Environment Agency
Pension Fund

April 2022

Things to consider before opting out of the EAPF

About this guide

The Environment Agency Pension Fund (EAPF) is part of the Local Government Pension Scheme (LGPS) and is governed by the LGPS regulations.

This guide is for all employees who've joined the EAPF and are considering opting out. It provides some detail on a range of things you should consider before making the decision to opt out, including a list of the key benefits.

Your pension is an important part of your remuneration package

Whatever the rate of contributions you pay, as a member of the EAPF, your employer also pays a percentage of your pensionable pay into the pension fund.

A typical member currently pays less than one third of the cost of their pension and their employer contributes the remainder, currently equivalent to:

- Environment Agency - 19% of your pensionable pay
- Natural Resources Wales – 21.9% of your pensionable pay
- Shared Services Connected Ltd – 22.7% of your pensionable pay

This money can only be paid into the EAPF; if you opt out of the pension scheme, your entitlement to this money is lost.

It might not cost as much as you think and it lowers your tax bill

If you pay Income Tax, then your net pay isn't reduced by the full amount of the contributions you'd pay as a contributing member of the EAPF.

The contributions you pay into your pension scheme aren't taxable earnings. This means that you pay less tax as a result of being a member of the EAPF. If you opt out, you'll lose this tax advantage.

For example, before taking into account the effect that National Insurance might have on your income, if you earned £1,200 per month, your pay would change as follows if you opted out (assuming the income tax bands and allowance for the 2022/23 tax year):

Gross pay	Contribution rate	Contribution payable	Tax you pay on your earnings	Net pay
£1,200.00	5.5%	**£66.00**	£17.20	£1,116.80
£1,200.00	0.0%	£0.00	£30.40	£1,169.60
			Difference in net pay	**£52.80**

You would pay £13.20 less tax whilst you were contributing to the Scheme. However, if you opt out, the pay you receive would increase by £52.80, rather than the full contribution amount of £66.00.

More examples are shown on the next page.

Monthly pay if you remain in the Scheme:

	Employee in Scheme				Employee **not** in Scheme		
Gross pay	Contribution rate	Contribution payable	Tax you pay on your earnings	Net pay **in pension scheme**	Tax you pay on your earnings	Net pay **not in pension scheme**	Difference in net pay
£1,200.00	5.5%	**£66.00**	£17.20	£1,116.80	£30.40	£1,169.60	**£52.80**
£2,200.00	6.5%	**£143.00**	£201.80	£1,855.20	£230.40	£1,969.60	**£114.40**
£3,300.00	6.8%	**£224.40**	£405.52	£2,670.08	£450.40	£2,849.60	**£179.52**
£4,400.00	8.5%	**£374.00**	£595.60	£3,430.40	£712.40	£3,687.60	**£257.20**
£6,000.00	9.9%	**£594.00**	£1,114.80	£4,291.20	£1,352.40	£4,647.60	**£356.40**

Instead of opting out completely, you could choose to pay less

If you're opting out of the EAPF because of the cost of paying into the Scheme, you could, instead, join the 50:50 Section of the Scheme. The 50:50 Section allows you to pay half the contributions for half the benefits.

If you choose to join the 50:50 Section, you can rejoin the Main Section (and go back to paying the full contribution rate to receive full benefits) at any time, though you'll be automatically re-enrolled into the Main Section under the following circumstances:

- On reaching your employer's automatic re-enrolment date, you'll be re-enrolled into the Main Section from the start of your next pay period (with some exceptions), though you're free to rejoin the 50:50 Section immediately afterwards; or
- If your pay is nil as a result of being on sick leave or child related leave, you'll be re-enrolled into the Main Section from the start of your next pay period (providing you're still on nil pay at the start of that period).

In addition, being a member of the 50:50 Section doesn't affect your life cover, so any death benefits payable wouldn't be affected by you joining the 50:50 Section.

A better life in retirement

The Government provides for a State Pension, which is designed to provide enough money to live on. From April 2016, new state pensioners are eligible for the single tier State Pension of around £185.15 per week (full 2022/23 rate); however, if you've:

- Paid (or are treated as having paid) national insurance contributions for less than 35 years; or
- Paid a lower rate of national insurance before 6 April 2016 as a result of being a member of a 'contracted out' pension scheme

then the actual state pension payable will be less than the full rate.

