# Increasing Your Retirement Benefits

NILGOSC

NORTHERN IRELAND LOCAL GOVERNMENT OFFICERS'
SUPERANNUATION COMMITTEE

This guide describes how you can increase your retirement benefits and applies to individuals who were contributing members of the Scheme on 1 April 2015 or who have since joined. The leaflet was up to date at the time of its reprint in April 2017. 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 as to benefits due under the Scheme the appropriate legislation will prevail. This Guide does not confer any contractual or statutory rights and is provided for information purposes only.

# Contents

# 1. Introduction

# Introduction

This leaflet explains how, as a member of the Local Government Pension Scheme (Northern Ireland), you can increase your pension benefits.

You can increase your pension benefits by any of the methods listed below:

- Additional Pension Contributions (APCs)
- Additional Voluntary Contributions (AVCs) to the AVC scheme
- Contributing to Free Standing Additional Voluntary Contributions (FSAVCs) or a concurrent Stakeholder or Personal Pension Plan
- Additional Regular Contributions (ARCs) - this option is only available if you started a contract before 1 April 2015
- Purchase of Added Years – this option is only available if you started a contract before 1 April 2009

You can combine any of these options which are available to you, all of which are described in more detail in this booklet.  A section on tax rules on pension savings is also included as there are restrictions on the amount of savings you can make with tax relief.

# 2. Additional Pension Contributions (APCs)

You can buy a maximum of £6,644* additional pension per year.

*(2017/18 limits)

# Additional Pension Contributions (APCs)

You can pay additional pension contributions to:

- boost your pension on retirement
- cover pension 'lost' due to authorised unpaid leave
- cover pension 'lost' due to industrial action

Any additional pension that you buy is payable each year in retirement and is paid on top of your Scheme benefits. You can only buy additional pension to increase your own benefits - buying additional pension does not increase the benefits of any survivors.

If you are buying additional pension to boost your pension benefits you must complete a Good Health Medical. More information is available on page 10 of this booklet.

## How much additional pension can I buy?

You can buy additional pension of up to £6,644 per year (2017/18 figures). This figure of £6,644 includes the amount of any ARCs being purchased under the 2009 regulations. This figure will be reviewed in April each year.

## How much does additional pension cost?

You can pay for additional pension either by regular contributions or by lump sum. The cost depends on:

- your age on the date the lump sum is paid or the contributions start
- the period over which you wish to pay
- whether you are male or female
- your normal pension age

If you decide to pay by regular contributions the contract must be for at least one full year or a number of full years. NILGOSC may impose a minimum amount for regular contributions.

You cannot start to buy additional pension by regular contributions if you are within one year of your normal pension age. However, you could still pay by lump sum.

You can calculate the cost of buying additional pension using the APC calculator on the members' section of our website at www.nilgosc.org.uk. This calculator allows you to consider the cost over various payment periods.

## Shared Cost Additional Pension Contributions (SCAPCs)

Your employer may choose to contribute towards the cost when you are buying additional pension to increase your benefits. This is known as a Shared Cost Additional Pension Contribution (SCAPC) contract. This is an employer discretion and you can ask your employer about its policy on Shared Cost APCs.

## Covering pension 'lost' due to authorised unpaid leave

Any period of authorised unpaid leave (including additional maternity, shared parental or adoption leave) will not count towards your pension unless you elect to pay APCs to cover the period.

If you are buying additional pension to cover pension 'lost' due to authorised unpaid leave, your employer must cover 2/3rd of the cost if you choose to take out an APC contract within 30 days of returning to work or such longer period as your employer may allow. Your employer will only cover a maximum period of up to 36 months. Your employer will not contribute towards the cost if you make an election later than 30 days after returning to work or such longer period as the employer may allow.

The amount of 'lost' pension that you can buy is calculated as:

**If you were in the main section**

1/49th x lost pensionable pay x period of absence

**OR**

**If you were in the 50/50 section**

1/98th x lost pensionable pay x period of absence

## Buying pension 'lost' due to industrial action

Absence from work due to industrial action will not count towards your pension unless you elect to pay Additional Pension Contributions to cover that period.

The amount of 'lost' pension that you can buy is calculated as:

**If you were in the main section**

1/49th x lost pensionable pay

x period of absence

**OR**

**If you were in the 50/50 section**

1/98th x lost pensionable pay

x period of absence

The cost of buying this 'lost' pension is paid fully by you.

There is no time limit on deciding to buy pension that was 'lost' due to industrial action i.e. the 30 day limit to make an election no longer applies.

