

Topping up your pension benefits

This is an introduction explaining how, as a member of the Local Government Pension Scheme, you can pay extra to increase your pension benefits.

Are you saving enough for a secure retirement?

As a member of the Local Government Pension Scheme (LGPS), you're already doing more than most people.

But it is worth thinking about paying more to have that little bit extra during your retirement years, especially if you joined later in life.

You can pay extra contributions, which are a tax-efficient way of topping up your income when you retire.

HM Revenue & Customs (HMRC) allow you to pay up to 100% of your taxable earnings into a pension scheme or schemes and receive tax relief on your contributions.

There are a number of ways you can provide extra benefits, on top of the benefits you are already looking forward to as a member of the LGPS.

You can improve your retirement benefits by:

- paying additional regular contributions (ARCs) to buy extra LGPS pension;
- paying additional voluntary contributions (AVCs) to the in-house AVC scheme;
- paying into a free standing AVC scheme; and
- paying into a stakeholder or personal pension plan.

You can combine any of these options.

You can also increase your life cover as part of an AVC arrangement.

You decide how much you want to pay.

There are, however, tax rules governing pension schemes and the tax relief available if you pay extra contributions. In brief, these are:

- You can pay up to 100% of your earnings to a pension scheme or schemes in any tax year and receive tax relief on the contributions. However, if the overall value of your benefits increase in a tax year (other than the year in which your benefits are paid) by more than an amount set by HMRC (which is currently £245,000), you will have to pay tax on the extra amount. Additionally, a special annual allowance charge has been introduced for 2009/2010 and 2010/2011, but most scheme members will not be affected by this (see note 1).
- You can build up pension rights up to a lifetime allowance, currently £1.75 million, before you pay extra tax.
- You can take some or, depending on the type of arrangement, all of an AVC fund as tax-free cash when you retire (see note 2).

In addition, some of the options available to you to increase your benefits have their own contribution limits and, where appropriate, those limits are set out in the sections below.

More about the options

Paying additional regular contributions (ARCs) to buy extra LGPS pension

If you are thinking about buying extra LGPS pension, you can ask for a quote to find out how much it will cost you every month. You will also be told how much in extra pension this will buy.

- You can pay ARCs to buy up to £5,000 of extra annual pension, in multiples of £250. This can be pension just for yourself or, if you wish, it can include extra pension for your husband, wife, civil partner or nominated co-habiting partner and for eligible children on your death.
- Contributions are taken from your pay, just like your basic contributions.
- You can start to buy extra pension at any time up to your 64th birthday. You decide how long you want to pay additional contributions for, although you must pay them over a whole number of years and payments must be completed by age 65.
- If you retire because of ill health and qualify for enhanced ill health benefits you will be credited with all the extra pension you planned to buy, even if you have not paid for all of it.
- On retirement you can choose to exchange some of the extra pension you have bought for a lump sum.
- You pay the full cost of the extra pension yourself. Unlike your normal LGPS benefits, your employer does not pay towards any extra pension you buy.
- You may have to have a medical before you can pay ARCs.

Paying additional voluntary contributions (AVCs) to the in-house scheme

All local government pension funds have an in-house AVC scheme where you can invest money, through an AVC provider (often an insurance company or building society).

- You decide how much you can afford to pay, up to 50% of your taxable earnings.
- Contributions can start from as early as your next pay day and are taken from your pay, just like your normal contributions.
- You can pay AVCs to provide you with extra pension, provide extra benefits for your dependants, or to increase your lump sum life cover. You may have to complete a satisfactory medical questionnaire before you can pay AVCs to increase your life cover.
- Your AVC contributions are invested in a fund (chosen from those we offer) which builds up until you retire. It is then used to buy you extra pension in the LGPS or from an insurance company.
- You may even be able to take some or all of your AVC fund as cash if you draw it at the same time as your LGPS benefits (see note 2).
- When you retire, you can defer the decision to use your AVC fund to buy benefits, but only up to age 75 at the latest (see note 3).

Paying into a free standing AVC scheme (FSAVC)

There are also AVC arrangements that are not linked to the LGPS in any way. These are known as free standing AVCs (FSAVCs). With FSAVCs, you choose a provider, usually an insurance company and make your own arrangements to pay the contributions to them.

You may want to consider the different charges, alternative investments and past performance of the FSAVC provider compared to our in-house AVC scheme. Unlike the in-house AVC scheme, only up to 25% of the FSAVC fund can be taken as a cash lump sum.

Paying into a stakeholder or personal pension plan

You can be a member of the LGPS and also make your own arrangements to pay contributions from the same earnings to a personal pension plan or stakeholder pension scheme.

If you pay into a personal pension plan or stakeholder pension scheme, the contributions you make to it are invested in funds managed by an insurance company. You have your own personal account that, over time, builds up with your contributions and the returns on your investment. This will be used to provide you with a pension and you may be able to take up to 25% out as a cash lump sum.

You may want to get independent financial advice before making a decision about paying extra. You will need to pay any charges made for the advice yourself.

You can get more information about the options covered here on www.lgps.org.uk or from:

The Pensions Office
Isle of Wight Council
County Hall
High Street
Newport
Isle of Wight
PO30 1UD

Telephone: 823660 or 823627

This leaflet is a brief guide to paying extra and cannot cover every personal circumstance. If there is any disagreement over your pension benefits, the appropriate laws will apply. This leaflet does not give you any contractual or legal rights, and is provided for information purposes only.

Notes

¹ The special annual allowance charge only applies if you increase the level of your normal pension savings, and the value of the additional savings is greater than £20,000, and in the year you increase your pension savings, or one of the previous two tax years, you have an annual income of £150,000 or more.

² As long as when it is added to your LGPS lump sum it is not more than 25% of the overall value of your LGPS benefits (including your AVC fund) and as long as the total lump sum is not more than £437,500 (2009/2010 figure) less the value of any other pension rights you have in payment.

³ If you draw your AVC benefits after your LGPS benefits have come into payment, you will only be able to take up to a quarter of the AVC fund (instead of up to the full AVC fund) as a cash lump sum.