

# **The Local Government Pension Scheme**

## **Ways of Increasing Retirement Benefits**

**A guide to various options for adding to the benefits  
you can receive from the Local Government Pension  
Scheme**



# **WAYS OF INCREASING RETIREMENT BENEFITS**

## **A guide for members of the Local Government Pension Scheme as administered by Staffordshire County Council**

Most of us look forward to a happy and comfortable retirement and we hope that our pension from the Local Government Pension Scheme ("LGPS") will help us to achieve this.

The LGPS is a very good occupational pension scheme but, even so, most members of the LGPS may find that they have scope to improve their expectation of income from a pension in retirement.

The booklet tells you about the various options which could be available to you.

The text of this booklet is a condensation and generalisation of the relevant legislation.

Nothing contained in the booklet overrides the provisions of the Local Government Pension Scheme Regulations or other pensions-related legislation

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## What are the options for increasing retirement benefits?

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The various options for increasing retirement benefits available to members of the Local Government Pension Scheme 2014 ("LGPS") are as follows –

- the purchase of up to £6,822 (2018/19 rate) a year additional pension from the LGPS by the payment of Additional Pension Contributions ("APCs") which are collected by your employer from your instalments of *pensionable pay*;
- the payment of additional voluntary contributions ("AVCs") under the Staffordshire Pension Fund's arrangements with Scottish Widows and Standard Life which are collected by your employer from your instalments of *pay*;
- the payment of free-standing additional voluntary contributions ("FSAVCs") to a provider of your own choice: the contributions would not be collected by your employer but paid by you in accordance with arrangements made with the provider;
- the payment of contributions to a stakeholder pension scheme or a personal pension plan (while still remaining a member of the LGPS): the contributions would not be collected by your employer but paid by you in accordance with arrangements made with the provider.

This booklet provides you with basic information on each of the options.

Before 1 April 2008 there was an option for Scheme members to pay additional contributions to purchase extra years of membership in the LGPS. It is no longer possible to elect for this method of improving benefits although elections made before that date continue in force.

Between 1 April 2008 and 31 March 2014 there was an option for Scheme members to pay additional regular contributions (ARCs) to purchase additional pension in the LGPS. It is no longer possible to elect for this method of improving benefits although elections made before that date continue in force.

You will notice that some of the words and expressions are written in *italics*. This indicates that they have a special meaning which is explained in the "Glossary of certain expressions" on page 22.

# The purchase of additional pension from the Local Government Pension Scheme by the payment of Additional Pension Contributions ("APCs")

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This option allows you to pay a set amount of Additional Pension Contributions ("APCs") so that you can have an additional amount of pension added to your basic LGPS pension on retirement. This may be to increase your pension benefit or could be to make up "lost" pension as a result of absence from work.

## Can everyone pay APCs?

If you are paying to increase your pension benefit, you can only pay APCs if you are also paying into the Main Section of the LGPS – if you are paying these APCs and you enter the 50/50 Section, the contributions will cease. If you are paying APCs to make up "lost" pension for relevant absences (see below), you can pay APCs if you are part of the Main Section and the 50/50 Section.

## How much can I purchase?

You can buy a maximum of £6,822 additional pension a year (this is the maximum value at 1 April 2018 and will increase in line with Pensions (Increase) Review Orders each year). There is no minimum amount of pension you can purchase in this way. If you wish, at retirement, part of the pension can be converted ("commuted") to a lump sum. The additional pension is only payable to the member of the scheme – there would be no benefit paid to a survivor regarding this pension if you died.

## How do I pay?

The contributions required to purchase additional pension from the LGPS would be deducted directly from your instalments of *pensionable pay* by your employer if you chose to pay monthly by instalments. If you choose to pay as a one-off lump sum, Staffordshire Pension Fund will confirm how this payment should be made. Please note, if you are paying a one-off payment to Staffordshire Pension Fund and are funding the payment by using a tax free lump sum due or already received from another pension arrangement, there may be tax implications. This is known as "recycling" and more information about potential tax charges is available on the HMRC website at <http://www.hmrc.gov.uk/manuals/rpsmmanual/RPSM09208020.htm>.

## Do I get tax relief on the contributions?

Yes – if you are a tax-payer. The contributions are deducted from your *pensionable pay* before tax is assessed. This makes your taxable *pay* less and so you pay less in tax. You can receive tax relief on contributions of up to 100% of your taxable earnings. See page 19 for an explanation of tax limits.