## How do I apply to buy additional pension?

Once you have decided what you want to purchase, having used the APC calculator on our website, you should either print off or download the APC application form (LGS27A or LGS27B). If you are buying 'lost' pension you will need to contact your employer first so they can tell you the amount of lost pensionable pay.

### If you are buying additional pension:

You should complete and forward the application form (LGS27A) to NILGOSC along with your payment for a Good Health Medical. The current fees for a Good Health Medical and the APC application form are available on the 'Boost your Pension' section of our website at www.nilgosc.org.uk or by telephoning NILGOSC on 0845 308 7346.

We will arrange your medical appointment when we receive your application form and payment for the medical. If you pass the Good Health Medical we will write to you and your employer to confirm the additional monthly deductions to be taken from your pay and the period over which you will be paying, or the lump sum amount if you are making a one-off payment.

You can make a one-off payment either via your pay or directly to NILGOSC. If you make payment directly to NILGOSC you will need to reclaim any tax relief directly with HM Revenue and Customs (HMRC).

### If you are covering pension 'lost' due to authorised unpaid leave or industrial action:

You should complete and forward the application form (LGS27B) to your employer who will complete their section of the form and forward it on to NILGOSC.

On receipt of the completed application form NILGOSC will advise both you and your employer of the additional monthly deductions to be taken from your pay and the period over which you will be paying, or the lump sum amount if you are making a one-off payment.

You can make a one-off payment either via your pay or directly to NILGOSC. If you make payment directly to NILGOSC you will need to reclaim any tax relief directly with HM Revenue and Customs (HMRC).

## Why do I have to have a medical and who pays for it?

If you are buying additional pension to boost your pension benefits you must complete a Good Health Medical. This is because, if you retire due to ill-health your additional pension will be treated as if it had been paid in full. Therefore, NILGOSC needs to know that you are in good health and unlikely to retire on ill-health grounds before it will agree to your purchase of additional pension. You must pay the cost of the Good Health medical.

You do not have to have a Good Health medical if you are buying additional pension to cover 'lost' pension due to authorised unpaid leave or industrial action.

## How does my additional pension build up?

At the end of every Scheme year the additional pension that you have bought in that year is added to your pension account. The value of the pension in your pension account is revalued each year to keep up with the cost of living . Once in payment the additional pension will get the same revaluation as the rest of your pension and go up in line with Pensions Increase Orders each year.

## When is my additional pension paid?

The additional pension is paid at the same time as you receive your main Scheme benefits.

If you retire early and draw your benefits before your Normal Pension Age, or you are retired on redundancy or business efficiency grounds before your Normal Pension Age the additional pension that you have bought will be reduced for early payment.

If you draw your benefits on flexible retirement you can, if you wish, also draw the additional pension you have paid for, although it will be reduced for early payment. If you do so, your APC contract will cease, although you can take out a new one.

If you are awarded ill-health retirement, the remaining amount of any APC or SCAPC contract you are paying is deemed to have been paid in full and is paid along with your main Scheme benefits.

If you draw your pension after your Normal Pension Age, your additional pension will be increased as it is being paid later.

On retirement you can exchange some of the additional pension for tax-free cash in the same way as your main Scheme pension.

If you die in service, no extra benefits from your APC contract will be payable as it was only a contract to provide additional pension for you.

## What if I stop contributing before the end of the payment period?

If you stop contributing, or leave or retire before the end of the payment period, you will receive a pension based on the contributions made up to that point. If you retire early on ill-health grounds, the contract is deemed to have been paid in full.

## What if I am on unpaid leave?

If you are on unpaid leave or child-related leave you must continue to make the contributions to buy your additional pension.

## Could the monthly payments change?

Your monthly payments may change in the future. The actuary may change the rates or the government could change the method of increase. These changes would affect both new applicants and members who are already buying additional pension. These changes will normally apply from 1 April following the change and we will let you know about the change beforehand.

## If I choose to buy additional pension now, can I buy more at a later date?

Yes, as long as the total amount does not exceed £6,644 per year (2017/18 limits). It should be remembered that the cost of any later purchases of additional pension will depend on your age at that time.

## Can I give up some additional pension at retirement to buy additional lump sum?

Yes, it is possible to give up additional pension at retirement to provide extra lump sum, subject to tax limits.

## Will purchasing additional pension change my 85 year rule date?

No. Purchases of additional pension have no effect on your 85 year rule date. This date is the earliest age that some members with 85 year rule protections can draw unreduced pension benefits.

