NILGOSC
NORTHERN IRELAND LOCAL GOVERNMENT OFFICERS' SUPERANNUATION COMMITTEE

Pensions Newsletter

This update explains the outcome of Lord Hutton's review into public sector pensions, some recent changes to pensions in general and some regulatory changes to the Local Government Pension Scheme (Northern Ireland), LGPS (NI).

Pension Contribution Rate – updated pay bands from 1 April 2011

The amount that you pay into your LGPS (NI) pension is based on a percentage of your whole-time pensionable pay. The pay band ranges are increased each year in line with the cost of living. The table below shows the pay bands that applied up to April 2011 and those that apply from April 2011 along with the relevant employee contribution rates.

Band	Range 01.04.2010 - 31.03.2011	Range 01.04.2011 - 31.03.2012	Contribution Rates
1	£0 - £12,600	£0 - 12,900	5.5%
2	£12,601 - 14,700	£12,901, - £15,100	5.8%
3	£14,701 - £18,900	£15,101 - £19,400	5.9%
4	£18,901 - £31,500	£19,401 - £32,400	6.5%
5	£31,501 - £42,000	£32,401 - £43,300	6.8%
6	£42,001 - £78,700	£43,301 - £81,100	7.2%
7	More than £78,700	More than £81,100	7.5%

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State Pension Age

State pension age is the earliest age that you can receive the state basic pension.

State pension age is currently age 65 for men and the state pension age for women is being increased to be equalised with that for men.

The Government has announced that it will speed up the pace of equalisation for women so that the women's state pension age will reach age 65 by November 2018.

State pension age equalisation timetable for women

Date of Birth	New State Pension Age
Before 6 April 1950	60
6 April 1950 - 5 April 1951	In the range 60 - 61
6 April 1951 - 5 April 1952	In the range 61 - 62
6 April 1952 - 5 April 1953	In the range 62 - 63
6 April 1953 - 5 August 1953	In the range 63 - 64
6 August 1953 - 5 December 1953	In the range 64 - 65

An increase in the state pension age to age 66 for both men and women will be phased in from December 2018 to April 2020.

Increase in state pension age from 65 to 66 for men and women

Date of Birth	New State Pension Age
6 December 1953 - 5 April 1954	In the range 65 - 66
After April 1954	66

Lord Hutton's Final Report into Public Sector Pensions

Lord Hutton published his proposals for long-term structural reform of public sector pensions, including the Local Government Pension Scheme, on 10 March 2011. The aim of these proposals is to ensure that public service pensions can be sustainable and affordable as well as providing an adequate level of retirement income. The key recommendations include:

- Existing final salary schemes should be replaced by new schemes called career average schemes. This means that the pension is based on average salary which will be increased annually by the average earnings index over the period of an individual's career.

- Benefits already built up at the date the new scheme is introduced should be protected. The years already worked will be used to calculate a pension based on an individual's final pay when he/she leaves or retires.

- Normal retirement age should be linked to State Pension Age.

- There should be a limit to the amount that employers will contribute on members' behalf.

- The Northern Ireland Local Government Pension Scheme should continue as a funded Scheme. This means that your pension contributions and your employer's contributions will continue to be invested in the LGPS(NI) Fund and used to pay your pension benefits when you retire.

The report suggests that these new schemes could be introduced before 2015.

These proposals will now be considered by the Government and, if it chooses, then make appropriate legislation.

Restricting tax relief on pension contributions

Most members of the LGPS (NI) Scheme can pay their pension contributions on a tax-free basis. However, the Government has announced that, from 6 April 2011, the rules relating to tax relief on pensions will change. This will mean that those few members who are paid a very high salary or receive significant pay rises, or are awarded additional years or additional pension or who receive a sizeable increase to their pension fund may be liable to a tax charge.

From 6 April 2011, the annual allowance will reduce from £255,000 to £50,000. This annual allowance is the amount the value of your pension savings can increase by in any one year.

This new restricted annual allowance applies to all pension savings that you make in tax-registered pension arrangements and, unlike at present, it will also apply in the year that you take your pension benefits. There will be an exemption in cases of serious ill-health retirement (although the LGPS (NI) regulations may need amended to permit this) and death.