## **How much would I have to pay?**

This is determined from tables provided by the Government Actuary. The APCs payable would depend upon your age when contributions begin to be paid, your gender, and the period over which you wish to pay the contributions (which must not be later than to *Normal Pension Age*). It is also possible to pay APCs as a one-off lump sum amount.

Because of all the permutations, the tables are quite extensive. Abridged versions of the tables are given on pages 10 to 12.

You should note that the Government Actuary may vary these contributions from time to time. If they change, you would be required to pay the amended amount with effect from the following 1 April.

## **Can I carry on paying APCs to purchase additional pension if I leave the LGPS?**

No, you can pay APCs only while a member of the LGPS.

## **I have been absent from work without pay, can I make up the “lost” pension?**

Yes, depending on the reason for your absence.

If you have been on sick leave with no pay, there is no need to make up pension benefits, as your pension will be calculated on *Assumed Pensionable Pay*.

If you have been on Additional Child-Related Absence (Maternity, Paternity or Adoption Leave) or Authorised Absence with no pay, you can pay APCs to cover the “lost” pension for this period, and, as long as you elect to do so within 1 month of returning to work (or such longer period as your employer may allow), you would do this on a “Shared Cost” basis – you pay 1/3<sup>rd</sup> of the cost and your employer pays 2/3<sup>rd</sup>.

If you have been absent due to a Trade Dispute which took place after 1 April 2014, you can elect to pay APCs to make up the “lost” pension at any time. You will pay the full amount of APCs.

If you have been on unauthorised absence, it is not possible to make up the “lost” pension.

## **What effect would a period with reduced or no pay have on additional contributions?**

If, while paying APCs, you go on sick leave with reduced or no pay, your contributions will be deemed to have been paid in full. However, during any period of maternity leave, adoption leave, parental leave, or leave of absence, you will be required to continue paying the additional contributions in full.

## **Are there any conditions attached to the payment?**

Yes. You cannot purchase additional pension by regular contributions in this way if you are less than 1 year from your *Normal Pension Age*. Also, in most cases, an election cannot be accepted unless you have undergone a medical examination at your own expense and to Staffordshire County Council's satisfaction that you are in reasonably good health. (A medical questionnaire would be issued to you by Pension Services for completion and return.)

## **What if I start paying and then want to stop?**

You can stop paying contributions at any time by giving written notice to this effect to the Pension Services Section of Staffordshire County Council. You must give one month's notice to cease paying APCs, so your deductions will stop at the end of the month after your letter is received. You would be credited with the proportion of pension purchased to the date of ceasing payment. For example, if you had elected to buy additional pension of £4,000 by paying APCs over ten years (120 months) but had paid for only two and a half years (30 months), you would be credited with additional pension of –

$30/120 \times £4,000 = £1,000$  a year.

## **What happens if I don't complete the payments because of ill-health retirement?**

In the event of ill-health retirement with entitlement to an enhanced pension (i.e. a Tier 1 or Tier 2 award), the APCs due for the whole period over which you had elected to make payments are deemed to have been paid and the additional pension you had elected to buy is credited in full.

## **Would the additional pension be taken into account if a death grant is assessed?**

It would not be taken into account for the death grant payable on death in service because, in these circumstances, the death grant is based on *Assumed Pensionable Pay*.

If, however, you die after retirement and before age 75, in addition to any death grant due in respect of your main LGPS benefits, there would be an additional sum equal to ten times the annual rate of additional pension in payment before death, less the amount of additional pension already paid.

Should you leave before retirement age and have your LGPS benefits deferred until they can come into payment, the portion of additional pension you had purchased up to the date of leaving would count towards any "death in deferment" death grant. A lump sum of five times that portion would be paid with the death grant payable in respect of the main, deferred, LGPS benefits.

## **What happens if I retire with entitlement to an unenhanced ill-health pension (i.e. a Tier 3 award) or on grounds other than ill-health?**

If you retire or leave before the end of the period for which you were due to pay APCs, the additional pension will be assessed pro rata using the method shown on page 7 in "What if I start paying and then want to stop?".

