

Increasing your benefits

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Today's session

What we'll be covering:

- Ways to save extra
 - Allowances for paying extra
 - Tax advantages of paying extra
 - Can I afford to pay extra?
 - Additional contributions in detail
 - Summary & next stages
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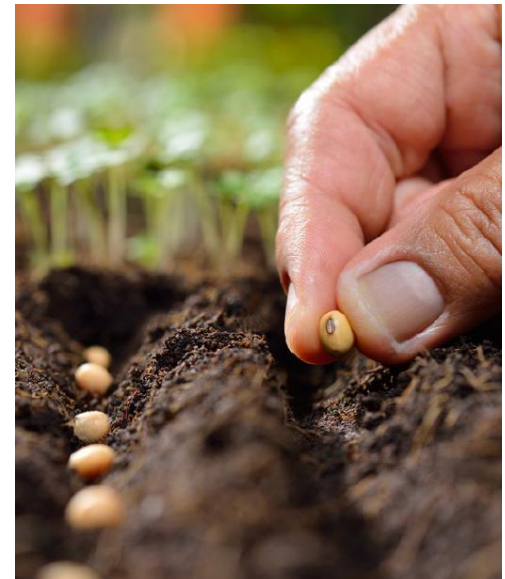
Important notice

- The content of this presentation is based on Capita's understanding of pensions and tax law as of **1 November 2020**. Capita & the EAPF will not be held liable for any errors or omissions contained within this presentation
 - This presentation is intended to highlight the benefits of paying additional contributions under the Local Government Pension Scheme (LGPS); this may not necessarily be the best option for you and there are many different financial vehicles available outside the LGPS that may be more suitable to your desired needs
 - This presentation should **not** be taken as financial advice. **We would strongly recommend that, before making any important financial decisions, you take independent financial advice from an authorised, independent financial adviser (IFA).**
 - An IFA can be found in your local area by visiting www.moneyadvice.service.org.uk
 - 'Pensions & retirement'; then
 - 'Retirement adviser directory'
-

Save for your future

2 ways to save extra in the LGPS

- **Additional Pension Contributions (APCs)**
 - Defined benefit (DB)
 - Fixed amount of pension bought
 - Revalued each year in line with inflation
- **Additional Voluntary Contributions (AVCs)**
 - Defined contribution (DC)
 - Based on fund value
 - 'In-house' AVC can be used in conjunction with LGPS benefits



How much can I pay?

- You can pay up to 100%* of your gross pensionable pay towards an APC and/or AVC
- Receive tax relief on pension contributions up to 100% of your taxable pay
- Your pensions savings are subject to both the 'annual allowance' & 'lifetime allowance'

