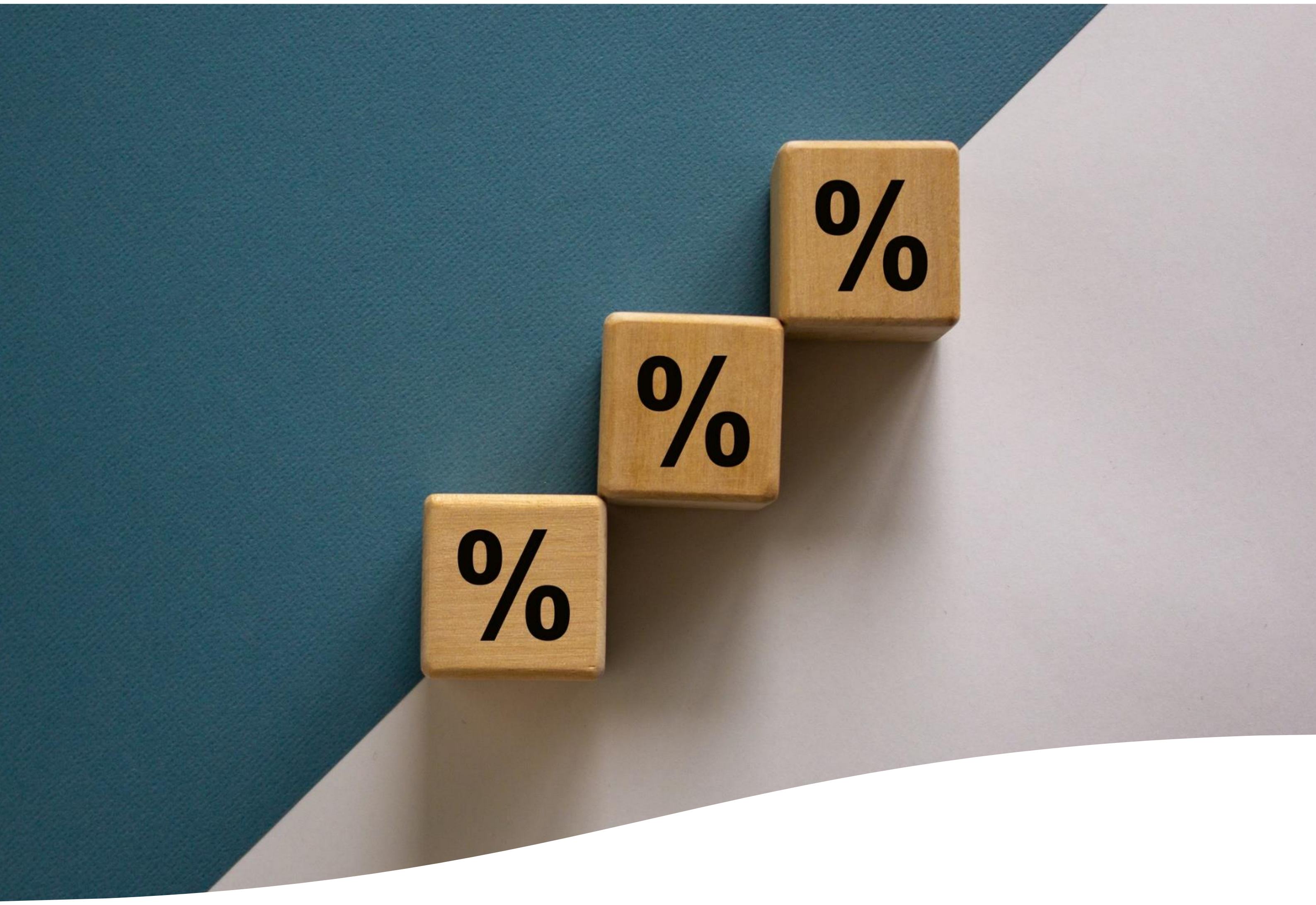
North East Scotland Pension Fund
nespf



GUIDE TO

Increasing Your Pension

Contents

Increasing Your Contributions & Pension

Most of us look forward to a happy and comfortable retirement. In order to have that little bit extra, you may wish to pay extra contributions.