If you retire with immediate payment of pension at or after *Normal Pension Age*, you will be awarded the additional amount of pension that you have purchased by APCs; in full if you completed payments for the set period, in part if you did not. (The additional pension would be increased in accordance with actuarial guidance if you do not draw it immediately upon attaining *Normal Pension Age*.)

If you retire with immediate payment of pension before *Normal Pension Age* other than on health grounds, the additional amount of pension that you have purchased by APCs at retirement date will be subject to actuarial reduction to reflect early payment (even if your main LGPS benefits are not reduced because you have a protected early retirement age or because your employer allows the reduction on those benefits to be waived).

If you retire on grounds of ill-health with a Tier 3 ill-health award and have not completed APC payments for the full period, the additional amount of pension you have purchased at the date of retirement will be assessed as a proportion of what you elected to receive, but it would not at that time be subject to an actuarial reduction to reflect early payment.

If you leave without entitlement to immediate payment of benefits your main LGPS benefits would be deferred until you are eligible to receive them (on age or health grounds) or until you request that they should be transferred to another pension arrangement. The additional amount of pension that you have purchased by APCs at the time you leave would similarly be deferred or transferred.

### **Would the additional pension be inflation-proofed?**

Yes, the additional pension is increased in line with Pensions Increase Acts and Orders from the date on which the first ARCs are paid and continues to be increased after being put into payment.

### **If I am interested in this option, what should I do?**

If you would like to receive an estimate of cost, you should visit the national LGPS website at <https://www.lgpsmember.org/>. The website has a benefit calculator, which gives an estimate of the cost for your APC. If you then wish to proceed, the calculator provides two application forms, one of which should be returned to Staffordshire Pension Fund and the other to your employer. Please note, your employer will not be able to commence taking APCs from your *pensionable pay* until Staffordshire Pension Fund approves the application – as you may need to undergo a medical examination at your own expense and to Staffordshire County Council's satisfaction that you are in reasonably good health.

## **How will the Additional Pension show on my Annual Benefit Statement?**

If you pay APCs by a lump sum payment, the amount of Additional Pension will show as a credit to your Pension Account in the year Staffordshire Pension Fund receive the payment.

If you are paying your APCs by monthly instalments over 1 year or more, the Annual Benefit Statement issued for each scheme year (1 April to 31 March) will show the amount of Additional Pension you have bought in each scheme year:

This is calculated in a similar way to the calculation above for a member who has ceased paying APCs before a contract is completed.

For example, if you entered a contract to buy £5,000 Additional Pension over a period of 15 years, then each year your pension account would be credited with the portion of pension you have bought:

$$5,000 / 15 = 333.33$$

## APCs: Table 1

### Male Scheme Members

Monthly contributions (in pounds and pence) to be paid by a male Scheme member who has elected to pay monthly additional contributions to buy additional pension of £100 a year for himself only.

Age at first contribution	Contract length (years)										
	1	5	10	15	20	25	30	35	40	45	50
<b>16</b>	38.00	8.37	4.70	3.50	2.92	2.59	2.38	2.24	2.14	2.07	2.04
<b>20</b>	42.38	9.34	5.25	3.91	3.26	2.89	2.66	2.50	2.39	2.32	-
<b>25</b>	48.57	10.70	6.01	4.48	3.74	3.32	3.05	2.88	2.76	-	-
<b>30</b>	55.64	12.26	6.90	5.14	4.30	3.82	3.52	3.33	-	-	-
<b>35</b>	65.45	14.05	7.91	5.91	4.94	4.40	4.07	-	-	-	-
<b>40</b>	72.90	16.09	9.07	6.79	5.70	5.09	-	-	-	-	-
<b>45</b>	83.35	18.43	10.42	7.84	6.61	-	-	-	-	-	-
<b>50</b>	95.26	21.14	12.02	9.08	-	-	-	-	-	-	-
<b>55</b>	109.03	24.36	13.92	-	-	-	-	-	-	-	-
<b>60</b>	125.54	28.14	-	-	-	-	-	-	-	-	-
<b>65</b>	143.71	-	-	-	-	-	-	-	-	-	-

*The tables provided by the Government Actuary provide a factor for every age from 16 to 66 and for every length of contract from 1 year to 51 years. There is insufficient space to reproduce the full tables here, but you should be able to get a rough idea of cost from the abbreviated tables shown above. If you request an estimate, you will be given details of the cost taken from the full tables.*

## Table 2

### Male Scheme Members

Lump Sum contribution (in pounds and pence) to be paid by a male Scheme member who has elected to pay additional contributions to buy additional pension of £100 a year for himself only.