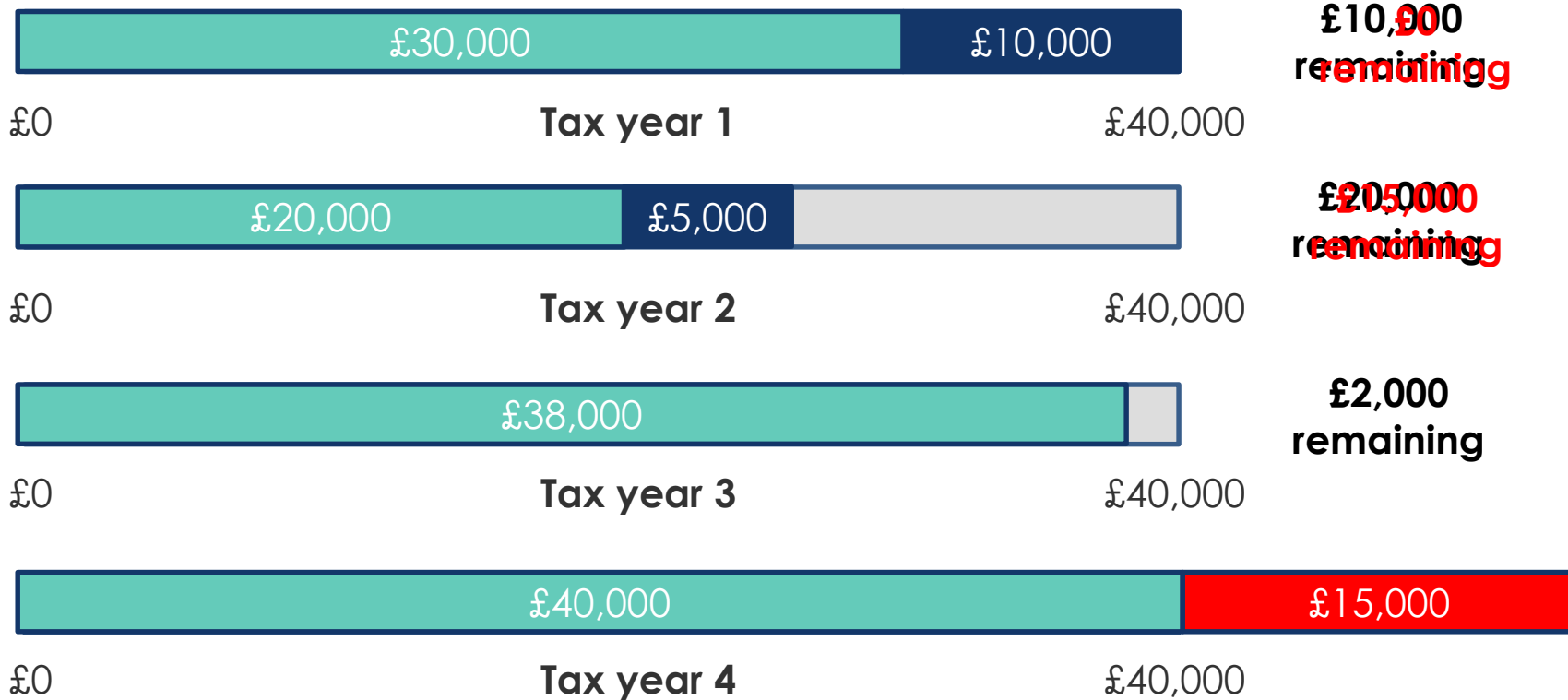
*less your normal pension & statutory contributions

Annual allowance

- A limit on how much a person's pension savings can 'grow' during a tax year before being subject to a tax charge
 - Annual allowance = £40,000
 - May be less if subject to the 'tapered annual allowance'
 - Pension savings in excess of the annual allowance may result in a tax charge
 - Excess can be reduced or extinguished by any unused allowance from the previous 3 tax years
-

Annual allowance

Example



Lifetime allowance

- The Lifetime Allowance (LTA) is the amount you can save in your lifetime, free of tax
 - Current LTA (2020/21) = £1,073,100
 - $(20 \times \text{pension paid}) + \text{lump sum paid} = \text{capital value}$, tested against LTA
 - LTA test carried out when you retire
 - LTA tested in some other cases, too
 - LTA test = % of remaining LTA used up
 - Once LTA used up, any excess is subject to tax charge
 - Can exchange pension for extra lump sum to reduce your tax liability
-

Lifetime allowance

Example

Carol's pension benefits at retirement (after reductions):

Pension = £10,000

Auto. lump sum = £15,000

Capital value = £215,000

LTA used up = 20.03%

Up to 25% can be taken as a tax free lump sum, subject to the Scheme's rules and commutation factor.

Maximum lump sum = £48,214.29

Residual pension = £7,232.14

Capital value = £192,857.09

LTA used up = 17.97%



Tax relief & your 'take home' pay

- Tax is applied to your pay
 - Different % apply to different pay bands
 - Pay crossing different bandings = different % of tax applied across your pay

Pay bandings (monthly)*	2020/21 Tax rates
£0 - £1,042	0%
>£1,042 - £4,167	20%
>£4,167 - £12,500	40%
>£12,500	45%

*Tax is **normally** calculated on your total taxable pay in the year and not a monthly amount

- Pension contributions are subject to **tax relief**
 - Pension contributions are taken from your pre-tax pay, **then**
 - **Remaining pay** is taxed accordingly = smaller tax bill
 - Remember that the 'annual allowance' applies
- Due to tax relief, reduction in 'take home' pay is **less** than the pension contribution paid

Tax relief & your 'take home' pay

Example

- Iqbal earns £60,000 pa (£5,000 pm)
- Normal cont. rate for Iqbal = 8.5%

Not contributing

Monthly pay	Deductions
£5,000	£958.20 (tax)
	£421.66 (NI)
Take home pay = £3,620.14	

Main Section (no AVCs)

Monthly pay	Deductions
£5,000	£425 (LGPS)
	£788.20 (tax)
	£421.66 (NI)
Take home pay = £3,365.14 (-£255)	

Main Section + 5% AVC

Monthly pay	Deductions
£5,000	£425 (LGPS)
	£250 (AVC)
	£688.20 (tax)
	£421.66 (NI)
Take home pay = £3,215.14 (-£405)	

Can I afford to pay extra?



