



# Newsletter



Gwynedd Pension Fund

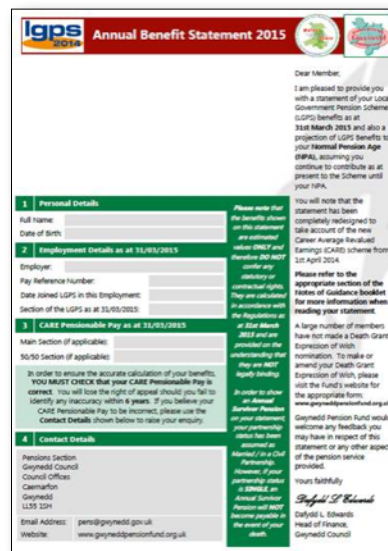
August 2015

## Welcome....

to Gwynedd Pension Fund's latest Newsletter. The aim of this newsletter is to give you the latest news on the changes to the Local Government Pension Scheme (LGPS) and to remind you of benefits available in the fund. This issue will focus on:

- New Look Annual Benefit Statements
- Freedom and Choice in Pension
- Annual Report and Accounts
- Pension Liberation
- Tax Limits
- Improving Your Benefits
- Buying Back Lost Pension
- Death Grant Expression of Wish

## Annual Benefit Statements 2014/15

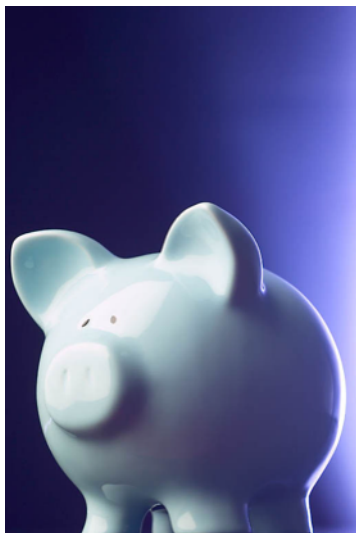


Enclosed with this newsletter is your Annual Benefit Statement for the 2014/15 tax year. As you can see it has a brand new look. It has been redesigned to take into account the new Career Average Revalued Earnings (CARE) scheme from 1st April 2014.

The statement shows the total value of your LGPS benefits at 31/03/2015 and a projection of your LGPS benefits if you remain contributing as present until your Normal Pension Age (NPA).

We would welcome any feedback you may have in respect of this statement. Contact details can be found below.

## Freedom and Choice in Pensions



**You will have seen a lot of coverage in the media about changes to the law in giving people more freedom to access their pensions.**

The government has introduced the most radical changes to pensions in almost a hundred years. From April this year, individuals from the age of 55 with a defined contribution pension are able to access their entire pension flexibly if they wish.

Members of defined contribution pension schemes are able to access and use their pension pot in any way they wish from age 55. They are able to take up to 25% tax free, convert some or all of the rest into a regular retirement income (known as an annuity), and/or withdraw the remaining cash in stages or as one lump sum, subject to tax at their highest rate.

**These changes do not affect your LGPS benefits as the LGPS is a defined benefits pension scheme rather than a defined contribution pension scheme. Please see page 2 for more information and frequently asked questions on the Freedom and Choice option.**

## Annual Report and Accounts

We have recently published our Annual Report for the 2014/15 financial year. This document includes information about the Pension Fund, and how our investments have performed during the year. You can read the full Annual Report & Accounts, and also a Summary Leaflet, on the Investment Section of our website at: [www.gwyneddpensionfund.org.uk](http://www.gwyneddpensionfund.org.uk)

## Please remember....

to keep us updated if you change your address, marital status or death grant expression of wish. Due to Data Protection Regulations this information must be supplied in writing.

## Contact Details

If you need to contact us please use one of the following methods:

- Pensions Section, Gwynedd Council, Caernarfon, Gwynedd, LL55 1SH
- 01286 679982
- 01286 679589
- [pens@gwynedd.gov.uk](mailto:pens@gwynedd.gov.uk)
- [www.gwyneddpensionfund.org.uk](http://www.gwyneddpensionfund.org.uk)



## Freedom and Choice - Frequently Asked Questions

### Do these changes affect my Local Government Pension Scheme (LGPS) pension?

No, the LGPS is a **defined benefits pension scheme** rather than a **defined contribution pension scheme**, therefore the new changes do not affect members that are currently contributing towards the LGPS.