For more details on 'contracting out', please visit our website at www.eapf.org.uk

You can also download 'The New State Pension and National Insurance Changes – Questions & Answers' factsheet.

If you and your dependants want to have a better life in retirement, then you'll need a method of increasing your income and a tax efficient way to increase your income in retirement is through a pension.

LGPS benefits are backed by a Government promise

The benefits from our pension fund are secure and backed by a Government promise because the EAPF is part of the statutory LGPS. LGPS benefits payable to you are not linked to how stock markets perform but to a fixed formula based on your pensionable pay. See '**The benefits the LGPS provides for you'** below for more details of how the calculation is made**.**

One of the best pension schemes available

The LGPS is a defined benefit scheme. This means that you know from the day you join the EAPF how your benefits will be worked out and what provisions are in place for your dependants.

The benefits the LGPS provides for you

Pension - A pension calculated as:

- 1/49 x pensionable pay you receive for each scheme year (1 April to 31 March) from 1 April 2014 (revalued each year to keep pace with inflation); plus
- 1/60 x final pay (protected 2008 definition) x membership from 1 April 2008 to 31 March 2014; plus
- 1/80 x final pay (protected 2008 definition) x all membership up to 31 March 2008

Please note that, once you stop contributing to the Scheme, your pension is revalued each year in line with inflation.

Lump sum – Some of your pension can be exchanged for a tax free lump sum. For every £1 of pension exchanged, you'll receive a £12 tax free lump sum. Limits apply to the amount of lump sum you can take, which is currently 25% of the capital value of your EAPF pension. If you've membership before 1 April 2008, you'll receive an automatic lump sum in addition to your pension in relation to that membership.

When you can receive your pension

From age 55 to 75

- If you've stopped working and want to access your retirement benefits,
- On partial retirement (see below), or
- If you're made redundant, or retire due to the efficiency of the service

Please note: Your benefits may be reduced if taken before your Normal Pension Age (NPA, this being the later of your State Pension age or age 65), or they'll be increased if taken after your NPA.

The Government has now published the Finance Act 2022, which aims to increase the normal minimum pension age (NMPA) for Scheme members from 55 to 57 with effect from 6 April 2028.

At any age

If your employment is terminated due to ill health and you meet the Scheme's ill health criteria, your pension benefits can be paid to you straight away, whatever your age. In addition, if you're a contributing member up to the point of your employment being terminated on ill health grounds, you could be entitled to an ill health enhancement, with the maximum enhancement being equivalent to the pension you would've built up had you continued contributing to the Scheme until your NPA.

For more details on taking your pension, read our 'When can I take my pension?' factsheet.

Partial retirement

If you're a contributing member and aged 55 or over, your employer may allow you to take some or all of your pension benefits, whilst you continue to work and contribute to the Scheme on reduced hours or lower graded work ('partial retirement').

Combining LGPS service

If you opt out of contributory membership and then rejoin the EAPF (or another LGPS fund) in the future, you won't be able to combine your periods of LGPS service. This means that if you:

- **Are made redundant (see below)** – your benefits won't take into account the pension you built up before you opted out. You'd have to wait until your NPA to take payment of these earlier benefits, or receive an early retirement reduction if you choose to take them before your NPA

- **Leave on ill health grounds in the future (see below)** – you'll also need to apply for the release of the pension you built up before you opted out on ill health grounds. If you're under age 55, the pension you receive may not receive inflationary increases until you reach your 55th birthday

- **Built up any final salary benefits before 1 April 2014** – these would only be linked to your final salary at the point of opting out; they wouldn't be linked to your salary in your ongoing/new employment

Final salary 'underpin' for certain members

If you're a contributing member, and you were:

- Contributing to the Scheme on 31 March 2012, and
- Aged 55 or more at that date,

then the career average pension you build up under the 2014 LGPS may be entitled to a final salary 'underpin'. This means that you may be entitled to receive the higher of:

- Your benefits under the 2014 LGPS, or
- The final salary benefits you would have been entitled to under the 2008 Scheme, if that Scheme had continued.

However, if you're eligible for this protection and you choose to opt out of the Scheme, you won't qualify for the 'underpin' and the pension you've built up from 1 April 2014 will only be calculated on a career average basis.

Benefits if you're made redundant

If you're a contributing member and you're:

- Made redundant, or leave service on the grounds of business efficiency, and
- Over the age of 55,

your pension benefits will be paid immediately and wouldn't be reduced for early payment.

