

*The Local Government
Pension Scheme*



LPFA

Increasing
Your
Scheme
Benefits

A Guide to increasing
your benefits
in the Local
Government
Pension Scheme

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Safeguard your pension rights, please read this booklet carefully before making your decision and retain it for future reference. Once you have made your decision, please complete and return the form in the middle of this booklet to the London Pensions Fund Authority (LPFA). It is important that any additional information requested is enclosed with your form as your case cannot be processed until this is received. Should you choose an option that is not available to you, we will contact you within 10 working days of receiving your form.

Introduction

Increasing your benefits

If you are currently contributing to the Local Government Pension Scheme (LGPS) and would like to increase your pension benefits, subject to the satisfaction of certain qualifying conditions and within the limits set by the Inland Revenue, you may choose one or more of the following options:

- to purchase additional years of membership in the LGPS
- to provide extra benefits on death or retirement through an Additional Voluntary Contribution (AVC) or Free Standing Additional Voluntary Contribution (FSAVC) arrangement
- to take out a Stakeholder or a concurrent personal pension arrangement

These options, their qualifying conditions, Inland Revenue limits to contributions and benefits and what you should do if you are interested in further investigating increasing your benefits are detailed in this booklet.

This booklet is provided for information only and should not be construed as advice to follow any specific course of action. Please read it carefully before making your decision and retain it for future reference.

Should you choose an option that is not available to you, we will contact you within 10 working days of receiving your application form.

Warning - Where an application form requests your medical details, it is important that you complete the form accurately. Failure to do so will invalidate a future contract to increase your pension benefits, and any additional contributions paid will be returned to you, normally without interest.

Further information

Our address, Email address, telephone and fax numbers and details of how to obtain further information are shown on the back of this booklet.

Are there limits to how much I can pay?

Inland Revenue limits

The Inland Revenue sets limits on the amount you can pay into or receive from pension schemes and AVCs, because you pay no tax on your pension contributions or lump sum benefits. Under Inland Revenue regulations, the maximum percentage of your pay that you may use to provide pension scheme benefits is 15%. This means that if you are already paying 6% in normal contributions to the LGPS, your contributions towards the purchase of additional years of scheme membership or an AVC fund are restricted to 9% of your pensionable pay.

The Inland Revenue also places limits on the maximum benefits that you can accrue in respect of yourself and your dependants. The effects of these limits are described under the various options for increasing your benefits.

NB: Neither of these restrictions apply to Stakeholder or Concurrent Personal Pensions. See page 3.

The Earnings Cap

The Finance Act 1989 placed a limit on the level of earnings from which pension provision may be made under tax-approved pension schemes. The cap was originally set at £60,000 and is automatically increased annually in line with retail prices, unless Parliament determines otherwise. Its main effect is to set a ceiling on the contributions that can be paid into and the benefits that can be paid from pension arrangements. The Earnings Cap for 2003/04 is £99,000.

Stakeholder and Concurrent Personal Pensions

From 6th April 2001 members of the Local Government Pension Scheme may also contribute to a Stakeholder or a Concurrent Personal Pension scheme if, in at least one of the 5 tax years preceding the year in which the contributions are made, their earnings did not exceed £30,000 but not counting any tax year prior to 2000/2001. For some scheme members wishing to increase their scheme benefits, Stakeholder and Concurrent Personal Pensions represent a possible alternative to Additional Voluntary Contributions or the purchase of additional scheme membership.

Government legislation requires employers who do not already offer an occupational pension scheme to identify a Stakeholder pension scheme and facilitate access to it for their employees. As the major LGPS employers automatically admit all regularly employed staff to the scheme, they are not required to offer Stakeholder pensions to their employees and in fact have no legal remit to do so. Certain smaller scheme employers who do not admit all staff to the LGPS, but who employ more than 5 people aged 18 or over, are required to facilitate access to Stakeholder pensions. However, generally speaking a scheme member who wants to make concurrent contributions to a Stakeholder pension will have to make their own arrangements with a Stakeholder provider of his or her own choice.

Contributions would be paid to the Stakeholder provider via, for example, a direct debit or standing order from the employee's bank account. The minimum contribution to a Stakeholder pension will be £20 for both regular and one-off payments.