As a member of the Local Government Pension Fund (LGPS), there are two ways to increase your pension benefits:

- Additional Pension Contributions (APCs)
- Additional Voluntary Contributions (AVCs)

Outside of the LGPS there are further options to increase your pension through Free Standing Additional Voluntary Contributions and/or contributions into a stakeholder or personal pension plan.

This guide explains the above options, their costs, benefits and features.

Paying Additional Pension Contributions (APCs)

APCs are extra contributions which buy you extra annual pension.

APCs work much like your normal contributions which you pay each month. Your APCs are deducted from your salary and are transferred to your pension account with the North East Scotland Pension Fund. Also like your normal contributions, your APCs are tax free i.e. they are deducted from your pay before you pay tax.

The amount of extra pension you have paid is added to your pension account at the end of the year (31st March). The extra pension you buy will be adjusted in line with the cost of living, both before and after your draw your pension.

When you take your pension, your APCs will be paid to you on top of your normal pension.

How frequently do I pay APCs?

You can pay APCs through monthly contributions or by paying a one off lump sum.

Monthly Contributions

You can spread the cost of APCs by making monthly payments over a complete number of years. These contributions would be taken from your monthly pay, just like your normal contributions. When you set up regular APCs, you decide how many years you would like to pay them for. The minimum period is 12 months. The maximum period is the number of years to your Normal Pension Age.

You can stop paying APCs at any time by writing to the Pension Fund. If you stop before you have paid the full amount agreed to, you will be credited with the extra pension you have paid for at the time of ceasing payment.

Lump Sum Payment

You can pay APCs through a one-off lump sum either via your pay or directly to the Pension Fund. If you pay directly to the Fund, you will need to arrange tax relief directly with HMRC as the contributions are not being deducted from your pay (where they receive tax relief automatically through payroll).

How much do APCs cost?

The cost depends on:

- the amount of extra pension you want to buy,
- the age you start payments, and
- how long you wish to make payments.

You can see how much an APC could cost by using the APC calculator at https://www.scotlgpsmember.org/help-and-support/tools-and-calculators/

The Scottish Ministers are responsible for setting the cost factors for APCs and these are reviewed regularly. (Note: If the factors change after you start paying APCs, the cost of your APCs could change.)

You will be responsible for the full cost of APCs unless your employer chooses to pay some or all of the cost. You will need to speak to your employer to ask what their policy is on this.

When do I receive my extra pension?

Your APCs are paid on top of your normal LGPS pension when you retire. However your APCs may be affected in certain circumstances:

Retiring Early

If you choose to retire early and draw your pension before your Normal Pension Age, or you are retired on redundancy or business efficiency grounds before your Normal Pension Age, the extra pension you have bought through APCs will be reduced for early payment.

Flexible Retirement

If you take your pension benefits on flexible retirement, you can also draw all the extra pension you have paid for. However it will be reduced for early payment. Your APC contract will cease if you are still paying these extra contributions when you take your benefits, although you can opt to take out a new APC contract (provided you are at least one year from you're your Normal Pension Age if you want to make regular contributions).

Ill Health Retirement

If you are awarded ill health retirement before you have finished your APC contract, the remaining amount to be paid, is deemed to have been paid in full and is credited to your pension account.

Retiring Late

If you take your pension after your Normal Pension Age, the amount of any extra pension you have bought through APCs will be increased as its being paid late.

Death in Service

If you die in service then no extra benefits from your APC contract will be payable. This is because the amount of extra pension you purchase is for you only.

Death after leaving the pension scheme but before receiving pension (Deferred Pension)

A lump sum of 5 times the extra annual pension you paid for will be payable.

Death after receiving your pension

If you die after your pension comes into payment and are under age 75 at the date of death, a lump sum of 10 times the extra annual pension will be payable (minus any pension already paid to you).

When you retire, you can choose to exchange some of the extra pension you have bought for a tax-free cash lump sum subject to tax controls.

How to set up an APC

If you wish to set up an Additional Pension Contribution contract visit https://www.scotlgpsmember.org/help-and-support/tools-and-calculators/ then select the "Calculate extra pension contribution" option. You can use the calculator to see how much your APCs will cost and you can do multiple calculations to find a cost that's right for you.