However, if the above conditions applied and you've opted out of the Scheme, you won't be entitled to the immediate (and unreduced) payment of your benefits. Instead, your benefits would be reduced for early payment if you decided to take them before your NPA.

Benefits if you fall ill

If you're paying into the Scheme and suffer an illness or accident that means you're unable to work, you could receive ill health benefits.

If it was determined that you were unable to work for three years or more, your benefits would include an amount to compensate you for the pension you would've built up between the date you left work and your NPA. Your pension would also be increased in line with inflation from the date you have to leave work.

However, if you opted out of the Scheme, any ill health benefits would be considered differently. The benefits would be limited to the pension you'd built up before you stopped contributing. In addition, your pension would only receive inflationary increases if you were:

- Over 55 at the date your benefits became payable on ill health, or
- Under 55 at the date your benefits became payable, but only if you were unable to undertake any full-time employment.

If you were under 55 at the date your benefits became payable, but you were capable of undertaking some full-time employment, then your benefits would only receive inflationary increases from your 55th birthday.

Benefits for your dependants following your death

A death grant lump sum – Payable up to age 75, you can nominate who you'd like this to be paid to. The death grant lump sum is normally paid tax free and varies depending on whether you're a contributing, deferred or pensioner member.

- **Contributing member** – 3 times the annual average of the pensionable pay you received during the 3 months immediately before your death (known as 'assumed' pensionable pay)
- **Deferred member** – 5 times your annual pension
- **Pensioner member** – 10 times your pension (before any commutation for lump sum made at retirement), less any pension you've been paid and any additional lump sum acquired through commutation of pension. If your pension includes membership before 1 April 2014, then that part of the death grant is 10 times your pension, less any pension you've been paid

The amount of death grant lump sum payable for a contributing member is likely to be significantly higher than for a deferred member (which is what you'd be, if you opted out the LGPS), as it's based on 3 times your pensionable pay instead of 5 times your deferred pension.

Survivor's Pension – Payable for life to your spouse, civil partner or eligible cohabiting partner and revalued each year in line with inflation. The pension is calculated as:

- 1/160 x final pay (protected 2008 definition) x all membership up to 31 March 2014, plus
- 1/160 x pensionable pay you received for each year from 1 April 2014 to your date of death, plus
- A 'death in service' enhancement of 1/160 x 'assumed' pensionable pay you would've received for each scheme year from your date of death to your NPA – **this enhancement is only payable if you're a contributing member of the Scheme at the time of your death and not if you'd opted out of the scheme.**

Any Scheme membership you have before 6 April 1988 won't be used in calculating the pension for cohabiting partners (unless you've already chosen to pay for this to count towards your cohabiting partner's pension).

Children's Pension - Payable to your eligible children up to the age of 23 if they continue in full-time education, or payable for life if they have a permanent physical or mental impairment that prevents them from undertaking employment. Children's pensions are calculated and revalued in the same way as survivors' pensions (including the enhancement), except for the accrual rates used:

- 1/320 – one eligible child, where a survivor's pension is also payable
- 1/240 – one eligible child, where a survivor's pension isn't payable
- 1/160 – more than one eligible child (shared equally), where a survivor's pension is also payable
- 1/120 – more than one eligible child (shared equally), where a survivor's pension isn't payable

Where can I get advice?

You can ask Money Helper for help and advice (previously known as the Money Advice Service). They're an independent non-profit organisation providing free information, advice and guidance on the whole spectrum of pensions, including state, company, personal and stakeholder schemes. **You can visit their website at www.moneyhelper.org.uk**

We're unable to offer you any advice to help you in making pension decisions but we'll provide you with information on which you can use to help make your decision. You can get advice from an Independent Financial Adviser (IFA) and details of how to contact a local adviser can be found at **www.moneyhelper.org.uk/en/getting-help-and-advice/financial-advisers/choosing-a-financial-adviser**

Contact details

If you have any questions regarding your pension entitlement you can contact our pension administrator, Capita, by:

Using the **'Ask us a question'** form on our website at **www.eapf.org.uk**

Emailing **info@eapf.org.uk**

Following on Twitter **@EAPensionFund**

Calling **0800 121 6593**
+44 114 452 5008 (overseas)

Sending your query to
Capita
11b Lingfield Point
Darlington, DL1 1AX

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