78p



£2.05

If I normally buy one of these five times a week, how much would I save if I only bought one twice a week?

*Average priced Americano between £1.95 & £2.05, The Sun newspaper, article dated 17 September 2020

**330ml popular cola drink, The Sun newspaper, article dated 21 March 2018

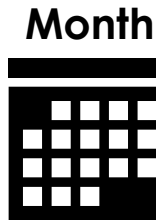
Can I afford to pay extra?

What would I save on three soft drinks/coffees **less** a week?



78p

£10.17 saving
£12.71 (@ 20% tax)
£16.95 (@ 40% tax)



£122.01 saving
£152.51 (@ 20% tax)
£203.35 (@ 40% tax)



£610.05 saving
£762.56 (@ 20% tax)
£1,016.75 (@ 40% tax)



£2.05

£26.72 saving
£33.40 (@ 20% tax)
£44.53 (@ 40% tax)

£320.68 saving
£400.85 (@ 20% tax)
£534.47 (@ 40% tax)

£1,603.40 saving
£2,004.25 (@ 20% tax)
£2,672.33 (@ 40% tax)

APCs

- Choose to buy a fixed amount of LGPS pension
 - Amount of pension bought is added to your existing LGPS pension
 - Can choose to buy any amount up to £7,194 extra (2020/21)
 - **Doesn't** count towards survivors'/dependants' pensions
 - Can be paid in regular instalments (payroll) or as a one-off lump sum (payroll or savings)
 - Regular instalments can be made up to 1 year before SPA
 - If taken from payroll, tax relief given automatically
 - Cost of APCs linked to age, gender & contract length
 - APC contract will be paid up in full if you're retired on Ill health grounds
 - Applies to Tiers 1 or 2 only
 - APC calculator - www.lgpsmember.org/more/apc/index.php
 - **Let's try it out!**
-



The Local Government Pension Scheme

Welcome to the national website for members of the LGPS in England and Wales

Google Custom Search

Contact your LGPS...

Go Back

Buy Extra Pension - Get a Quote

Click where you see this image to display help

To get a quote enter the details for calculation below then choose your payment method - EITHER regular payments OR a one off lump sum. For your chosen method enter EITHER (a) the extra annual pension you wish to buy OR (b) the amount that you can afford to pay. DO NOT ENTER BOTH. If you choose regular payments please also enter the number of years over which you wish to pay APCs and your pay frequency.

Details for calculation	
1. Gender	male
2. Date of Birth	[REDACTED]
3. Section of scheme	main section
4. Percentage your employer has agreed to pay	0 %

Regular Payments	OR	Lump Sum Payment
5(a). Pension £ OR		8(a). Pension £ OR
5(b). Amount £		8(b). Lump Sum £
6. Pay frequency		9. Payment method
7. Years (whole)		

Input values for Regular Payments: 5(b) = 100, 6 = monthly, 7 = 20

ERRORS/WARNINGS:
Errors below must be cleared before a quote can be obtained

Results	
Your Normal Pension Age (NPA)	68
Total extra pension to be bought	£ 2,032.52
Years of agreement	20
Pension added to account each year of agreement	£ 101.63
Gross total Regular cost of pension being bought	£ 100.00
Regular Cost to employer	£ 0.00
Regular Cost to member before tax relief	£ 100.00

Based on a gross Regular cost of £4.92 per £100 of extra pension

Buttons: Reset quote, Print quote



The Local Government Pension Scheme

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Details for calculation	
1. Gender	male
2. Date of Birth	<input type="text"/>
3. Section of scheme	main section
4. Percentage your employer has agreed to pay	0 %