Members should note that up to 25% of the member's Stakeholder pension fund can be taken at retirement in the form of a tax free lump sum whereas no money from an AVC or FSAVC policy entered into since 8 April 1987 can be taken in lump sum form.

Benefits from a Stakeholder or Concurrent Personal Pension scheme can be drawn at any time between age 50 and age 75 regardless of whether or not the individual has retired under the LGPS. The earliest AVC benefits can be paid is from the date when the LGPS benefits are paid.

Are there any Inland Revenue Limits that apply to concurrent Stakeholder or Concurrent Personal Pensions?

Where you intend to supplement your main scheme benefits, the total amount of benefits that can eventually be paid from all sources is usually limited by Inland Revenue legislation. However, both contributions made to and the benefits derived from a concurrent Stakeholder Pension or a Concurrent Personal Pension sit on top of normal Inland Revenue limits described on page 2.

Purchase of Additional Years of Membership in the Local Government Pension Scheme

Who is entitled to purchase additional years of scheme membership?

You are entitled to purchase additional years of membership if:

- you are under age 64, and
- the scheme membership you can accrue before reaching your Normal Retirement Date is less than 40 years.

If your scheme membership will exceed 40 years at your Normal Retirement Date, you may not purchase additional scheme membership.

What additional benefits does additional scheme membership provide?

Additional years of membership increase the amount of benefits you would otherwise receive from the LGPS. They provide guaranteed amounts relative to your pay at retirement.

The amount of additional benefits provided depends upon whether you were aged 45 or over on the first day of the earliest period of membership you are entitled to count. Membership includes all periods during which you were paying contributions and periods credited on payment of transfer values from other pension schemes.

If you were under age 45 on the first day of the earliest period of membership you are entitled to count, each additional year of membership purchased will increase:

- your pension by $1/80$ th of your final pensionable pay, and
- your lump sum by $3/80$ ths of your final pensionable pay, and
- the levels of dependants benefits provided by the LGPS in the event of your death.

For example, if you were under age 45 at that date and your pay at retirement was £12,000 per year, and you had bought $2\frac{1}{2}$ additional years of membership, your additional benefits at retirement would be:

an additional pension of $2\frac{1}{2} \times \frac{1}{80} \times \text{£}12,000 = \text{£ } 375$ per year, and
an additional lump sum of $2\frac{1}{2} \times \frac{3}{80} \times \text{£}12,000 = \text{£}1,125$ (tax free)

If you were age 45 or over on the first day of the earliest period of membership that you are able to count, there would be no increase to your lump sum, but each additional year of membership purchased will increase:

- your pension by 1/60th of your final pensionable pay, and
- the levels of dependants benefits provided by the LGPS in the event of your death.

How many additional years of membership may I purchase?

There is no minimum amount of additional years of scheme membership that you may purchase. Subject to Inland Revenue limitations on contributions (see page 2), you may purchase any number of years and days, up to the maximum detailed below in relation to your Normal Retirement Date (NRD). Your NRD is your 65th birthday. However, if you were a member of the LGPS before 1st April 1998, this is the earlier of:

Your 60th birthday if you have, or would have, accrued 25 years total membership by that birthday; or the day after the date between your 60th and 65th birthdays when you have, or would have, accrued 25 years total membership, or your 65th birthday.

- If your potential total membership at your NRD is 20 years or more, you can purchase such additional years of membership as will give you a total of 40 years total membership if you were to continue in your current employment to your NRD. So, for example, if you can accrue 35 years of scheme membership at your NRD, you can purchase up to five additional years.
- If your potential total membership at your NRD is less than 20 years, the amount you may purchase is limited to an amount equal to the total membership you will have accrued at your NRD, if your current employment continues to that date. So, for example, if you joined at age 51, you can accrue 14 years of scheme membership at your NRD and can purchase up to a further 14 years.

For part-time employees both the additional years purchased and the maximum purchase available are reduced in proportion to your part time fraction. You must notify us if your hours change as this will effect your purchase.

