension (as long this isn't more than 25% of the total value of your pension benefits). These rules will remain in place for all AVC contracts taken out before 1 April 2014.

It is our understanding that from 1 April 2014 the rules are changing to allow you to pay up to 100% of your salary into your AVC pot, however, you will be only be able to take up to 25% of your AVC pot as a tax free lump sum when you draw your AVC benefits. It is our understanding that these new rules will apply to all AVC contracts that commence on or after 1 April 2014.

For further information on AVCs please visit our providers' websites:

[http://www.pru.co.uk/retire/retirement\\_zone\\_localgov/home/](http://www.pru.co.uk/retire/retirement_zone_localgov/home/)

<http://www.mypensioninfo.com/viewer/login.do?uri=LGPS>

You can also increase your pension benefits by buying additional pension in the LGPS. Further information about this option and a calculator to enable you to assess the cost can be viewed on our website as below:

[Buying Additional Pension in the LGPS](#)



## 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.lgps.org.uk](http://www.lgps.org.uk) or [www.yourpension.org.uk/CityofLondon](http://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](http://www.yourpension.org.uk/CityofLondon)

## 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:

-  Pensions Office  
City of London  
PO Box 270  
Guildhall  
London  
EC2P 2EJ
-  [pensions@cityoflondon.gov.uk](mailto:pensions@cityoflondon.gov.uk)
-  020 7332 1133/3039
-  [www.yourpension.org.uk/CityofLondon](http://www.yourpension.org.uk/CityofLondon)

The Pensions Office is located on the 3<sup>rd</sup> Floor North Wing.