Regular Payments	OR	Lump Sum Payment
5(a). Pension £ OR <input type="text"/>		8(a). Pension £ OR <input type="text" value="2032.52"/>
5(b). Amount £ <input type="text"/>		8(b). Lump Sum £ <input type="text"/>
6. Pay frequency <input type="text" value="-- select -"/>		9. Payment method <input type="text" value="payroll"/>
7. Years (whole) <input type="text"/>		
<input type="button" value="Get results"/>		<input type="button" value="Get results"/>

ERRORS/WARNINGS:
Errors below must be cleared before a quote can be obtained

Results	
Your Normal Pension Age (NPA)	68
Total extra pension to be bought	£ 2,032.52
Years of agreement	NA
Pension added to account each year of agreement	£ 2,032.52
Gross total Lump sum cost of pension being bought	£ 15,853.66
Lump sum Cost to employer	£ 0.00
Lump sum Cost to member before tax relief	£ 15,853.66
Based on a gross Lump sum cost of £780.00 per £100 of extra pension	
<input type="button" value="Reset quote"/>	<input type="button" value="Print quote"/>

Cost of paying APCs

Example

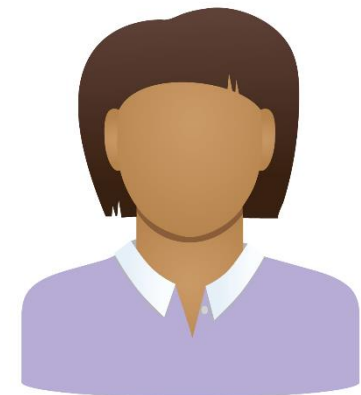
Liz is interested in buying £500 of extra LGPS pension through an APC.

- Female, current age 43
- SPA = 67
- £7,194 (2020/21 limit) - £500 = £6,694 of extra pension available left to buy

Cost to buy £500 extra LGPS pension (based on current amounts):

- Over **23 years** = **£31.55 per month (total = £8,708.80)**
- Over **15 years** = **£41.00 per month (total = £7,380)**
- Over **10 years** = **£55.40 per month (total = £6,648)**
- One-off **lump sum** = **£5,355**

Monthly contribution may change in the future



Cost of paying APCs

Example

Roderick is interested in buying £1,000 of extra LGPS pension through an APC.

- Male, current age 57
- SPA = 67
- £7,194 (2020/21 limit) - £1,000 = £6,194 of extra pension available left to buy

Cost to buy £1,000 extra LGPS pension (based on current amounts):

- Over **8 years** = **£169.60 per month (total = £16,281.60)**
- Over **5 years** = **£250.30 per month (total = £15,018)**
- Over **3 years** = **£395.90 per month (total = £14,252.40)**
- One-off **lump sum** = **£13,190**

Monthly contribution may change in the future



'Lost' pension & buying it back

- Breaks in pension will occur if you :
 - Are on 'additional' child-related leave and receiving no pay
 - Take a period of authorised unpaid leave
 - Take a period of unauthorised unpaid leave
 - Go on strike
 - Any 'lost' pension can bought back through APCs
 - Up to the amount of pension 'lost' during the absence
 - Counts towards total APC limit
 - Your employer will pay 2/3rd of the cost if:
 - Absence is authorised or for child-related leave, and
 - You apply within 30 days of returning to work
-

AVCs

- Defined contribution arrangement
 - Value of 'pot' = contributions paid + investment returns, less charges
 - Investment options provided (including default option)
 - Life assurance only policies also available
- Can pay a % or a fixed amount into an in-house AVC fund
 - Prudential & Standard Life
- Use your AVC fund at retirement to:
 - Increase your tax free lump sum*
 - 100% of AVC can be paid if taken at the same time as main scheme benefits*
 - Buy extra LGPS pension
 - Buy an annuity with the AVC provider or another provider
 - Transfer to another provider

AVC options – extra lump sum

Example 1

Marie's pension benefits at retirement:

Pension = £10,000
Automatic lump sum = £15,000

Marie also has an in-house **AVC fund of £20,000**

Maximum lump sum = £55,357 (+£40,357)

Residual pension = £8,303 (-£1,697)



AVC options – extra pension & lump sum

Example 2

Marie's pension benefits at retirement (after reductions):

Pension = £10,000

Automatic lump sum = £15,000

Marie also has an in-house **AVC fund of £55,000**

Maximum lump sum = £67,500 (+£52,500)