# 3. Additional Voluntary Contributions

When you retire, you can use your AVC fund in the following ways:

- buy an annuity
- buy additional Scheme pension
- take a tax-free cash lump sum
- transfer your AVC

# Additional Voluntary Contributions (AVCs)

You can pay AVCs to top up your own pension and your dependants' pensions or to provide additional life cover. In this case you can invest money, deducted directly from your pay, with the in-house AVC provider, Prudential. Any AVCs which you pay are invested separately in funds managed by the AVC provider. You have your own personal account which, over time, builds up with your contributions and the returns on your investment. At retirement you can use this AVC fund to buy an additional pension or to increase your lump sum, subject to both Scheme and tax limits.

Equitable Life is also an in-house AVC provider but is no longer available for new contributors.

It should be noted that these AVC investments depend on the contributions paid, the performance of the investments and on interest rates at retirement. There is no guarantee that any particular level of AVC benefit will be available at retirement and NILGOSC cannot provide advice in relation to AVC investments.

You can contribute up to 50% of your pensionable pay per pay period into the AVC arrangement. AVCs are deducted directly from your pay and tax relief (at your highest rate) is automatically given through payroll. This means that tax is calculated on your pay after your Scheme and AVC contributions have been deducted.

When you reach retirement you may use your AVC fund in the following ways:

- buy an annuity
- buy additional Scheme pension
- take your AVCs as cash
- transfer your AVC fund to another pension scheme or arrangement

## 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 can do this at the same time as you draw your Scheme benefits or you can delay payment up until the day before your 75th birthday. An annuity is paid completely separately from your Scheme benefits.

The amount of an annuity depends on several factors such as your age and interest rates. You can also choose the type of annuity that you want e.g. a flat rate pension or one that increases each year, and whether you want to provide for dependants' benefits on your death.

## Buying Additional Scheme Pension

If you retire with immediate payment of your benefits you may be able to use some or all of your AVC fund to buy a top-up pension from the Scheme for yourself and any dependants.

## Taking your AVCs as cash

If you draw your AVC fund at the same time as your Scheme benefits you can take up to 100% of your AVC fund as tax-free cash, subject to tax limits. If you decide to defer drawing your AVC until after retirement you can normally only have up to 25% of your AVC fund as a lump sum.

## Transfer your AVC fund to another pension scheme or arrangement

You can transfer your AVC fund to another pension scheme or arrangement.

## Leaving the Scheme before retirement

If you leave the Scheme before retirement, your AVC contributions will stop. The value of your AVC fund will continue to be invested until it is paid out.

Your AVC scheme is similar to your main Scheme benefits: it can be transferred to another pension arrangement along with your main Scheme benefits, drawn at the same time as your Scheme benefits or deferred until the eve of your 75th birthday.

## What if I flexibly retire?

If you flexibly retire and your AVC contract started on or after 1 February 2003 you can choose to take all or none of your AVC fund at the same time as you draw your flexible retirement benefits, and if you wish, continue to pay AVCs. If your AVC contract started before 1 February 2003 you will have to take your AVC fund and use it in one of the previously mentioned ways at the same time you draw your Scheme benefits.

## Is there an Exit Charge?

If your first AVC contribution is received on, or after, the 19th March 2017 you will no longer be subject to an exit charge, regardless of your age. If your first contribution was received before the 19th March 2017 you will have an exit charge capped at 1% if you withdraw your AVC benefits within 3 years and 0% thereafter, regardless of your age.

## How do I contribute to an AVC?

You can apply online via Prudential's website at www.pru.co.uk/nizone. Alternatively you can contact The Prudential Retirement Specialist Team on 0800 032 6674.

Equitable Life - information on existing contracts is available directly from NILGOSC on 0845 308 7346.

## How do I find out more information on AVCs?

Further information on AVCs and investment fund options can be found on both the NILGOSC website - www.nilgosc.org.uk and the Prudential website - www.pru.co.uk/nizone

## Freedom and Choice

From 6 April 2015, the government introduced greater flexibility (Freedom and Choice) in the way individuals can access any Defined Contribution (DC) scheme.

As a member of the LGPS (NI), you are a member of a Defined Benefit (DB) scheme and therefore the flexibilities being introduced under 'Freedom and Choice' do not impact on how you can take your Defined Benefits from the Scheme.

However, your AVC fund is a money purchase savings scheme and is treated as other DC schemes. Although the LGPS (NI) does not permit you to access your AVC fund before drawing your main scheme benefits, you are able to transfer your AVC fund to another pension provider to take advantage of the increased flexibility.

