

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 have joined the Local Government Pension Scheme (LGPS) 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 LGPS, your employer also pays a percentage of your pensionable pay into the pension fund. For 2017/18, this will be equivalent to:

- Environment Agency - 18.5% of your pensionable pay
- Natural Resources Wales – 21.2% of your pensionable pay
- Shared Services Connected Ltd – 22.7% of your pensionable pay

This money can only be paid into the Local Government Pension Scheme; 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 and full rate National Insurance, then your net pay is not reduced by the full amount of the contributions.

The contributions that you pay into your pension scheme are not taxable earnings. This means that you pay less tax as a result of being a member of the LGPS. If you opt out, you will lose this tax advantage.

For example, if you earned £1,100 per month, your pay would change as follows if you opted out (assuming the income tax bands and allowance for the 2017/18 tax year):

Gross pay	Contribution rate	Contribution payable	Tax you pay on your earnings	Net pay
£1,100.00	5.5%	£60.50	£16.23	£1,023.27
£1,100.00	0.0%	£0.00	£28.33	£1,071.67
Difference in net pay				£48.40

You would pay £12.10 less tax whilst you were contributing to the Scheme. However, if you opt out, the pay you receive would increase by £48.40, not the full contribution amount of £60.50.

Further examples are provided overleaf.

Monthly pay if you remain in the Scheme:

Gross pay	Employee in Scheme				Employee not in Scheme		
	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
£1,100.00	5.5%	£60.50	£16.23	£1,023.27	£28.33	£1,071.67	£48.40
£2,000.00	6.5%	£130.00	£182.33	£1,687.67	£208.33	£1,791.67	£104.00
£3,000.00	6.8%	£204.00	£367.53	£2,428.47	£408.33	£2,591.67	£163.20
£4,000.00	8.5%	£340.00	£540.33	£3,119.67	£658.33	£3,341.67	£222.00
£5,000.00	8.5%	£425.00	£888.33	£3,686.67	£1,058.33	£3,941.67	£255.00

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

If you're opting out of the LGPS 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, though your employer will continue to contribute at their full rate.

If you choose to join the 50:50 Section, you can later rejoin the Main Section (and go back to paying the full contribution rate to receive full benefits), 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 doesn't affect your life cover, so any death benefits payable would not 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 £159 per week (full 2017 rate); however, if you:

- have 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 information on 'contracting out', please visit www.eapf.org.uk/publications to view '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 will 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. Members receive benefits based on length of membership (up to 31 March 2014), the Scheme's accrual rate(s) and pensionable earnings; the LGPS benefits payable to you are not linked to how stock markets perform.

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. A full breakdown of the benefits you can receive is shown below.

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); 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 the cost of living.

Lump sum – Some of your pension can be exchanged for a tax free lump sum. For every £1 of pension exchanged, you will 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 have membership before 1 April 2008, you will receive an automatic lump sum in addition to your pension in respect of that membership.

When you can receive your pension

At any age, if you have to retire on the grounds of ill health. If you are a contributing member up to the point of taking ill health retirement, you could be entitled to an ill health enhancement, with the maximum enhancement being equivalent to the pension that you would have built up had you continued contributing to the Scheme until your Normal Pension Age (NPA) (later of your State Pension Age or age 65)

From age 55 to 75:

- If you are made redundant, or retired due to the efficiency of the service
- On leaving your employment
- On partial retirement, whilst you continue working on reduced hours or lower graded work (though you will need your employer's consent to do this).

Please note: Your benefits may be reduced if taken before your NPA, or increased if taken after your NPA.

For more information on when you can take your pension, please visit www.eapf.org.uk/publications to view the 'When can I take my pension?' factsheet.

Partial retirement

If you're a contributing member and aged 55 or more, your employer may allow you to take some or all of your pension benefits, whilst you continue to work and contribute to the Scheme ('partial retirement'). If you stop contributing to the Scheme, your pension benefits may only be paid if you leave your employment.

Combining LGPS service

If you opt out and then rejoin the EAPF, or another LGPS fund, in the future, you will not be able to combine your periods of LGPS service. This means that if you:

- **Are made redundant or leave on ill health grounds in the future (see below)** – your benefits would not take into account the pension you built up before you opted out. You would have to wait until your NPA, or receive an early retirement reduction if you take them before NPA, and have left your employment
- **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 would not 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 will no longer qualify for the 'underpin'; the pension you've built up from 1 April 2014 may only be calculated on a career average basis.

Benefits if you are made redundant

If you're a contributing member and are:

- 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 not reduced for early payment.

However, if the above conditions applied and you have opted out of the Scheme, you'll not be entitled to the immediate (and unreduced) payment of your benefits; your benefits would be reduced for early payment (if you 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 in your current role, 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 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 you could receive would be limited to the pension you've built up before you stopped contributing. In addition, your pension would only receive inflation 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 were unable to undertake any full time employment.

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

Benefits for your dependants following your death

A death grant – Payable up to age 75, you can nominate who you would like this to be paid to. The death grant is normally paid tax free and varies depending on whether you are 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 have 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 have been paid



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

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

- $1/160 \times$ final pay (protected 2008 definition) \times all membership up to 31 March 2014; plus
- $1/160 \times$ pensionable pay you receive for each year from 1 April 2014 to the date of death; plus
- A 'death in service' enhancement of $1/160 \times$ 'assumed' pensionable pay you would have received for each scheme year from the date of death to your NPA – **however, this enhancement would only be payable if you were a contributing member of the Scheme up to your date of death.**

Membership before 6 April 1988 will not be used in calculating the pension for cohabiting partners (unless the membership has been purchased).

Children's Pension - Payable to your eligible children, up to the age of 23 if they continue in full time education, or may be payable for life if they have a permanent physical or mental impairment. 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?

We are unable to offer you any advice to help you in making pension decisions but we will provide you with information on which to base your decision. You can get advice from an Independent Financial Advisor (IFA) and details of how to contact a local advisor can be found at www.unbiased.co.uk

You can also ask The Pensions Advisory Service (TPAS) for help. They are an independent non-profit organisation providing free information, advice and guidance on the whole spectrum of pensions, including state, company, personal and stakeholder schemes. Their website is at www.pensionsadvisoryservice.org.uk

Contact details

Capita look after the day to day administration of the EAPF and will be your main point of contact for any questions you have about your benefits. You can contact them by:

 Using the '**contact us**' button on the website at www.eapf.org.uk

 Emailing info@eapf.org.uk

 Calling **0800 1216593**

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

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