Allowance must be made for any other pension rights that you have accrued, whether deferred or in payment, including refunds of contributions. However, this may not apply if your earnings at the relevant date are less than 1/4 of the Earnings Cap, the Earnings Cap for 2003/04 is £99,000. One quarter of the Earnings Cap is £24,750.

What is the cost of purchasing additional scheme membership?

To purchase additional years of scheme membership you pay additional contributions into the LGPS, commencing on your next birthday. These contributions continue until the day before age 65 or the birthday, between ages 60 and 65, preceding the date on which you attain your Normal Retirement Date.

The increase to your contribution rate is calculated by multiplying the period of membership you wish to purchase by a percentage determined by your sex and your age at your next birthday and your age at the additional contributions will cease. This percentage will be deducted from your pensionable pay (the salary or wages on which you pay your normal LGPS contributions) as additional contributions and represents the full cost of the purchase, your employer does not contribute. Additional contributions attract full tax relief, which is given automatically by your payroll at the time the contributions are deducted. As an indication of cost before tax relief is given, the table below shows the maximum percentage for each additional year of service purchased for the ages shown. A personal quotation will be provided following receipt of your application form.

Current Age	Males % per Year Purchased	Females % per Year Purchased
30	0.67	0.69
40	1.12	1.16
50	2.81	2.96
55	6.41	6.71

For example, the cost for a female now age 50, whose earliest date of membership was after age 45 and wishes to purchase 2 1/2 additional years of service, would be calculated as follows:

$2 \frac{1}{2} \times 2.96 = 7.40\%$ of pensionable pay, payable from her next birthday.

How do Inland Revenue limits apply to buying membership?

Inland Revenue limits on your maximum purchase of scheme membership are incorporated into the maximum purchase which are described on page 5.



Local Government Pension Scheme

Increasing your
Pension Scheme
Benefits

Application Form

LPFA

London Pensions
Fund Authority



LPFA

London Pensions
Fund Authority

Local Government Pension Scheme

Increasing your Local Government Pension Scheme (LGPS) Benefits

For completion, and return to the LPFA, by an individual who would like to investigate purchasing additional LGPS membership. Read the attached booklet 'Increasing your Pension Scheme Benefits' before you complete this form. Further information is available by contacting us as detailed on the back cover of the booklet.

If you wish to make an In-House AVC arrangement you should complete the form contained within the provider's literature, and forward it to your employer.

Please complete all sections of the form.

I am considering purchasing additional years of service. I understand that I am not committing myself at this stage and that you will send me a quotation.

Surname _____ Mr/Mrs/Miss/Ms/other _____

Forenames _____ Date of birth _____

National Insurance Number _____

Your Employer _____

Please give full details of any pension scheme benefits you are currently receiving or have already received, including any previous refunds of contributions. If necessary, please continue on the back page of this form or attach a separate piece of paper.

Please give full details of any pension scheme retirement benefits, other than the State Scheme benefits, which you will be entitled to receive in the future, including any AVCs. If necessary, please continue on the back of this form or attach a separate piece of paper.

Medical Details

Warning

Failure to complete this section accurately will invalidate any future contract to purchase additional benefits from the LGPS. Any additional contributions paid will be returned to you, normally without interest.

Have you any reason to believe your health is below average for your age? Yes No

Are arrangements being made for you to undergo any medical or surgical treatment, or are you currently undergoing any medical or surgical treatment? Yes No

If you answered 'Yes' to either medical question, please provide details. If necessary, please continue on the back of this form or attach a separate piece of paper.

Declaration

I have read the attached booklet regarding the purchase of additional scheme membership and declare that the information I have given is, to the best of my knowledge, correct.

I understand that if I have not completed the Medical Details section accurately, any subsequent contract will be invalid.

I understand that you will send me a specific quotation and that I will then be required to confirm my intention to purchase additional benefits should I wish to proceed.

Signed _____ Date _____

Address _____

Post code _____ Telephone number _____

Please use this section to continue as necessary

Please return this form to the London Pensions Fund Authority, Dexter House, 2 Royal Mint Court, London EC3N 4LP. Call Centre: 0845 3030 335. Email enquiries@lpfa.org.uk
Please detach and retain the booklet for future reference.