### What is the difference between a defined benefit and defined contribution pension schemes?

**Defined contribution pension schemes** include Personal Pensions, Stakeholder Pensions, Group Personal Pensions and Occupational Money Purchase schemes. In a defined contribution pension scheme members build up a pot of money that they use to provide an income in retirement. The income members might get from a defined contribution scheme depends on factors including the amount they pay in and the fund's investment performance.

**Defined benefit pension schemes** include the LGPS, the NHS, and the Teachers Pension. In this type of scheme members pay in a set amount set by the Scheme rules. In return members receive guaranteed benefits based on how many years they have worked for the employer and the salary they have earned rather than the value of their investments. The employer also contributes to the scheme and is responsible for ensuring there is enough money at the time of retirement to pay out the pension.

### What are the options that I have at age 55 in the LGPS?

Under current regulations you are able to voluntarily retire at any age on or after your **55th birthday**. You would be able to take up 25% of your pension pot as a tax free lump sum, with the remaining balance payable as an annual pension. However if you retire before your Normal Pension Age (State Pension Age - minimum 65) your benefits will be reduced due to early retirement. Please note pension benefits can only be paid after leaving employment.

### Transferring Pension Benefits to an Alternative Arrangement

You are able to transfer your benefits to alternative providers provided that you have opted out of the LGPS or have left employment and you are not within one year of your Normal Pension Age (NRD). Transferring your LGPS benefits extinguishes your rights in the LGPS, therefore it is important that you make the right decision.

### Who can give me advice?

Under new requirements it is compulsory that you take advice, where the value of transfer payment is **£30,000 or more**, from a professional financial adviser who is independent from the LGPS and authorised by the Financial Conduct Authority (FCA), before a transfer can be made. This advice would be at your own cost and evidence of the advice must be shown before any transfer to another provider takes place.

The main concern is that members opting out of the LGPS could transfer their benefits into a Defined Contribution scheme, where the fund value could be adversely affected by a fall in the stock market and could erode the benefits built up in the LGPS.

**Please note that the Pension Fund is unable to provide you with any financial advice.** The Government has also set up a service called **Pensionwise** to give you guidance on defined contribution pension schemes. Their website address is:

**<https://www.pensionwise.gov.uk>**

### Pension Liberation Fraud

Over the last few years an increasing number of companies are targeting savers with pension scams claiming that they can help them to take their pension early, in the form of Pension Liberation. Individuals may be targeted through websites, mass texting or through cold calls. To liberate your pension sounds to many people like a good thing, but in the pension world, pension liberation is normally linked to fraud if accessing your pension benefits before the age 55. Accessing your pension before age 55 can result in an 'unauthorised payment', leading to high tax charges by HMRC, which you will NOT be able to reclaim. These are at least 55% and can be as high as 70% of your pension pot. In addition, there are likely to be administration fees deducted, which can be 20% or more of your pension savings. Before transferring any pension benefits, you should make sure that the receiving scheme is a legitimate pension scheme. Never be rushed into making a decision. A lifetime's savings can be lost in an instant.

Please visit the Pension Regulator website for more information: **<http://www.thepensionsregulator.gov.uk/pension-scams>** If you have already accepted an offer and are worried about being scammed, call Action Fraud on **0300 123 2040**.

# Tax limits and your pension

## Annual Allowance

The Annual Allowance 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**. The annual allowance for **2015/2016** is **£40,000**.

Generally, 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 £40,000.** However, a three year carry forward rule allows you to carry forward unused annual allowance from the last 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. To carry forward unused annual allowance from an earlier year you must have been a member of a tax registered pension scheme in that year.

For example, if the value of your pension savings for a tax year increase by £50,000 (i.e. by £10,000 more than the annual allowance) and in the three previous years had increased by £25,000, £28,000 and £30,000, then the amount by which each of these previous years fell short of £40,000 would more than offset the £10,000 excess pension saving in the current year. There would be no annual allowance tax charge to pay in this case.

**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. 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.

Your Annual Benefit Statement will show how much your pension pot has grown in the previous tax year. Please contact us as soon as possible if your Statement shows a figure of £40,000 or more.

## Lifetime Allowance

The lifetime allowance is the total capital value of all your pension arrangements, but not your state pension, 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) is more than the lifetime allowance you will have to pay tax on the excess. The lifetime allowance for **2015/16** is **£1.25 million**. The lifetime allowance covers any pension benefits you may have in all tax-registered pension arrangements - not just the LGPS.

Most people will never exceed their lifetime allowance, but if you do you will have to pay an additional tax charge on the excess above the lifetime allowance.