# 4. Contributing to Free Standing Additional Voluntary Contributions (FSAVCs) or a concurrent Personal Pension Plan or Stakeholder Pension Scheme

# Free Standing Additional Voluntary Contributions (FSAVCs) or contributing to a concurrent Personal Pension Plan or Stakeholder Pension Scheme

You may make your own arrangements to pay Free Standing Additional Voluntary Contributions (FSAVCs) or pay into a personal pension plan or stakeholder pension scheme at the same time as paying into the Scheme. You choose the provider which is usually an insurance company. You may also want to consider their charges, alternative investments and past performance.

You choose how much to pay into the arrangement. You can pay up to 100% of your total taxable earnings in any one tax year (or £3,600 if greater) into any number of concurrent arrangements and be eligible for tax relief on those contributions.  If you are a higher rate tax payer you will need to complete a tax return to reclaim higher rate tax relief.

The contributions which you pay are invested in funds managed by an insurance company. You have your own personal account that, over time, builds up with your contributions and investment returns, and will be available at retirement to convert into additional benefits.

When the benefits are paid, you will be able to take 25% of your fund as a tax-free lump sum (provided the lump sum that you receive from all of your pension arrangements does not exceed £250,000 (2017-18 limits)) and the remainder is used to buy an annuity from an insurance company, bank or building society.

From 6 April 2015 you can avail of relaxed rules that allow you to take the remainder of your fund as cash but it will be taxed at your highest tax rate.

The amount of an annuity depends on factors such as interest rates and your age. You also have choice over the type of annuity e.g. whether you want annual increases and/or dependant's benefits.

Annuities are subject to annuity rates which are affected by interest rates. When interest rates rise, annuity rates rise.

Conversely a fall in interest rates reduces the annuity rates and the pension which can be purchased.

# 5. Historical methods of buying extra Scheme pension

Additional Regular Contributions are only available if you started a contract before 1 April 2015.

Additional Years can only be purchased if you started a contract before 1 April 2009.

# Additional Regular Contributions (ARCs)

If you were a member of the Scheme before 1 April 2015 you may have chosen to purchase Additional Regular Contributions (ARCs). You were able to buy annual pension, either for yourself or for yourself plus any dependants, in multiples of £250 up to a maximum of £5,000 per year. These contributions must have been paid over a number of whole years with a minimum of one year and contributions could not start on or after your 64th birthday.

The additional pension purchased through this arrangement is payable at retirement. If you draw your pension before age 65 (and not on ill-health grounds) your additional pension will be reduced as it will be paid early. If you draw your pension after age 65, your extra pension will be increased as it will be paid later. The reduction or increase does not apply to any dependant's cover which you have chosen to buy.

In the event of ill-health retirement or death before your previous normal retirement age (usually age 65) the Additional Regular Contributions are deemed to have been paid in full.

Further information is available from NILGOSC on request.

# Purchase of Additional Years

If you were a member of the Scheme before 1 April 2009 you may have elected to purchase additional years. You were able to buy a maximum of 6 $^{2}/_{3}$ added years to increase your lump sum and pension benefits by paying additional contributions until your normal retirement age. The purchase of additional years is a final salary type arrangement and each year that you purchase usually increases your pension by 1/80th and your lump sum by 3/80ths. The final amount payable is calculated on your pensionable pay (excluding non-contractual overtime and any payments for additional hours) at retirement or date of leaving.

In the event of ill-health retirement or death before your previous normal retirement age the additional years are deemed to have been bought in full.

Further information is available from NILGOSC on request.

# 6. Can my employer award me additional pension benefits?

# Can my employer award me additional pension benefits?

Your employer, at its **discretion**, can

- grant you up to £6,644 of additional pension per year (2017/18 limits).

  Additional pension awarded by your employer will normally be reduced if you claim your retirement benefits before your normal pension age. The exception to this is if the reason for leaving is redundancy or business efficiency, in which case any additional pension awarded by your employer may be paid on an unreduced basis.

- pay into your AVC scheme. This is known as a shared cost AVC arrangement.

These are **discretions** which your employer can use if they wish. You can ask your employer about its policies on these discretions.

# 7. Tax Rules on Pension Savings

There are limits on the pension savings you can make with tax relief.

There are limits on the pension savings you can make before you become subject to a tax charge. These limits are known as the annual allowance and the lifetime allowance.

The **annual allowance** is the amount by which your pension savings can increase in one year without becoming subject to a tax charge. As of 6 April 2017 the annual allowance limit is £40,000*.

The formula for calculating any increase in pension savings in the Scheme is:

[Pension Value at Year End –
(Pension Value at Start of Year x
Pensions Increase)] x 16
**Plus**
Lump sum at Year End –
(Lump sum at Start of Year x
Pensions Increase)
**Plus**
The amount of any AVC contributions
made over the year

NILGOSC will issue you with a pensions savings statement by 6 October each year if you exceed the annual allowance for the previous tax year.