The increase in the value of pension benefits for LGPS (NI) members is measured as the increase (over and above inflation) in your annual pension multiplied by a factor of 16, plus the increase in value of any lump sum over the course of a year. Any additional voluntary contributions made during the year to an AVC arrangement are then added to give the total pension savings amount.

You will only be subject to an annual allowance charge if the value of your pension savings increases by more than £50,000 in a tax year. In addition, there is a new three year carry forward rule that allows you to carry forward unused allowance from each of the three previous tax years, as long as you have been a member of a registered pension scheme in those years. If the carry forward from the three previous years includes the 2008/09, 2009/10 or 2010/11 years, it will be calculated as if the £50,000 annual allowance applied. Most members will not be affected by the annual allowance tax charge as their pension savings will not increase by more than £50,000 – and if it does, the carry forward arrangements should avoid or reduce any tax charge.

NILGOSC will be able to tell you the increase in value of your LGPS (NI) benefits, including any Additional Voluntary Contributions paid. You will automatically be told if your pension savings exceed £50,000 by 6 October following the end of the tax year. In the first year only, schemes have an additional twelve months to provide the information on pension savings.

If you are affected, you will be liable for a tax charge (at your marginal rate) on the amount by which the value of your pension savings in the tax year, less any unused allowance from the previous three years, exceeds £50,000. HM Revenue and Customs (HMRC) has just announced that individuals can elect for any tax charge, in excess of £2,000, to be paid by their pension fund with an immediate adjustment to the individual's pension benefits to take account of the charge.

If you exceed the annual allowance in any year you are responsible for reporting this to HMRC on your self-assessment tax return and electing whether you wish to pay the tax charge yourself or NILGOSC to pay it from your pension benefits. You will then also notify NILGOSC that you wish to pay the charge from your pension benefits.

From 6 April 2011, the exemption from the annual allowance for those few members who applied to HMRC and received enhanced protection will cease.

A further change is that the lifetime allowance, which is the value of pension benefits which you can accrue over your lifetime without incurring a tax charge, will reduce from £1.8 million to £1.5 million from April 2012.

More information on the annual allowance, illustrations of the calculation and potential scenarios and tax reforms is available on NILGOSC's website at www.nilgosc.org.uk/AnnualAllowance.html.

NB. If you are making significant personal contributions to the in-house AVC fund you may need to review your level of contributions. Prudential can be contacted at 0800 234 6914. Lines are open 9am to 6pm Monday to Friday.

Recent changes to the Scheme

Changes have been made to the Scheme from 17 January 2011. The following sections detail the minor amendments to members' benefits and the introduction of a new option for members to pay additional contributions to increase the survivor's benefits for a nominated cohabiting partner.

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Exclusions to pensionable pay from 1 April 2009

It is clarified that the following payments are not pensionable or part of your final pensionable pay:

- payments to induce a member not to leave employment
- payments to buy out an existing term or condition of employment
- the money value of a company car or an amount paid in lieu of that provision

A member's final pay is his/her pensionable pay in local government employment.

If a member moves employment during the final twelve months of employment, the final pay is calculated on the last twelve months' employment and not just the final few months with the last employer.

New option to pay additional contributions to cover any period of membership before 5 April 1988 for additional survivor benefits for a surviving nominated cohabiting partner

If you have nominated a cohabiting partner to receive a survivor's pension on your death you may now pay additional contributions to include any period of membership before 6 April 1988. Any periods of membership from 6 April 1988 are automatically included for calculation of a survivor's pension for a surviving nominated cohabiting partner.

If you are interested in this new option please contact NILGOSC directly for a quotation. It should be noted that you will have to undergo a medical to ensure that you are in good health before any purchase can begin.

Default Retirement Age

The Government has confirmed that it will remove the default retirement age so that people have a choice when to stop working. Currently the default retirement age enables employers to make staff retire at age 65 regardless of their ability or desire to continue working. The default retirement age will be phased out between 6 April and 1 October 2011.

The LGPS (NI) already allows active members to contribute to the Scheme until age 75. If you draw your pension after age 65 it will be paid at an increased rate to reflect the fact that it will be paid for a shorter time. Your pension must be paid by your 75th birthday.

More information

We hope that you find this information helpful. Further information is available from NILGOSC as follows:

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