Age at first Contribution	Lump Sum Contribution (£)
<b>16</b>	496
<b>20</b>	548
<b>25</b>	623
<b>30</b>	706
<b>35</b>	801
<b>40</b>	907
<b>45</b>	1,027
<b>50</b>	1,161
<b>55</b>	1,314
<b>60</b>	1,494
<b>65</b>	1,683

*An adjustment is made to both sets of factors above for the difference between age 65 and the member's State Pension Age according to Government Policy.*

## APCs: Table 3

### Female Scheme Members

Monthly contributions (in pounds and pence) to be paid by a female Scheme member who has elected to pay monthly additional contributions to buy additional pension of £100 a year for herself only.

Age at first contribution	Contract length (years)										
	1	5	10	15	20	25	30	35	40	45	50
<b>16</b>	40.88	9.00	5.06	3.77	3.14	2.78	2.55	2.40	2.29	2.22	2.19
<b>20</b>	45.63	10.05	5.64	4.20	3.51	3.11	2.85	2.68	2.57	2.50	-
<b>25</b>	52.34	11.53	6.48	4.83	4.03	3.57	3.28	3.09	2.97	-	-
<b>30</b>	60.03	13.23	7.43	5.54	4.63	4.10	3.78	3.58	-	-	-
<b>35</b>	68.81	15.17	8.53	6.36	5.32	4.73	4.38	-	-	-	-
<b>40</b>	78.85	17.39	9.79	7.32	6.13	5.48	-	-	-	-	-
<b>45</b>	90.29	19.94	11.25	8.44	7.12	-	-	-	-	-	-
<b>50</b>	103.34	22.88	12.97	9.80	-	-	-	-	-	-	-
<b>55</b>	118.32	26.34	15.05	-	-	-	-	-	-	-	-
<b>60</b>	135.95	30.48	-	-	-	-	-	-	-	-	-
<b>65</b>	156.44	-	-	-	-	-	-	-	-	-	-

*The tables provided by the Government Actuary provide a factor for every age from 16 to 66 and for every length of contract from 1 year to 51 years. There is insufficient space to reproduce the full tables here, but you should be able to get a rough idea of cost from the abbreviated tables shown above. If you request an estimate, you will be given details of the cost taken from the full tables.*

## Table 4

### Female Scheme Members

Lump Sum contribution (in pounds and pence) to be paid by a female Scheme member who has elected to pay additional contributions to buy additional pension of £100 a year for herself only.

Age at first Contribution	Lump Sum Contribution
<b>16</b>	530
<b>20</b>	586
<b>25</b>	667
<b>30</b>	757
<b>35</b>	859
<b>40</b>	975
<b>45</b>	1,105
<b>50</b>	1,252
<b>55</b>	1,418
<b>60</b>	1,610
<b>65</b>	1,823

*An adjustment is made to both sets of factors above for the difference between age 65 and the member's State Pension Age according to Government Policy.*

**Table 5**  
**Adjustment Factors**

Gender	Normal Pension Age (if greater than 65)*			
	65	66	67	68
Male	1.00	0.95	0.90	0.85
Female	1.00	0.95	0.90	0.86

*\*Where Normal Pension Age (NPA) is not a whole year, the factors from the table above should be interpolated for part years.*

### 1. Example Calculation – APC – full cost to member

#### Member Details

Date of Birth	14 August 1960
Gender	Male
Normal Pension Age	66 years and 5 months

#### Additional Pension Arrangement

Amount of Additional Pension	£1,750 p.a
Form of Payment	Regular Contributions over 10 years

#### Cost of APCs

Relevant Tables	Table 1 and Table 5
Age at first contribution	55
Cost of £100 APC	£13.92 per month
Adjustment factor for NPA 66	0.95
Adjustment factor for NPA 67	0.90
Interpolated Adjustment Factor (5 months at 0.90, 7 months at 0.95)	0.9292

#### Contribution Required

$1750 / 100 \times 13.92 \times 0.9292 = \text{£}226.35$  per month

## 2. Example Calculation – Shared Cost APC

### Member Details

Date of Birth	5 May 1989
Gender	Female
Normal Pension Age	68 years
Form of Payment	One-off lump sum