If your pension savings exceed the annual allowance, you may carry forward any unused allowance from three previous tax years.

If you still exceed the allowances after carried forward allowances are taken into account, a tax charge must be applied.

If the tax charge exceeds £2,000 and you also exceed the 40,000 limit it can be paid from your pension benefits and your benefits will be adjusted accordingly.

Special rules may apply if you have taken any 'flexible access' benefits from a money purchase (defined contribution) arrangement e.g. taking all your pension as cash.

The **lifetime allowance** is the total capital value of all your pension arrangements which you can build up during your lifetime without paying extra tax.

The capital value of your pension benefits is generally calculated as

(Pension x 20) + lump sum
+ value of AVC fund (if any)

If the value of your benefits when you draw them (not including any state retirement pension, state pension credit or any spouse's, civil partner's or dependant's pension you may be entitled to) exceeds your lifetime allowance, a tax charge will be made against the excess. The lifetime allowance for 2017-18 is £1 million. Most Scheme members' annual savings will be significantly less than the lifetime allowance.

If you are close to the annual or lifetime allowance limits it is recommended that you seek specialist tax advice. Several protections exist such as primary lifetime allowance protection, enhanced protection, fixed protection, fixed protection 2014, individual protection 2014, fixed protection 2016 and individual protection 2016. For more information visit www.nilgosc.org.uk/tax-limits-on-your-pension

*There will be a £1 reduction in annual allowance for every £2 of adjusted income (annual income before tax plus your own and any employer pension contributions) earned above £150,000. This only applies to members whose pensionable pay is more than £110,000. The annual allowance cannot be reduced below £10,000.

# 8. Data Protection Act 1998

# Data Protection Act 1998

NILGOSC is registered with the Information Commissioner under the Data Protection Act 1998 to hold personal information for the purpose of administration of the Pension Scheme. Essentially the data is used to determine eligibility for, and to calculate any pension or other benefits from, the Scheme. This information is held and processed by NILGOSC strictly in accordance with the Data Protection Act 1998. In order to carry out its purpose NILGOSC may receive information about members from others, such as employers, but can only do so in accordance with the law.

NILGOSC may transfer information to third parties where there is a legal obligation to do so. NILGOSC may also, pass certain details to a third party if the third party is carrying out an administrative function of the Scheme, for example the Scheme's AVC providers and actuary. In addition, NILGOSC may transfer information to organisations which carry out processing operations on its behalf, such as printers. Any third parties to whom NILGOSC passes personal data are also required to comply with the Data Protection Act 1998.

NILGOSC is required to protect the public funds it administers. It may share information provided to it with other bodies responsible for auditing or administering public funds in order to prevent and detect fraud. In accordance with this, NILGOSC participates in the National Fraud Initiative (NFI) run by the Northern Ireland Audit Office, which has statutory powers to conduct data matching exercises. For further information about NILGOSC's participation in the NFI see www.nilgosc.org.uk/national-fraud-initiative.

As individuals, members have a right under the Data Protection Act 1998 to obtain information from NILGOSC, including a description of the personal data which is held on them. Any member who wishes to access their data on Data Protection Act grounds should complete a Subject Access Request Form or write to the Data Protection Officer at NILGOSC. Alternatively the request can be sent by e-mail to info@nilgosc.org.uk.

# 9. Further Information & How to Contact Us

# Further Information

You can find more detailed information in other Scheme literature which can be viewed on our website at www.nilgosc.org.uk, or requested from your employer or directly from NILGOSC.

If you have any questions on the content of this leaflet or on any aspect of the Local Government Pension Scheme (NI), please contact the Pension Administration Team by any of the methods below.

# Contact Details

**Postal address:**

NILGOSC
Templeton House
411 Holywood Road
Belfast BT4 2LP

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|---|---|
| **Website:** | www.nilgosc.org.uk |
| **Email:** | info@nilgosc.org.uk |
| **Telephone:** | 0345 3197 325 |
| **Calling from abroad:** | 00 44 2890 768025 |
| **Typetalk (for Minicom users):** | 18001 0345 3197 320 |
| **Fax:** | 0345 3197 321 |

You are welcome to visit us from Monday to Friday, from 9am to 5pm. You do not need to make an appointment. The office closes on public and statutory holidays, so please phone before your visit to check that we are open.

Information produced by NILGOSC can be made available in several languages and formats (such as large print, in Braille, on audio cassette, or on computer disk).

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