



The Highland
Council
Comhairle na
Gàidhealtachd

Local Government Pension Scheme

Councillors Newsletter

Sgeama Peinnsein an Riaghaltais Ionadail

Litir-naidheachd
Chomhairlichean

2013

Newsletter Cuairtlitir

Active Members

Buill Ghnìomhach

Annual Benefit Statement

You recently received a benefit statement showing your current and projected pension benefits in the Local Government Pension Scheme (LGPS).

In addition, we like to keep you informed with any pieces of news and explain areas of your Pension Scheme that we feel will be of interest to you.

How your benefits are calculated

Please note that the pensionable pay figure that we have used in your annual benefit statement is based on the career average up to the 31 March 2013.

Your actual retirement benefits are calculated on your career average pay which is equal to the total of your pay for each year or part year of your active membership divided by the number of those years or part years.

When calculating your career average pay, the pay for any year other than the final year is adjusted by the cost of living, as measured by the appropriate index.

Should a Pension Sharing Order apply to your benefits, then this has not been reflected in your annual benefit statement.

Security of Pension

The rules of the LGPS are written under statute, which means that your pension benefits are safe, secure and fully guaranteed.

Auto Enrolment

The Pensions Act 2008 laid the foundations for a fundamental change to workplace pensions in the UK, in that workers should have access to a standard workplace pension scheme.

The LGPS satisfies the criteria of an automatic enrolment scheme, meeting the minimum requirements as it is a UK tax registered defined benefit scheme that is contracted-out of the State Second Pension on a salary related basis.

The Highland Council implemented auto enrolment with effect from 1 April 2013. Staging/implementation dates for other employers will vary.

The new legislation overrides the current arrangements, so past opt-outs who are eligible jobholders will need to be re-enrolled from the employer's staging date (the date that applies to your employer) and every three years thereafter if they continue to opt out.

Annual Allowance (AA)

In 2006, the HM Revenue and Customs (HMRC) "simplified" tax change introduced some very complicated legislation which largely affected high earners.

One of these changes was the amount by which the value of your pension could grow from one year to the next.

From tax year commencing April 2011, the HMRC introduced a new AA limit of £50,000. Anything that exceeds £50,000 is liable for a tax charge, although you can use any unused AA in the previous 3 years to offset any tax liability.

In the LGPS growth in pension value for the year (the Pension Input Period) for comparison to the annual allowance is calculated by working out the difference in the values of pension, calculated as if you had left pensionable service at the start and end of the year with the start figure increased by pensions increase (CPI), then multiply the difference in pension by 16, and add to that, the amount that any separately accruing lump sum has increased in the year, as follows:

$[(\text{Pension End}) - (\text{Pension Start} \times \text{Pensions Increase})] \times 16$

Plus Lump Sum End – (Lump Sum Start x Pensions Increase)
(where the lump sum accrues separately and is not provided through commutation)

Plus any AVC contributions that are made over the year

Where the resulting figure is less than the £50,000 annual allowance, no additional tax charge arises; where it exceeds the annual allowance, any unused allowance in the preceding three years can be used and where this is still exceeded, a tax on the excess sum will be charged at your marginal rate of income tax.

Members whose pension value grows by more than £3,125 over a year ($16 \times £3,125 = £50,000$) could be affected, in particular those who have substantially increased their hours of work or pay.

However, given the ability to utilise unused allowance in the preceding three years, it is anticipated that only high earners will routinely be affected by the changes. The allowance for the three years prior to April 2011 will be assumed to be £50,000.

Tax can be paid via self assessment; the excess over the annual allowance is classed as income to the individual and the income tax that would be due on that income.

Alternatively, in cases where the tax due exceeds £2,000, should the charge be unmanageable then you may elect to meet some or all of the tax charge from your pension benefits, known as 'scheme pays'. Basically, the pension scheme will pay your tax liability and reduce your pension benefits to account for this payment.

Should you wish to use 'scheme pays' then you have to make an irrevocable election for the pension scheme to pay by 31 July following the relevant self assessment filing deadline.

Lifetime Allowance

The new "simplified" HM Revenue and Customs rules for taxation of pension came into force on 6 April 2006 (A Day). One of the changes was the setting of a lifetime allowance, whereby if a member exceeded this limit then a tax liability, in addition to normal income tax would be applied. The lifetime allowance for 2013/14 is set at £1.5 million. Your lifetime allowance is calculated as 20 times your annual pension plus your lump sum, plus the value of your AVC fund if this applies. When your pension benefits come into payment you will be asked for details of any other pension benefits that you have accrued in order that the Pension Section can calculate if you have exceeded your lifetime allowance. This new limit is unlikely to affect all but the highest earners in the immediate future.

Example of Capital value of pension benefits

Your annual pension is £15,000 plus a lump sum of £45,000	
Annual pension £15,000 x 20	£300,000
Plus lump sum	£45,000
Total	£345,000

Additional Voluntary Contributions

The provisions of our Additional Voluntary Contribution Scheme (AVCs) have changed over the years providing greater flexibility in the way your AVC fund may be used at retirement:

Your options are as follows:

- Purchase an annuity (pension) from an insurance company.
- You can take all, or part of your AVC fund as a lump sum (subject to 25% of your Lifetime Allowance). Any remaining amount would be used to purchase an annuity from an insurance company.
- You do not need to use your AVC at the same time as your LGPS benefits. You can defer payment until later, but it must be used before you reach your 75th birthday. If you did this then you would have the option of taking up to 25% of your AVC fund as a cash lump sum with the remaining amount being used to purchase an annuity from an insurance company.

To find out more about the AVCs that we offer then please contact the Pension Connection at the Prudential on 0845 607 0077, who will be able to send you an information pack.

National Fraud Initiative

The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise led by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify circumstances (matches) that might suggest the existence of fraud or error.

The Pension Fund has a statutory obligation to participate in the NFI and your pension data will be used along with other authorities and government organisations like the Department of Work and Pensions to share and compare information.

Change of Name/Marital Status/Gender

If you change your name, title, marital status or gender then please advise the Pension Section, in writing, enclosing a copy of the relevant certificate.

Change of Nomination

If you require to amend your nomination details, a form can be downloaded from our website: www.highlandpensionfund.org

Change of Address

It is important that to be able to keep you advised of the value of your pension benefits, you notify the Pension Section of any change of address in writing or by email.



Further Information

If you have any queries or feedback regarding the information provided, please do not hesitate to contact the Pension Section, quoting your national insurance number.

Pension Section, Finance,
The Highland Council HQ,
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Email: pensions.section@highland.gov.uk

Website: www.highlandpensionfund.org

Alternatively you can telephone from 9am to 5pm
(Monday to Friday) **(01463) 702441**



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