Once you are happy with the quote you can print the application and send it to your employer.

APC KEY POINTS AND TERMS AND CONDITIONS

- You cannot pay APCs if you are in the 50/50 section of the scheme. Any existing contracts will cease if you move to 50/50.
- You must be at least one year from your Normal Pension Age when you take out an APC contract.
- If you have more than one job, you must specify which job any extra pension you are buying is credited to.
- If you have more than one job and wish to pay APCs for each job, you need to make a separate election for each one.
- You may be required to undergo a medical assessment before starting an APC contract.
- Any extra pension you purchase through APCs will be paid at the same time as your main LGPS benefits.
- **The maximum amount of extra annual pension you can purchase is £8,030.**

Paying Additional Voluntary Contributions (AVCs)

All local government pension funds must have an in-house AVC scheme, where you can invest money, deducted directly from your pay, to an AVC provider. For the North East Scotland Pension Fund, our AVC provider is Prudential.

AVCs are invested separately in funds managed by Prudential. You have your own personal account with them, which over time builds up with your contributions and the returns on your investments. When you retire you can decide how best to use this money.

How frequently do I pay AVCs?

AVC payments can be paid monthly, directly from your pay, just like your normal contributions, or can be made as one-off payments from your salary. You can stop and start AVC payments whenever you wish and for members paying monthly, you can also change how much you pay at anytime.

You can elect to pay AVC's in both the main section or 50/50 section of the scheme.

How much do AVCs cost?

You decide how much you want to pay each month. You can increase or decrease this amount at any time. The maximum amount you can pay into an AVC is 100% of your pensionable pay. As with your normal LGPS contributions your AVC payments receive tax relief (i.e. they are deducted from your pay before you pay tax).

You can also pay extra AVCs to provide extra life cover. Your LGPS membership already gives you cover of three times your assumed pensionable pay should you die in service, but you can pay AVCs to increase this or to provide additional survivor's benefits in the event of your death. (Note: a medical questionnaire may be required if you wish to increase your life cover through AVCs. Any extra life cover will stop when you retire or leave).

You will be responsible for the full cost of AVCs unless your employer chooses to pay some or all of the cost. This is known as a Shared Cost AVC and you will need to speak to your employer to ask what their policy is on this.

When do I receive my extra pension?

Your AVC is paid out when you retire and take your LGPS benefits. At this time, you will have several options for how you take and use your AVC fund:

Buying top-up LGPS Pension

You can use some or all of your AVC fund to buy extra pension from the LGPS. This provides:

- An inflation proofed pension - so as the cost of living increases, so too does your pension, and
- dependents benefits so your loved ones can be looked after in the event of your death.

Buying extra pension within the LGPS is based on set purchase factors which tend not to change, unlike annuities.

Taking your AVCs as cash

You can take up to 100% of you AVC fund as a tax free lump sum if you draw it at the same time as your LGPS pension benefits, provided when added to any LGPS lump sum you receive; it does not exceed 25% of the overall value of your LGPS benefits (including your AVC fund).

Buying 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 would do this at the same time as you draw your LGPS benefits but the two are paid completely separately.

The amount of pension or annuity, you get in return for your AVC fund depends on several factors such as interest rates, your age, the type of annuity you want (e.g. flat rate pension or one that increases with the cost of living) and whether you want to provide cover for your loved ones in the event of your death.

Annuities are subject to annuity rates which in turn are affected by interest rates.

Transferring you AVC fund to another pension scheme

You can transfer your AVC fund to another pension scheme or arrangement including to a scheme that offers flexible benefits, independently of your main scheme benefits.

Buy Extra Membership in the LGPS (only for those who began paying AVCs before 30 June 2005)

For members who began paying AVCs before 30 June 2005, they can, in certain circumstances convert their AVC fund into extra LGPS membership to increase their pension benefits.

Leaving the pension scheme before retirement

If you leave before you can take your pension, both your normal contributions and AVC contributions will stop. The value of your AVC fund will continue to be invested until it is paid out. You can transfer your AVC plan to another pension arrangement or you can access it at the same time as your LGPS benefits.