What happens if there is a temporary reduction in my pay?

If your pay is reduced because of sickness absence, additional contributions are deducted at the same percentage, but from the reduced pay. However, for all benefit purposes you are deemed to have paid the full amount. If you have a period of unpaid absence because of sickness, you are also deemed to have paid the full amount of additional contributions.

If your pay is reduced or not paid temporarily because you are involved in a strike, are granted unpaid leave of absence or are on maternity leave you are required to continue to pay the full amount of additional contributions. In this case payments are assessed against the pay you would have received but for the reduction, and arrangements will need to be made with your employer to continue making payments throughout your absence or immediately on your return. If no payments are made for the period, the section below applies.

What happens if I cease paying my additional contributions early?

If your payments cease before they are due to, you will have paid for only a proportion of the additional years of membership you contracted to purchase. Depending on whether you chose to stop making payments or you were forced to stop because of ill health or redundancy for example, different rules apply.

- **Choosing to cease payments or resignation from employment**

If you notify the LPFA and your employer, in writing, that you wish to cease payment of your additional contributions early, or you fail to make payment for a period of unpaid leave of absence or strike, or you resign from your employment, you will be credited with the amount of additional years purchased to the date you ceased payments.

For example, if you originally elected to buy 10 additional years over a period of 10 years, but ceased payments after five years, you would be credited with 5 additional years ($5/10 \times 10 \text{ years} = 5 \text{ additional years}$).

- **Ill health retirement or death in service**

If an LPFA approved medical practitioner certifies that you have become permanently unable to do your job, or any comparable job with your employer, and you are retired with an ill health pension or if you die while in service, then your contract to purchase additional membership is deemed to be completed at no further cost. Your benefits, or in the case of your death those of any eligible child or spouse, are then calculated as if the full amount of the additional years of Scheme membership you were buying had been purchased.

- **Enforced early retirement or redundancy before retirement**
Should you be retired early by your employer on grounds of redundancy or in the interests of the efficient exercise of your employer's functions, or be made redundant before retirement, special provisions apply. Although you are automatically entitled only to the amount purchased at that time, you will be given the opportunity to purchase the outstanding amount by a single lump sum payment.

The entitlements arising from the additional scheme membership purchased or credited when payment ceases are dealt with in the same way as your basic scheme entitlements. As such they can ultimately be either transferred, deferred or put into immediate payment. This is explained further in the booklet 'Leaving the Local Government Pension Scheme', which is available on request. See the back cover of this booklet for contact details.

If you change employers and rejoin the LGPS within 12 months of leaving, and your pension rights are transferred, you may elect within three months of rejoining, to continue any additional payments with your new employer. However, you will have to pay an amount equal to the additional contributions you would otherwise have paid during the break between employments.

What should I do if I am interested in purchasing additional years of scheme membership?

You should complete the form in the middle of this booklet and send it to the LPFA. You will not be committing yourself at this stage, and we will send you a personal quotation of the cost, the amount of Scheme membership it will buy and the benefits it will provide at your current rate of pay within 10 working days of receipt of your form. You will also be sent a form to complete and return if you wish to proceed and you may be asked to attend a medical, at your own expense, before your application can be accepted.

Additional Voluntary Contributions to Increase Retirement or Death Benefits

What are Additional Voluntary Contributions?

Additional Voluntary Contributions (AVCs) are another way of purchasing additional pension benefits but, as with a personal or Stakeholder pension, the contributions you make are invested separately from the LGPS Fund, in funds managed by an insurance company or building society. You have your own personal account that builds up over time through your contributions and the returns on your investment.

At retirement the accumulated fund in your account is used to buy an annuity from an insurance company, bank or building society of your choice. An annuity is a fixed amount of additional pension benefit, although you may be able to choose to include guaranteed annual increases and dependants' benefits.

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. Conversely, a fall in interest rates reduces the pension which can be purchased. The amount of pension benefits purchased under the AVC method cannot therefore be guaranteed at the outset, but this method does offer a flexible way of increasing your benefits.

