Q&A for LGPS members

The New State Pension and National Insurance Changes

A new single tier, flat rate State Pension is being introduced for people who reach State Pension age after 5 April 2016. The new State Pension should help people better understand what they will receive so that they can plan for their retirement. It will replace the existing basic and additional State Pension (for those who reach State Pension age after 5 April 2016).

As a member of the LGPS you are currently 'contracted out' of the additional State Pension and therefore receive a rebate on your National Insurance (NI) contributions[1]. This means that most members of the LGPS are currently paying a lower amount of National Insurance contributions. From 6 April 2016 you will no longer receive this National Insurance rebate which means you will start to pay a higher amount of National Insurance contributions[2].

It is important that as a member of the LGPS you understand that if you are eligible for the new State Pension you might not receive the full amount. This is because you have paid a lower amount of National Insurance in previous years. You will, of course, continue to be entitled to your LGPS benefits. These will continue to be a very important part of your income in retirement, providing an excellent range of benefits including benefits for your loved ones.

This document has been produced to help you understand what the changes to the State Pension will mean for you.

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[1] Provided you are under State Pension Age, have earnings over £112 p.w. / £486 p.m. (2015/16 figures) and you are not paying the Married Woman's / Widow's Reduced Rate of National Insurance contributions.

[2] Unless you are over State Pension Age or you are paying the Married Woman's / Widow's Reduced Rate of National Insurance contributions.

Q1 - Why is the State Pension changing?

A1. The Government's aim is to introduce a simpler, fairer system where you have a clearer idea about what pension the state will provide, making it easier to plan for your retirement.

Q2 – Who will receive the new State Pension?

A2. You will be able to claim the new State Pension if you're:

- a man born on or after 6 April 1951
- a woman born on or after 6 April 1953

and, normally, have at least 10 years qualifying years on your National Insurance record.

If you reach State Pension age before 6 April 2016 you'll get your State Pension under the State Pension scheme that was in operation before 6 April 2016 instead.

If you do not know what your State Pension age is you can use the State Pension age calculator to find out.

Q3 – Why will I have to pay more National Insurance contributions?

A3. The current State Pension is made up of two parts: the basic State Pension and the additional State Pension (the additional State Pension is sometimes called State Second Pension or SERPS).

The LGPS is contracted-out of the additional State Pension. This means that during your membership of the LGPS you have been receiving a rebate on your National Insurance contributions[3] and have not been building up much, if any, additional State Pension. You have been building up pension benefits in the LGPS instead.

From 6 April 2016 the new State Pension will, for those who attain State Pension Age on or after that date, replace the existing basic and additional State Pensions with a single tier, flat rate State Pension. This will end contracting-out of the additional State Pension and so the rebate on your National Insurance contributions will cease.

Q4 – How much more in National Insurance contributions will I have to pay?

A4. The current National Insurance rebate is 1.4% of pay between certain thresholds. From 6 April 2016 you will no longer receive this rebate and will pay the standard rate of National Insurance[4]. Below are some examples showing how much extra National Insurance contributions will be payable from 6 April 2016.

[3] Apart from any periods over State Pension Age or during which you paid the Married Woman's / Widow's Reduced Rate of National Insurance contributions.

[4] Note that if you are over State Pension Age or are paying the Married Woman's / Widow's Reduced Rate of National Insurance contributions you will not see a change.

Earnings	National Insurance payable currently	National Insurance payable from 6 April 2016	Difference
£15,000 per year (£1,250 per month)	£58.66 per month	£69.36 per month	£10.70 per month
£27,000 per year (£2,250 per month)	£164.66 per month	£189.36 per month	£24.70 per month
£45,000 per year (£3,750 per month)	£307.65 per month	£352.76 per month	£45.11 per month

These examples assume the individual is over 21 years of age.

Q5 – Will the benefits provided by the LGPS change because of this?

A5. There are no plans to change the benefits the LGPS provides as a result of the introduction of the new State Pension.

Q6 – I cannot afford to pay the extra National Insurance contributions. What can I do?

A6. The new State Pension will only provide a very basic level of income in retirement meaning that the LGPS will remain an important part of your retirement planning. Remember, if you pay tax you will continue to get tax relief on your pension contributions, as your contributions are deducted from your pay before you pay tax.

You have flexibility to pay less pension contributions, with the option to pay half your normal contributions in return for building up half your normal pension (although you still retain full life cover and ill health cover). This is known as the 50/50 section of the scheme and is designed to help members stay in the scheme, building up valuable pension benefits, during times of financial hardship.

The 50/50 section is designed to be a short-term option and your employer is required to re-enrol you back into the main section of the scheme every three years. This will be carried out in line with your employer’s automatic re-enrolment date.

A 50/50 option form is available from your employer. Further information about the 50/50 section is available at http://lgps2014.org/

Q7 – Will I qualify for the full amount of the new State Pension?

A7. The new State Pension will be based on your National Insurance contributions record and a new minimum qualifying period will be introduced. People with no National Insurance contributions record before 6 April 2016 will need 35 qualifying years to get the full amount of new State Pension.

If you have paid into the LGPS between 6 April 1978 and 5 April 2016 and reach State Pension age after 5 April 2016 the amount of new State Pension you receive will be reduced, in respect of this period, to reflect the fact that you and your employer have paid a lower rate of National Insurance (due to the LGPS being contracted-out of the additional State Pension). If this applies to you, you are unlikely to receive the full amount of the new

State Pension but this will depend on your individual National Insurance record and how many qualifying years you have after April 2016.

However, in most cases, the pension you get from the LGPS will be at least the equivalent that you would have received from the State Pension had you not been contracted out. The Government refer to this as the Contracted Out Pension Equivalent (COPE) amount.

The COPE amount will be shown on your State Pension statement. However, please be aware that the amount shown is only an estimate and will include all the contracted out pension benefits you have built up if you have paid into any other contracted out pension schemes (e.g. the Teachers' Pension Scheme) - it is not identified separately by pension scheme.

The Government has confirmed the full amount of new State Pension will be £155.65 a week.

For further information about the calculation of the new State Pension and for a definition of a qualifying year please refer to https://www.gov.uk/new-state-pension/overview

Q8 – Will the new State Pension provide sufficient income in retirement?

A8. The State Pension is intended to be only a part of your retirement income and will provide a very basic standard of living in retirement. It is important that you plan for your retirement, taking into account that:

- people are generally living longer so you're likely to spend more time in retirement
- you may want to retire before your State Pension age
- if you were a member of the LGPS prior to 6 April 2016 you may not qualify for the full amount of the new State Pension (see answer 7)

The LGPS will continue to be an important part of your retirement planning. For information about the benefits provided by the LGPS please visit: http://www.lgps2014.org/ with respect of the LGPS in England or Wales, or http://scotlgps2015.org/ with respect of the LGPS in Scotland.

Q9 – Where do I find out more information?

A9. More information about the new State Pension can be found at www.gov.uk/yourstatepension

If you are over age 55 you can request an estimate of the State Pension you will receive under the new system here www.gov.uk/state-pension-statement

A video about the new State Pension can be viewed here - www.youtube.com/user/PensionTube