Flexible Retirement

If you take flexible retirement, and your AVC contract started on or after 30 June 2005, you can take all of your AVC fund at the same time as you take your LGPS pension. You can even continue to pay AVCs if you wish.

If your AVC contract started before 30 June 2005, your AVC contract will cease and you will have to take all of your AVC fund in one of the above ways at the same time you flexibly retire.

Setting up AVCs

If you are interested in setting up AVCs visit www.pru.co.uk/rz/localgov/

Your AVC payments will begin from the next available pay period after your election has been accepted.

Other Ways of Increasing Your Pension Out With the LGPS

Outside of the LGPS there are other ways to save for your retirement including:

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 the provider and how much you want to pay as well as your investment routes. You can pay up to 100% of your taxable earnings into a FSAVC arrangement (minus your normal pension contributions). Your FSAVC fund should grow as it is invested and will be available later in your life to convert into an additional pension of your choice. Alternatively from 1 April 2015, you have option to take up to 25% of the value of your FSAVC as a tax free lump sum (provided they allow this option). You can also pay FSAVCs to provide additional life cover.

Contributing to a concurrent personal pension plan or stakeholder pension scheme

You may make your own arrangements to pay into a personal pension plan or stakeholder pension scheme at the same time as paying into the LGPS, choosing your own provider and level of contribution. You can pay up to 100% of your total taxable earnings in any one year into any number of pension arrangements of your choice and be eligible for tax relief on those contributions.

The contributions you make are invested in funds managed by the insurance company but you can often choose your investment route. You can normally take up to 25% of your fund as a tax free lump sum (subject to tax controls) with the remainder available to buy an annuity or if it’s an option, to use for flexi access drawdown.

If you are interested in looking at ways to increase your pension out with the LGPS, you should speak to an independent financial advisor.

Buying Extra Membership or Paying Additional Regular Contributions

If you are already buying added years, and/or paying Additional Regular Contributions (ARCs)*, you can still pay Additional Pension Contributions (APCs), and/or AVCs, or Free Standing AVCs or contribute to a concurrent personal pension or stakeholder pension scheme if you wish.

If you wish to buy extra pension and you already have an existing APC or ARC arrangement, the amount of additional pension from these existing arrangements will be taken into account when determining the maximum extra pension you can buy.

***Note**: To buy extra membership (Added Years) or pay Additional Regular Contributions, you must have opted to do so before 1 April 2015.

What if I am Paying Extra and I'm Off Work?

The rules that apply if you are paying extra contributions and you are absent from work due to sickness or injury, child related leave, authorised leave of absence, trade dispute or reserve forces leave are covered in our Absence guide.

Tax Implications

There are HM Revenue and Customs (HMRC) controls on:

- The total amount of contributions you can make into all pension arrangements within any one year without receiving a tax charge. This is known as the Annual Allowance.
- The payment of tax-free cash. From 6th April 2024, the Lump Sum Allowance (LSA) and Lump Sum Death Benefit Allowance (LSDBA) replaced Lifetime Allowance. The LSA is a personal lifetime limit of £268,275 for the payment of tax-free cash at retirement. The LSDBA limits the amount of tax-free cash that can be paid when a member dies. At retirement, the restrictions apply to your Pension Commencement Lump Sum (PCLS). Your PCLS is made up of any LGPS lump sum and any Additional Voluntary Contribution (AVC) funds you are taking as tax-free cash.

Most scheme members' pension savings will be less than these allowances however more information is available on our website and at MoneyHelper.org.uk – the Government backed financial support service.

Contact Details

For more information, please contact the us at the details below:

North East Scotland Pension Fund	Helpdesk: (01224) 045 045
Level 1, 2MSq	Email: pensions@nespf.org.uk
Marischal Square	Website: www.nespf.org.uk
Broad Street	
Aberdeen	
AB10 1LP	

DISCLAIMER

The information in this guide is based on the Local Government Pension Scheme (Scotland) Regulations 2018 and other relevant legislation. It applies to people who were contributing members of the Local Government Pension Scheme on 1 April 2015 or who have since joined the Scheme. This guide was up-to-date at the time of publication in March 2024. It 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 guide does not confer any contractual or statutory rights and is provided for information purposes only.