You can also pay AVCs to increase your death in service lump sum cover, over and above the two times pay provided by the LGPS, to a maximum of four times your annual pay or to provide additional dependants benefits.

All LGPS administrators are obliged to make AVC arrangements available to their scheme members and these are known as 'In-House' AVC arrangements. AVCs attract full tax relief which is given automatically by your employer at the time they are deducted from your pay. You can, of course make your own 'Free Standing' AVC arrangements through a bank or insurance company of your choice.

Using your In-House AVC fund to purchase additional scheme membership
In certain circumstances you may use your fund to purchase additional scheme benefits in the LGPS. Benefits purchased in this way counts towards the calculation of your pension only and will not count towards the calculation of your lump sum. The terms of the purchase reflect the fact that the benefits are pension only, not lump sum. You may even split your fund between the purchase of LGPS benefits and the purchase of an annuity if you so wish.

Who can I make an AVC arrangement with?

You can make either a 'Free-Standing' AVC arrangement with an insurance company or building society of your choice or chose an 'In-House' AVC arrangement using the AVC provider available through, but separate from, your LGPS membership. This facility has been arranged through Prudential Assurance. The LPFA expects the choices offered by the Prudential to provide reasonable returns on the monies invested with them, but makes no suggestion that the facilities offered are the best for you. 'In House' arrangements may be more advantageous than a 'Free-Standing' AVC because of the group discount rates that could apply. However, the choice is yours and you should take independent financial advice before making a decision or reviewing any arrangements you have already made.

Leaflets prepared by the our provider relating to the LPFA's AVC facilities are enclosed and information gained from these sources should be borne in mind when making your decision. Further copies of the booklets mentioned are also available by contacting us, see the back cover of this booklet for details.

How do Inland Revenue Limits effect AVCs?

Where you intend to supplement your main scheme benefits, the total amount of benefits that can eventually be paid from all sources, including your LGPS scheme benefits, any AVCs and all pension rights from previous employments, whether in payment or deferred, is limited as shown below. State Scheme benefits are excluded.

- **Pension and Lump Sum**

A maximum of two thirds of your final taxable pay. A lower limit applies if you will have less than ten years' service at age 65, or joined the LGPS after 16th March 1987 and will have less than 20 years' service at age 65.

As a guide, under the LGPS, if you can achieve 40 years' service, including service transferred in, before your intended retirement date, you would already be accruing personal benefits very close to the Inland Revenue limits.

- **Death in service lump sum**

A maximum of four times your final taxable pay as a lump sum. Any lump sum payment in excess of this must be used to purchase spouse's or dependants' pensions.

The limit includes the amount payable from the LGPS which is currently two times final pay less any benefits from AVCs or any other pension provision.

- **Spouse's and dependants' pensions**

A maximum of two thirds of your own maximum pension per person, up to an overall limit of your own maximum pension. Even if you can achieve 40 years scheme membership in the LGPS you are likely to have some room to increase these benefits, especially if you are unlikely to have children in full-time education, or if you are a female with pensionable service before 1988 and which is not covered by widower's pension provisions.

Further details of the LGPS and its benefits are detailed in the Scheme Guide which is available on request, see the back cover of this booklet for details.

You should be cautious about paying contributions up to the maximum levels allowed. If, as a result of unanticipated circumstances, the eventual benefits stemming from your AVCs take your total benefits above Inland Revenue limits, the excess amount of contributions will be refunded to you less tax, at a higher rate than your normal rate of tax.

Are there any special considerations regarding arrangements to increase the death in service lump sum cover?

This type of AVC is subject to such evidence of health as the Prudential may require. The cover commences only when the Prudential have accepted the application and exists only for so long as the premiums are paid. You will be notified if the Prudential refuses cover or requires special premiums. The cost of this cover increases with age, so if you subsequently take no action to increase your payments then the level of cover will fall. You should also reconsider your cover as your pay increases.

It is very important that you check your payslips to ensure that the premiums are being deducted in respect of this cover and notify the LPFA if they are not. Cover ceases immediately you leave service or if appropriate contributions are not paid.

What should I do if I wish to make Additional Voluntary Contributions?