£2,500 of the AVC fund remains; this can be used to buy £117 extra LGPS pension* or an annuity with the AVC provider/another provider

Residual pension = £10,117 (+£117)

*based on a member aged 60 (gender irrelevant)

AVC options – extra pension only

Example 3

Marie's pension benefits at retirement (after reductions):

Pension = £10,000
Automatic lump sum = £15,000

Marie also has an in-house **AVC fund of £55,000**; this can be used to buy £2,590 extra LGPS pension* or an annuity with the AVC provider/another provider

Increased pension = £12,590 (+£2,590)

* based on a member aged 60 (gender irrelevant)

AVC options – buy an annuity

Example 4

Marie has an in-house **AVC fund of £55,000**.

Marie uses her AVC fund to buy an annuity with another pension provider; the provider offers* the following pensions (annuities):

£2,257.44 (flat rate, no guarantee period)

£2,253.00 (flat rate, 5-year guarantee period)

£1,175.76 (increases in line with the Retail Price Index, no guarantee period)

£1,175.28 (increases in line with the Retail Price Index, 5-year guarantee period)

*based on Hargreaves Lansdown's Annuity Supermarket website for a 60-year woman, unmarried, non-smoker, non-drinker, no underlying medical condition. Quote completed on 15 September 2020 and is subject to change. This quote was prepared for illustration purposes only and is not intended as a recommendation

Summarising additional contributions

	AVC	APC (extra)	APC (lost)
What you'll get	Value of contributions paid & investments	Guaranteed pension	Guaranteed pension
What are the good points?	<ul style="list-style-type: none"> • Flexible contributions • Different ways of using it (inc. 100% tax free cash) 	<ul style="list-style-type: none"> • Additional pension • Inflation proof • Ill health cover 	<ul style="list-style-type: none"> • ER contributes 2/3rds • Additional pension • Inflation proofed • Ill health cover
What are the bad points?	<ul style="list-style-type: none"> • Few guarantees • Value of pot can go up & down 	<ul style="list-style-type: none"> • Can be expensive • Once started, not flexible • Reduced if taken early 	<ul style="list-style-type: none"> • Once started, not flexible • Reduced if taken early
Limits on what you can you buy/pay?	100% gross pensionable pay	£7,194 extra pension	Amount of lost pension (falls within £7,194 limit)

What next?

AVCs

Get in touch with one or both of the EAPF's AVC providers

- Standard Life at newentrant_quotes@standardlife.com
- Prudential at www.pru.co.uk/localgov

APCS

- APC calculator at www.lgpsmember.org/more/apc/index.php
- Absences - Your payroll team can tell you how much pay you're 'missing'

AVCs & APCs can start from as early as your next payroll period!

Resources to find out more

- Visit www.eapf.org.uk to check out our helpful tools and [videos](#)
- [Publications](#) available online:
 - Explanatory guides & presentations
 - [85 year rule click tool](#)
 - Scheme guides & factsheets

Contact details

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

- Using the **'Contact the EAPF'** button on the website at www.eapf.org.uk
- Emailing info@eapf.org.uk
- Following on twitter [@EAPensionFund](https://twitter.com/EAPensionFund)
- Calling **0800 121 6593**
- Sending your query to **Capita**
11b Lingfield Point
Darlington, DL1 1AX

The screenshot displays the Environment Agency Pension Fund website. At the top, there are navigation tabs for 'Member', 'Investment', 'About the Fund', and 'Trustee'. Below the tabs is a main banner with the text 'Boost your pension by paying additional contributions' and an image of a family. To the right of the banner is a 'News feed' section with several news items. Below the news feed is a 'Log in to your pension' button. In the foreground, a 'Publications' section is overlaid, showing a list of publications including 'Scheme Guide for members', 'A brief guide to the Local Government Pension Scheme (LGPS)', and 'A guide for members who joined from 2014'. A 'Sign up' button is visible in the bottom right corner of the publications section.

Email for specific queries

Any specific questions email:

Jacinta.Wilmot@environment-agency.gov.uk

Find in outlook for EA employees

Any questions?

Thank you

Regulatory Statement

- The information contained within this presentation does not constitute financial advice.
- The information provided is based on Capita's understanding of current law and LGPS Regulations, as 1 November 2020.
- HMRC policy, practice, and legislation may change in the future.

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