## How do I work out the value of my pension savings to test against the lifetime allowance?

The following equation is used to work out the total value of your pension savings in the LGPS:

$$\begin{array}{|c|} \hline \text{Pension} \\ \hline \times 20 \\ \hline \end{array} + \begin{array}{|c|} \hline \text{Lump Sum} \\ \hline \text{(if applicable)} \\ \hline \end{array} + \begin{array}{|c|} \hline \text{AVC} \\ \hline \text{(if applicable)} \\ \hline \end{array} = \begin{array}{|c|} \hline \text{Lifetime} \\ \hline \text{Allowance} \\ \hline \end{array}$$

For more information please visit the **Tax Limits** section of our website: [www.gwynedd-pensionfund.org.uk](http://www.gwynedd-pensionfund.org.uk) or the website of HMRC: <https://www.gov.uk/tax-on-your-private-pension>







## Improving Your Benefits

**A** **Additional Voluntary Contributions (AVCs)** allow you to pay more to build up extra savings for your retirement. If you choose to pay AVCs, your contributions will be invested separately in funds managed by Clerical Medical, our AVC provider. You will have your own personal account that, over time, will build up with your contributions and the returns on your investment, and it will be available to you when you retire. Please remember investments can do down as well as up.

From 1 April 2014, if you take out a new AVC contract you can pay up to 100% of your pay towards an AVC, after allowing for any tax and National Insurance liability and any other existing deductions you may have. It was believed last year that all new AVC contracts that started from 1 April 2014 would be limited to taking up to 25% of the AVC fund as a tax free-cash lump sum. However, the way the regulations are currently worded ALL members are still allowed the option to take 100% of the AVC fund as a tax free lump sum (subject to HMRC limits). We are currently awaiting further guidance on this issue.

Any AVCs are taken from your pay and if you pay tax, you receive **tax relief** automatically through the payroll. For example, if you are a basic rate tax payer, every £100 you pay in costs you £80 after tax relief. And as a higher rate tax payer, the cost falls to £60 - But the whole £100 is used to purchase the AVCs.

Deductions start from the next available pay after your election has been accepted. You can vary or cease AVC payments at any time whilst you are paying into the LGPS. You can also change your investment funds at any time. When you retire you can use this AVC to buy an annuity, buy a top-up LGPS pension or take up to 100% of your AVC fund as a tax-free cash lump sum (depending on circumstances).

**Please contact us if you would like a quotation or an Information Pack.**

## Death Grant Lump Sum

From the very first day you join the pension scheme, a death grant lump sum of **3 times your annual payable pay** is payable if you die whilst in service, and under age 75. Each member of the scheme should complete a death grant expression of wish form. This allows you to propose 1 or more individuals or institutions to receive the relevant death grant payment. You can download a death grant expression of wish form from the Gwynedd Pension Fund website or contact us if you would prefer a hard copy. Gwynedd Pension Fund will have the final discretion as to whom the lump sum will be paid, but we will always take your wishes into consideration.

**A** If you want to buy extra pension for your retirement you have the option of paying **Additional Pension Contributions (APCs)**.

**P** You can elect to buy additional pension of up to **£6,675** which will increase each year in line with cost of living.

**C** You will be able to contribute up to **100%** of your pensionable pay, either payable in a form of a lump sum or monthly sum through your pay. The cost depends on how much extra pension you want to buy, the age you start paying and the length of time you want to pay them for. The extra pension would be for yourself only and not for additional dependants benefits. Payments made into this arrangement qualify for **tax relief**. For example, if you are a basic rate tax payer, every £100 you pay in costs you £80 after tax relief. And as a higher rate tax payer, the cost falls to £60 - But the whole £100 is used to purchase the APC's.

### Share Cost APC

In some circumstances you can also buy back lost pension (for example where you have a period of authorised unpaid leave or maternity leave) and your employer must also pay towards buying back this lost pension if you decide to buy it within 30 days of returning to work.

For an APC quotation please visit the online APC calculator on the following website: <https://apc.lgps2014.org>

**If you want to buy extra pension or lost pension, then you can print off an application form to send to us at the address which you can find on page 1.**

## Happy Retirement



Sue Edwards will be retiring from the Pensions Section at the end of September 2015. Sue has been an integral part of our team since 1996 and she will be greatly missed by her colleagues and members of the Pension Fund. We would like to thank Sue for all her hard work over the years and wish her all the best for the future.