### Additional Pension Arrangement

Pension “lost” due to unpaid Maternity £61.22 p.a\*

\*Member receives £12,000 pay per annum. Unpaid absence for 3 months:

Monthly pay = £12,000 / 12 = £1,000

Pay for 3 months = £1,000 x 3 = £3,000

“Lost” Pension =  $1/49 \times £3,000 = £61.22$

### Cost of APCs

Relevant Tables	Table 4 and Table 5
Age at election	25
Cost of £100 APC	£667
Adjustment factor for NPA 68	0.86

### Contribution Required

$61.22 / 100 \times 667 \times 0.86 = £351.17$  total lump sum

As the member has elected to pay within 1 month, this is on a Shared Cost basis – the member pays 1/3<sup>rd</sup>, the employer pays 2/3<sup>rd</sup>.

Member cost =  $1/3 \times 351.17 = £117.06$

Employer cost =  $2/3 \times 351.17 = £234.11$

# The payment of Additional Voluntary Contributions to the Staffordshire Pension Fund's arrangements with Scottish Widows and Standard Life

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This option allows you to pay Additional Voluntary Contributions ("AVCs") to the Pension Fund's chosen AVC providers – Scottish Widows and Standard Life. The LGPS also gives a discretion for a Scheme employer to establish a shared cost AVC (SCAVC). This works like an ordinary AVC arrangement except that both the member and employer would pay a contribution. None of the Scheme employers participating in the Staffordshire Pension Fund currently have an SCAVC arrangement.

## How do AVCs work?

The AVCs that you pay do not go into the Pension Fund but are paid over to Scottish Widows or Standard Life who would invest them separately in the funds that they manage. You would have your own personal account which, over time, builds up with your contributions and the returns on your investment (which are free of capital gains tax).

There is a range of investment routes. It is for you to choose which fund, or combination of funds, you wish to have your contributions invested in. Your decision is likely to be influenced by such factors as your attitude to investment risk. If not provided with this booklet, details of investment routes with the two companies are available from each provider's website, or Pension Services (contact details are given on page 21).

## How do I pay?

AVCs would be deducted directly from your instalments of *pay* by your employer.

## Do I get tax relief on the contributions?

Yes – if you are a tax-payer. The contributions are deducted from your *pay* before tax is assessed. This makes your taxable pay less and so you pay less in tax. (Note that the maximum you can pay into an AVC arrangement is 100% of your taxable earnings in each employment where you are a member of the LGPS.) See page 19 for an explanation of other tax limits.

## How do I elect to pay AVCs?

You must complete a form provided by Pension Services to indicate to which provider and investment route(s) you wish to pay your AVCs. Pension Services will check the election is in order and will then notify your selected provider and your Scheme employer.

## When does the payment of contributions commence?

Payments commence from the pay day following the acceptance of your election to pay AVCs.

## **Can I vary the contributions or cease paying at any time?**

Yes, you can vary or cease payment at any time whilst you are contributing to the LGPS.

## **Can I transfer other AVCs to this arrangement?**

If you have previously paid AVCs whilst a member of another LGPS Pension Fund in England or Wales, they can be transferred to the Staffordshire Pension Fund as long as your main LGPS benefits are transferred. If you have paid AVCs to some other scheme, you can transfer these to the LGPS to purchase pension but your election to do so must be made within 12 months of joining the LGPS. (The 12 months may be extended at the discretion of your employer and Staffordshire County Council, as the Administering Authority) These options are only possible while you are a contributing member of the LGPS.

## **What happens to the AVC fund I have built up when I retire?**

When you retire you will automatically be given the option to use your AVC fund to “buy” additional LGPS benefits. You will also have the opportunity to take up to 100% of the fund value as a tax free lump sum, provided that (when combined with your LGPS benefits) the total does not exceed tax limits (see page 19 for an explanation of these limits).

You also have the option to use your AVC fund value to buy an *annuity* from an insurance company, bank or building society (although you could defer purchasing an *annuity* until any age up to 75). If you work beyond age 65 you will not be able to purchase an *annuity* until you stop working and retire, or you reach the eve of your 75th birthday, or you have your employer's consent for flexible retirement, whichever occurs first. The *annuity* can be bought from the insurance company or building society with whom the AVCs were invested or it can be purchased from another *annuity* provider. This "open market" option means that you can seek out the best *annuity* rates available at the time.

