Additional Pension Contributions

Buying Extra Pension

Terms and Conditions version 1.0

General

Whilst you are an active member in the main section of the LGPS you can choose to buy extra pension by spreading payment of the Additional Pension Contributions (APCs) over a number of complete years or by making a one-off lump sum payment. However, if you are a year or less from your Normal Pension Age (NPA) under the pension scheme, you are over NPA or your pension fund administering authority take the view that spreading payments would be impracticable you can only pay by means of lump sum.

If you choose to spread the payments, the APCs would be deducted from your pay each pay period and attract automatic tax relief. If you choose to make payment by a one off lump sum this would normally be deducted from your pay (with automatic tax relief). However, you have the option to make a lump sum payment direct to your pension fund administering authority but you would then be responsible for claiming any tax relief on the payment direct from HM Revenue and Customs via your self-assessment tax return. Please note, tax relief will only be given on contributions up to 100% of your UK taxable earnings or, if greater, £3,600 to a tax relief at source arrangement, such as an APC arrangement.

If you choose to buy extra pension by making a lump sum payment, you will be credited with the full amount of extra pension bought.

If you choose to spread payment of the APCs over a number of complete years you will be credited with the full amount of extra pension bought if you complete the payments or if, before completing payments, you are retired on the grounds of ill health with an enhanced pension. In all other cases, if you cease payments early (either because you choose to cease making the payments or because you cease membership of the pension scheme) you will be credited with the amount of extra pension you had bought at that time.

Your employer can choose to contribute to the amount of extra pension to be purchased. This is an employer discretion and you can ask your employer what their policy is on this.

Your pension fund administering authority may require a satisfactory medical report to be submitted, at your cost, before your application is accepted. Where this is the case you will be notified of the process to be followed after submitting your application to pay APCs.

Any extra pension bought increases the pension payable to you when you draw your pension. If you draw your pension before your Normal Pension Age (NPA) under the pension scheme the extra pension that has been bought will, unless retirement is on the grounds of ill health, be subject to a reduction (because you are drawing it early) and if you draw your pension after your NPA it will be subject to an increase (because you are drawing it late). Your NPA is equal to your State Pension Age at the time you start to draw your pension (but with a minimum of age 65).

In the event of your death, no extra pension benefits will be payable to your dependants in respect of the extra pension bought (as the APCs buy extra pension for you only).

The Process
When making an application you must specify the amount you wish to pay or the amount of pension you wish to buy and, if payments are to be made by regular contributions, the period over which the contributions are to be paid (but the end date for regular contributions can be no later than your NPA under the pension scheme).

If you have more than one active pension account in the scheme (i.e. because you are in the scheme in more than one job) you must specify which job the extra pension is to be credited to. If you wish to pay APCs for each job, you will have to submit separate APC applications for each job.

After getting the APC quote from this website you should, using the application form provided on this website, submit the signed, completed application to your pension fund administering authority.

Contact details for your pension fund administering authority can be found at www.lgps.org.uk under Contact us.

If your employer has agreed to meet part of the cost of buying the extra pension you must obtain their agreement in writing showing the amount of extra pension to be bought and the share of the cost that they will meet. A copy of their written agreement must accompany your application to pay APCs.

If you choose to pay by regular additional payments, or by a one off lump sum deduction from pay, your employer will commence deduction of the APCs from your pay from the next available pay period after they receive agreement from your pension fund administering authority and notify you that your application has been accepted unless: (a) the pension fund administering authority requires a satisfactory medical report to be submitted first, or (b) your employer considers that, based on your previous pay history, it is not likely to be possible to collect the APCs you wish to pay, or (c) your pension fund administering authority takes the view that spreading payments would be impracticable and requires that you pay via a lump sum .

You will be notified if the pension fund administering authority requires you to submit a medical report before your application can be accepted or if your application to pay APCs has been turned down and, if so, the reason your application has failed.

If you choose to pay by a lump sum payment made direct to the pension fund administering authority you should not submit the payment to them until they have confirmed that your application has been accepted and they have provided you with details of how to make the payment. If they require a satisfactory medical report to be submitted before the application can be accepted they will inform you of this. Where you are paying by lump sum payment, direct to the pension fund administering authority, you should be aware that there are potential tax implications if you use a tax free lump sum due from, or already received from, a pension scheme to pay for the APCs. This activity is known as recycling and you can find more information at the HMRC website www.hmrc.gov.uk/manuals/rpsmmanual/RPSM09208020.htm and www.hmrc.gov.uk/manuals/rpsmmanual/RPSM04104900.htm.

