Environment Agency
Pension Fund

June 2016

# The New State Pension and National Insurance Changes

# Questions and Answers

June 2016

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'll 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're currently 'contracted out' of the additional State Pension and therefore receive a rebate on your National Insurance 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'll no longer receive this National Insurance rebate which means you'll start to pay a higher amount of National Insurance contributions[2].

It's important that, as a member of the LGPS, you understand that if you're eligible for the new State Pension you might not receive the full amount. This is because you've paid a lower amount of National Insurance in previous years.

Regardless of the changes to the State Pension, you'll continue to be entitled to your LGPS benefits. These will continue to be a very important part of your income in retirement, giving 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.



[1] Provided you're under State Pension Age, have earnings over £112 p.w. / £486 p.m. (2015/16 figures) and you're not paying the Married Woman's / Widow's Reduced Rate of National Insurance contributions.
[2] Unless you're 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 give you, making it easier to plan for your retirement.

### Q2 – Who will receive the new State Pension?

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

- a man born after 5 April 1951
- a woman born after 5 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 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 (S2P) or the State Earnings Related Pension Scheme (SERPS).

The LGPS is 'contracted out' of the additional State Pension. This means that during your membership of the LGPS you've been receiving a rebate on your National Insurance contributions[3] and haven't been building 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 reach 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 stop.

### 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'll no longer receive this rebate and you'll pay the standard rate of National Insurance[4]. Overleaf 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're over State Pension Age or are paying the Married Woman's / Widow's Reduced Rate of National Insurance contributions you'll 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 | £347.56 per month | £39.91 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'll continue to get tax relief on your pension contributions, as your contributions are deducted from your pay before you pay tax.

In the LGPS, you have the 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. More information about the 50:50 Section is available at www.lgpsmember.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 that has been introduced. National Insurance contributions recorded before 6 April 2016 will count towards the 35 qualifying years for the new State Pension.

If you've 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 for this period; this is 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're 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 equivalent to what you would have received from the additional 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've built up if you've paid into any other contracted out pension schemes (e.g. the Teachers' Pension Scheme), it's not identified separately by pension scheme.

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

For more information about the calculation of the new State Pension and for a definition of a qualifying year please visit 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's 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: www.lgpsmember.org

### Q9 – Where do I find out more information?

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

If you're over age 50 you can request an estimate of the State Pension you'll receive under the new system here www.gov.uk/state-pension-statement

### Contact Point

Capita looks 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 us at:

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