You are also able to transfer your AVC fund to an external provider to take up to 100% of your AVC fund as a cash lump sum, either together in one go or at different stages. Only 25% of the cash you take will be tax free. Under the LGPS regulations you cannot currently take 100% of your AVC fund as cash if your AVC payments started after 1 April 2014.

## **What happens to the AVC fund I have built up if I leave before retirement?**

If you leave before retirement, the default option is for your main LGPS benefits to remain deferred in the scheme until *Normal Retirement Age*, although you can request payment of these benefits with a reduction from age 55. If your benefits remain with Staffordshire Pension Fund, then you will be able to access your AVC fund at the point you take payment of the Deferred Benefits as above.

If you are re-employed within local government in Staffordshire and re-join the Staffordshire Pension Fund, you would have the option to combine your new pension benefits with your previous benefits. You can also re-commence payment of AVCs and combine the AVC funds, but only if you have elected to combine your main LGPS benefits.

If you are re-employed within local government outside of Staffordshire and re-join the LGPS under a different LGPS Fund, you have the option of transferring your LGPS benefits with Staffordshire Pension Fund to your new pension Fund. If you transfer your Staffordshire Pension Fund LGPS benefits to another LGPS Fund, you have the option of transferring your AVC fund to your new Fund's AVC providers, or leaving it with Staffordshire as an "orphan" fund. If the fund remains with Staffordshire Pension Fund as an "orphan" fund, you will not be able to use the AVC fund to "buy" LGPS benefits when you retire and take your pension from your new LGPS Fund.

If you transfer your LGPS benefits to another occupational scheme, or a private pension arrangement, you must also transfer your AVC fund to your new pension provider.

## The payment of Free-Standing Additional Voluntary Contributions to a provider of your personal choice

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Free-standing additional voluntary contributions ("FSAVCs") are not linked to the LGPS in any way. They work in a similar fashion to LGPS AVCs but there are some important differences. These are –

- You must choose (and monitor) the financial institution with which you invest your FSAVCs. The main features for consideration would include contract charges (policy fees, annual management charges, bid/offer spreads, location rates), the types of investment routes on offer, historical investment performance, the financial strength of the provider, and the provider's long-term commitment to the FSAVC market. You would also wish to find out whether there is a minimum payment, how often you can choose to vary the amount of your FSAVCs and whether there are any charges for doing so, whether there are any penalties for stopping payment of FSAVCs or for transferring to another scheme, and whether there are any penalties for purchasing an *annuity* on the open market rather than with the organisation to which you had paid the FSAVCs.
- You must make the necessary arrangements yourself. Contributions will not be deducted from your *pay*. Instead, you will need to make arrangements to pay contributions to the FSAVC provider, e.g. by standing order or direct debit mandate from your bank or building society account. The FSAVC provider will claim any basic rate tax relief from HM Revenue and Customs and credit it to your FSAVC contract. If you are a higher tax rate payer you will need to claim the higher tax rate relief on your annual tax return.
- FSAVC benefits can be drawn at any time from age 55 up to the eve of your 75th birthday regardless of whether or not you have retired and are drawing your LGPS pension. The accumulated fund in your FSAVC account is used to buy you an *annuity* from an insurance company, bank or building society of your choice.
- FSAVCs cannot be transferred directly into the LGPS to purchase membership whereas, in certain circumstances, AVCs can be.
- AVCs cease on leaving the LGPS (although the value of your AVCs can be transferred to another scheme if you transfer your LGPS benefits) but FSAVCs can carry on being paid into the same contract provided you join another occupational pension scheme.
- Only 25% of the value of the FSAVC fund can be taken as a tax-free lump sum at the time you decide to take benefits from your FSAVC fund. See page 19 for other tax limits.

## Payments to a concurrent personal pension plan or stakeholder pension scheme

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You may be able, if you wish, to make your own arrangements to pay contributions into a personal pension plan or stakeholder pension scheme at the same time as paying into the LGPS.

### Can anyone do this?

Yes. Before 6 April 2006 this option was available only to those LGPS members whose earnings were below a limit set by HM Revenue and Customs but with effect from 6 April 2006 this restriction was removed.