Please note that if there is a delay in a decision on whether your application can be accepted which is caused by you and you pass a birthday which results in the cost of purchasing extra pension to change, you will be asked to resubmit a new application.

The Agreement

By signing the application form to buy extra pension you agree to the amounts shown as payable by you being deducted from your pay or invoiced to you depending on the method of payment chosen. If regular payments have been selected then your agreement to deduct the amount shown as payable by you continues for the period shown on the application form.

Should you fail to meet any of the payments due the agreement shall cease and the amount of pension purchased shall be adjusted to take account of the period over which payments have not been received.

Potential tax implications

Please be aware that any extra pension you purchase will count towards the maximum pension you can build up in a year and over your lifetime without incurring a tax charge. Most people will not exceed these maximums but, for those that do, there will be a tax charge.

There are two controls – the annual allowance and the lifetime allowance.

Annual allowance

This is the amount by which the value of your pension benefits may increase in any one year without you having to pay a tax charge. For the LGPS, the pension savings year runs from 1 April to 31 March and is called the pension input period.

The annual allowance for tax years 2008/09 to 2013/14 was £50,000 and for 2014/15 and 2015/16 it is £40,000.

Generally speaking, the assessment covers any pension benefits you may have in all tax-registered pension arrangements where you have been an active member of the scheme during the tax year i.e. you have paid contributions during the tax year (or your employer has paid contributions on your behalf).

You would only be subject to an annual allowance tax charge if the value of your pension savings for a tax year increase by more than the annual allowance for that tax year. However, a three year carry forward rule allows you to carry forward unused annual allowance from the previous three tax years. This means that even 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.

If, however, you are affected you will be liable to a tax charge (at your marginal rate) on the amount by which the value of your pension savings for the tax year, less any unused allowance from the previous three years, exceeds £40,000.

Working out whether you are affected by the annual allowance is quite complex, but this should help you work out your general position.

In general terms, subject to special rules outlined below regarding "flexible access" benefits, the increase in the value of your pension savings in the LGPS in a year is calculated by working out the value of your benefits immediately before the start of the input period (1 April), increasing them by inflation, and comparing them with the value of your benefits at the end of the input period (31 March). In a defined benefit scheme like the LGPS the value of your benefits is calculated by multiplying the amount of your pension by 16 and adding any lump sum you are automatically entitled to from the pension scheme. If the difference between:

a) the value of your benefits immediately before the start of the input period (the opening value) and
b) the value of your benefits at the end of the input period (the closing value) plus any contributions you have paid into the scheme's ***Additional Voluntary Contribution (AVC)*** arrangement in the year or that you and your employer have paid into the scheme's Shared Cost AVC arrangement in the year is more than £40,000, you may be liable to a tax charge.

The method of valuing benefits in other schemes may be different to the method used in the LGPS and the method of calculating the annual allowance is slightly different if you have any benefits in a money purchase (defined contribution) pension arrangement which you have flexibly accessed on or after 6 April 2015.

Lifetime Allowance
The lifetime allowance is the total value of all pension benefits you can have without triggering an excess benefits tax charge. If the value of your pension benefits when you draw them (not including any state retirement pension, state pension credit or any spouse's, civil partner's, eligible cohabiting partner's or dependant's pension you may be entitled to) is more than the lifetime allowance, or more than any protections you may have (see below), you will have to pay tax on the excess benefits. The lifetime allowance covers any pension benefits you may have in all tax-registered pension arrangements – not just the LGPS.

The lifetime allowance for 2011/2012 was £1.8million and reduced to £1.5 million for 2012/13. It remained at £1.5 million for 2013/14 and since 2014/15 it has been reduced to £1.25 million.

For pensions that start to be drawn on or after 6 April 2006, the capital value of those pension benefits is calculated by multiplying your pension by 20 and adding any lump sum you draw from the pension scheme.

For pensions already in payment before 6 April 2006, the capital value of these is calculated by multiplying the current annual rate, including any pensions increase, by 25. Any lump sum already paid is ignored in the valuation.

When any LGPS benefit, or any other pension arrangement you may have, is put into payment you will use up some of your lifetime allowance.

If your LGPS benefits when brought into payment are more than your lifetime allowance you will have to pay tax on the excess. If excess benefits are paid as a pension the charge will be 25%, with income tax deducted on the ongoing pension payments; if the excess benefits are taken as a lump sum they will be taxed once only at 55%.

If you were affected by the reductions in the maximum lifetime allowance over the years you may have applied to HMRC for, and received, protection from the reduction in the lifetime allowance. The protections are called primary lifetime allowance protection, enhanced protection, fixed protection, fixed protection 2014 and individual protection 2014.