You should contact Prudential direct on the Pension Connection using the telephone number given in their leaflet and they will make the appropriate arrangements. Please note that AVC providers may set a minimum amount or percentage that can be paid per week or month and this will be detailed in their literature. More than one arrangement may be made, subject to the Inland Revenue limits not being exceeded. (See pages 14 and 15)

If you will be entitled at a later date to receive payments from any other pension arrangement or if you have already received payment from any pension arrangement, it is vital that you disclose full details when initially applying for AVCs. You must disclose the following, as failure to do so could result in you exceeding Inland Revenue limits:

- any pension entitlement either deferred or in payment to you
- any AVC you have previously made outside the LPFA's schemes including any Free Standing AVCs
- any lump sum or refund paid from any pension arrangement

When will my AVCs commence?

Your employer will forward your application form to the LPFA after completing some further information. Certain checks must take place regarding the Inland Revenue limits before your AVC can commence. Subject to this, within 5 working days of receipt of your form, the LPFA will instruct your employer to arrange for deductions to be made from your pay.

How will I know that my AVCs are being paid?

Your payslip will indicate the amount of AVCs being deducted from your pay and Statements setting out the accrued value of your AVCs to date will be sent once a year by the Prudential.

It is important that once you have elected to make AVCs or to amend an existing arrangement, that you personally check that the correct amounts are being deducted from your pay. You should contact the LPFA if correct deductions are not being made by the second payday after your election.

What should I do if I wish to amend my AVC payments?

You can amend the amount of your AVC payments at any time and can switch all or part of your accrued AVC investment between the Prudential funds. Certain charges against the accrued AVC value may apply however and these are detailed in the providers' literature. To alter the amount or allocation of an existing Prudential AVC please contact the Pension Connection.

What happens if I leave my job or cease payments of my AVCs before retirement?

If you cease payment of your AVCs before retirement the options available vary according to the circumstances in which you cease paying them. Possible circumstances include retirement due to ill-health, resignation or retirement with deferred benefits and transfers of deferred benefits. In addition you might opt out of the Local Government Scheme while remaining in Local Government employment. You should request further information from the LPFA concerning the options available in your particular circumstances. Details of how to contact us are on the back of this booklet.

What happens at retirement?

Where you retire under normal circumstances the two options available are:

- to use your fund to purchase additional Scheme benefits
- to use your fund to purchase an annuity from the provider of your choice

If you want to consider purchasing scheme benefits you will have to notify LPFA before your retirement. You will then be advised of the additional benefits available.

Where you opt to purchase an annuity the value of your investments then becomes available to buy an additional pension, for yourself or your dependants, from an insurance company and your accumulated fund will be paid directly to that company. This option can be exercised at any time prior your 75th birthday. Remember that you cannot take any payment as a lump sum for yourself.

The additional pension purchased will be paid, and taxed under PAYE (Pay As You Earn), by the insurance company. It will not be subject to the same index linked Pensions Increase in retirement as your LGPS pension.

The amount of additional pension available will depend totally on past investment performance, and insurance company annuity rates at the time of converting your AVC investment into a pension. Should the value of your accrued AVC investment fall below the minimum amount required to buy an additional pension at that time, it will be paid to you as a lump sum after the deduction of tax.

The information given in this booklet is also available in large type and on audio cassette. It may be possible to reproduce it in other ways or another language. The LPFA will be pleased to consider your request.

If you would like further information, including information specific to your own circumstances, or if you have any comments or queries about this leaflet, or you would like a copy of the LPFA Complaints Procedure, please do not hesitate to contact the LPFA. You can write to, telephone, fax or Email us, or visit the LPFA offices with or without an appointment. The postal address, telephone and fax numbers and Email address are shown below and the offices are open from 8.30 am to 5 pm, Monday to Friday. An answerphone is available out of office hours and calls are returned the next working day. When calling please quote the name of your employer, so that your enquiry may be passed to the member of staff best able to help you.

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This booklet does not confer any statutory rights. It aims to explain the options available to you for increasing your Pension Scheme benefits and cannot override the Local Government Pension Scheme Regulations or other relevant legislation. Details are correct at the time of printing but cannot take into account the effects of subsequent changes in legislation.