### How do concurrent stakeholder and personal pension schemes work?

You must make the necessary arrangements personally with a bank, building society, life assurance company, or similar provider. You choose how much to pay into the arrangement (subject to tax limits – see page 19). The contributions you make are invested in funds managed by an insurance company. Contributions will not be deducted from your *pay*. Instead, you will need to make arrangements to pay contributions to the provider, e.g. by standing order or direct debit mandate from your bank or building society account. You have your own personal account that, over time, builds up with your contributions and the returns on your investment, and will be available later in your life to convert into additional benefits. You can often choose which investment route you prefer. The provider will claim any basic rate tax relief from HM Revenue and Customs and credit it to your fund. If you are a higher rate tax payer you will need to claim the higher rate tax relief on your annual tax return.

When the benefits are paid, which can be at or after age 55 but before age 75, you will be able to take up to 25% of your Fund as a tax-free lump sum (again subject to tax limits) with the remainder available to buy you an *annuity* from an insurance company, bank or building society.

The amount of annuity depends upon several factors such as interest rates and your age. You also have some choice over the type of annuity, for example whether you want a flat-rate of pension or one that increases each year, and whether you also want to provide for dependants' benefits in the event of your death.

# Tax limits

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There are HM Revenue and Customs controls on the total amount of contributions you can make into all pension arrangements and receive tax relief. There are also controls known as the lifetime allowance and the annual allowance on all the pension savings you can have before you become subject to a tax charge. Most scheme members' pension savings will be less than these allowances.

You can, if you wish, pay up to 100% of your UK taxable earnings in any tax year into any number of concurrent pension arrangements of your choice (or, if greater, £3,600 to a "tax relief at source" arrangement, such as a personal pension or stakeholder pension scheme) and receive tax relief on the contributions.

The lifetime allowance is the total capital value of all your pension arrangements which you can build up without paying extra tax. 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 2018/2019 is £1,030,000.00.

The annual allowance is the amount by which your pension savings can increase in any one year without paying extra tax. For the LGPS, the pension savings year (the "input period") runs from 6 April to 5 April.

From 6 April 2017 the annual allowance is £40,000 where a member's income is under £150,000 p.a. For those earning more than £150,000, the annual allowance will reduce by £1 for every £2 earned over £150,000 with a maximum reduction to the annual allowance of £30,000.

A three year carry-forward rule allows you to carry forward unused annual allowance from the last three tax years. This means that if the value of your pension savings increase by more than £40,000 in a year you may not be liable to the annual allowance tax charge. Most people will not be affected by the annual allowance tax charge because the value of their pension saving will not increase in a tax year by more than £40,000 or, if it does, they are likely to have unused allowance from previous tax years that can be carried forward. Pension Services would inform you if your LGPS pension savings in a pension input period are more than the annual allowance. If you exceed the annual allowance you are responsible for reporting this to HM Revenue and Customs on a self-assessment tax return.

If you draw your AVCs at the same time as your LGPS pension, you can take up to 25% of your AVC fund value as a tax free lump sum provided that the total lump sum does not exceed £257,500 (2018/2019 figure) less the value of any other pension rights you have in payment.

You can take up to 25% of the value of your FSAVCs, personal pension plan or stakeholder pension scheme fund as a tax free lump sum provided the lump sum does not exceed £257,500 (2018/2019 figure) less the value of any other pension rights you have in payment.

If you have applied for lifetime allowance enhanced protection or fixed protection from HM Revenue and Customs you will lose that protection if you pay contributions into a money purchase pension arrangement (e.g. pay LGPS in-house AVCs or pay into a stakeholder or personal pension plan). You may not lose this protection if you have been paying AVCs since before 5 April 2006 purely for life cover and the terms of the policy have not varied significantly since then.

## Retirement planning and further information

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The information in this booklet is based on an understanding, at the date of issue, of current pensions and taxation legislation, all of which is liable to change.

Saving for income in retirement does not necessarily have to be in the form of contributions to a pension arrangement. As part of planning for your retirement you may also wish to consider other forms of investment. There are those which have some form of in-built tax advantage, e.g. National Savings, and Individual Savings Accounts ("ISAs"), and there are also many other forms of investment, not necessarily with any tax advantage but which may be appropriate to your circumstances.

To some extent the planning will depend upon your objectives.

The Pension Services Section of Staffordshire County Council is not authorised under the Financial Services Act to give Scheme members individual advice nor does it endorse any of the products mentioned in this booklet. If you wish to receive individual and independent advice you may wish to talk to a registered independent financial adviser. (You could be required to pay fees or charges for such advice.)

Further information about AVC arrangements through the LGPS is available from –

**The Pension Services Section, Staffordshire County Council,  
2 Staffordshire Place, Tipping Street, Stafford ST16 2DH**

**Telephone: 01785 278222**

**E-mail: [pensions.enquiries@staffordshire.gov.uk](mailto:pensions.enquiries@staffordshire.gov.uk)**

**Website: [www.staffspf.org.uk](http://www.staffspf.org.uk)**

Individual quotations on the payment of Additional Pension Contributions ("APCs") to purchase additional pension are available from the National LGPS website at [www.lgpsmember.org/](http://www.lgpsmember.org/).

More information about how benefits under the LGPS are assessed is given in a Guide to the LGPS available from Pension Services.

You can find information on a wide range of topics, including how to go about finding a financial adviser, from the Financial Conduct Authority (the industry regulator). Their website can be accessed at [www.fca.org.uk/](http://www.fca.org.uk/).

The Department for Work and Pensions, can help you find out more about your State pension entitlement. Information can be found on their website at [www.dwp.gov.uk](http://www.dwp.gov.uk) or call your local office (listed under "Job Centre Plus" in the telephone directory). Their website also offers booklets and guides on various topics such as stakeholder pensions.

## Glossary of certain expressions

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<i>annuity</i>	<p>An <i>annuity</i> is a form of pension. When you buy an <i>annuity</i> you can choose the type of pension that best suits your circumstances. For example, you could buy a flat rate <i>annuity</i> (i.e. one that never increases), one that is increased each year by a flat rate amount, or one that attracts similar increases to those applied to LGPS pension benefits. You can choose whether to include a prospective widow(er)'s or surviving civil partner's pension, should you predecease them. Consequently, the level of <i>annuity</i> will, in part, depend upon which of the above elements you wish to include. 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 personal fund and, therefore, can provide a higher pension. Conversely, a fall in interest rates reduces the pension which can be purchased.</p>
<i>final pay</i>	<p>This is the figure used to calculate the part of your LGPS pension benefits that built up before 31 March 2014 and is normally your <i>pay</i> averaged over the last year before you retire. Or it could be one of the previous two years' <i>pay</i> if that amount is higher.</p> <p>For a part-time employee, the figure used is normally the <i>pay</i> you would have received if you had worked whole-time. The exception to this is in the case of the death in service grant where part-time <i>pay</i> is used.</p> <p>If your <i>pay</i> is reduced because of sickness, the <i>final pay</i> is taken to be the <i>pay</i> you would have received if you had not been sick.</p> <p>During any period of maternity or adoption absence in respect of which you pay, or are deemed to have paid pension contributions, <i>final pay</i> includes the <i>pay</i> you would have received had you not been on maternity or adoption absence.</p>
<i>Pay</i>	<p>This is your normal salary or wages plus any shift allowance, bonuses, contractual overtime, Statutory Sick Pay, Maternity Pay, Paternity Pay and any other taxable benefit specified in your contract as being pensionable. <i>Pay</i> does not include non-contractual overtime, travelling or subsistence allowances, pay in lieu of notice, pay in lieu of loss of holidays, any payment as an inducement not to leave before the payment is made, nor (apart from some historical cases) the monetary value of a car or pay received in lieu of a car.</p>
<i>Pensionable pay</i>	<p>This is the figure used to calculate the part of your LGPS pension that built up after 1 April 2014. It is based on your Actual Pay received, including non-contractual overtime and additional hours for part time staff.</p>
<i>Normal Pension Age</i>	<p>Under LGPS 2014 this is the later of your State Pension Age or age 65. This is the date when your LGPS benefits would be paid without a reduction.</p>
<i>Assumed Pensionable Pay</i>	<p>If a member is on sickness absence and in receipt of reduced or no pay, on Ordinary Child Related Absence and in receipt of reduced or no pay, or on Additional Child Related Absence and in receipt of reduced pay, their pension will be calculated based on "notional" pay – what they would have received if they had been at work.</p>



**If a copy of this information is needed in large print, Braille, another language or on cassette or disc, please contact Pension Services, Staffordshire County Council, 2 Staffordshire Place, Tipping Street, Stafford ST16 2DH**