

# Newsletter 2013

## Annual Allowance

The Government has placed a restriction on the amount of pension individuals may earn each year before they suffer additional income tax liability. For each year ending 31 March within the LGPS, the maximum growth is restricted to a capital monetary value of £50,000. This value is calculated by multiplying the increase in pension over the twelve month period by a factor of 16 then adding the increase in any lump sum entitlement.

For example, an increase in pension of £1,000 converts to a capital monetary value of £16,000. If there is also an increase in lump sum of £3,000 then there is a total increase of £19,000. Any Additional Voluntary Contributions, buying of additional service or additional pension must also be included towards this Allowance.

We notify any employee that has an LGPS Annual Allowance amount in excess of £40,000, as the £50,000 limit applies to all pension arrangements. If you wish to know your particular Annual Allowance amount then please contact us.

If your Annual Allowance exceeds the limit in any year then you are able to bring forward any unused allowance from the previous 3 years. If this still results in an excess amount then this excess amount must be declared on your annual self assessment income



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tax return and is added to your other taxable income and taxed at your marginal income tax rate.

Where the amount of tax payable exceeds £2000 an individual has the option to request the LGPS to pay the cost and have a subsequent reduction applied to their pension benefits.

Legislation has now been implemented that will reduce the £50,000 to £40,000 in the scheme year commencing April 2014.

## Annual Report 2012/2013

A summary of the Cornwall Pension Fund annual report and accounts is enclosed with this statement. A copy of the full report is available on our website at [www.cornwallpensionfund.org.uk](http://www.cornwallpensionfund.org.uk) under the News section. If however you require a printed copy

then please contact us and we will send you a paper copy.

## Lifetime Allowance

The Lifetime Allowance is the total amount of pension savings that can be provided to an individual without incurring an extra tax charge. Any benefits in excess of the lifetime allowance will therefore become subject to a tax charge.

The current lifetime allowance is £1.5 million however, this is being reduced to £1.25 million from April 2014.

To calculate the amount of Lifetime Allowance for benefits you have earned in the LGPS, you take the value of the pension and multiply it by a factor of 20. Any lump sum benefits are taken into account at their cash value. Any Additional Voluntary Contributions, buying of additional service or additional pension must also be included towards this Allowance.

For example, if at retirement you are entitled to a pension of £12,000 per annum plus a lump sum of £25,000 then your Lifetime Allowance is calculated as  $12,000 \times 20 = 240,000$  plus the lump sum of 25,000 making your total Lifetime Allowance from the LGPS of 265,000. This amount is well within the limit of £1,250,000.

Where any benefits exceed the Lifetime Allowance then they are subject to an excess tax charge of either 25% or 55% depending upon whether they are taken as cash or additional pension.

There are various protections available to assist any employee who considers that their lifetime allowance is close to

or already exceeds the new proposed limit of £1.25 million. This is a complex area relating to an individual's total pension wealth and therefore anyone in this position should consider taking independent financial advice.

## The LGPS is changing from 1 April 2014

If you are paying into the LGPS then you will automatically be placed into the new scheme from 1 April 2014. Your pre April 2014 pension will still be based upon final salary at retirement and payable from your current normal pension age.

If however you have retired or left before April 2014 then there will be no change to your pension benefits.

The main difference is in the way your pension builds up. The current scheme provides a pension based upon your Final Salary whereas the new scheme will provide a pension based upon the average pay you receive throughout your membership. This is commonly referred to as a Career Average or CARE scheme. It works like this:

Every year you get a pension that's equal to a 49th of your pay then inflationary increases are applied to this amount every year until your retirement which, under the new scheme is your State Pension Age. To find out your State Pension Age please have a look at [www.gov.uk/calculate-state-pension](http://www.gov.uk/calculate-state-pension).

Brief details of the main benefits of the new scheme compared to the current scheme are shown in the table overleaf.

	LGPS 2014	LGPS 2008																																																						
Basis of pension	Career Average Revalued Earnings (CARE)	Final Salary (FS)																																																						
Accrual Rate	1/49 <sup>th</sup>	1/60 <sup>th</sup>																																																						
Revaluation Rate	Consumer Price Index (CPI)	Based on final salary																																																						
Pensionable Pay	Pay including non-contractual overtime and additional hours for part time staff	Pay excluding non-contractual overtime and non-pensionable additional hours																																																						
Employee Contribution Rate – Average 6.5% in both LGPS 2008 and LGPS 2014	<table border="1"> <thead> <tr> <th>From</th> <th>To</th> <th>Gross Rate</th> </tr> </thead> <tbody> <tr> <td colspan="2">Up to £13,500</td> <td>5.5%</td> </tr> <tr> <td>£13,501</td> <td>£21,000</td> <td>5.8%</td> </tr> <tr> <td>£21,001</td> <td>£34,000</td> <td>6.5%</td> </tr> <tr> <td>£34,001</td> <td>£43,000</td> <td>6.8%</td> </tr> <tr> <td>£43,001</td> <td>£60,000</td> <td>8.5%</td> </tr> <tr> <td>£60,001</td> <td>£85,000</td> <td>9.9%</td> </tr> <tr> <td>£85,001</td> <td>£100,000</td> <td>10.5%</td> </tr> <tr> <td>£100,001</td> <td>£150,000</td> <td>11.4%</td> </tr> <tr> <td colspan="2">More than £150,000</td> <td>12.5%</td> </tr> </tbody> </table>	From	To	Gross Rate	Up to £13,500		5.5%	£13,501	£21,000	5.8%	£21,001	£34,000	6.5%	£34,001	£43,000	6.8%	£43,001	£60,000	8.5%	£60,001	£85,000	9.9%	£85,001	£100,000	10.5%	£100,001	£150,000	11.4%	More than £150,000		12.5%	<table border="1"> <thead> <tr> <th>From</th> <th>To</th> <th>Gross Rate</th> </tr> </thead> <tbody> <tr> <td colspan="2">Up to £13,500</td> <td>5.5%</td> </tr> <tr> <td>£13,501</td> <td>£15,800</td> <td>5.8%</td> </tr> <tr> <td>£15,801</td> <td>£20,400</td> <td>5.9%</td> </tr> <tr> <td>£20,401</td> <td>£34,000</td> <td>6.5%</td> </tr> <tr> <td>£34,001</td> <td>£45,500</td> <td>6.8%</td> </tr> <tr> <td>£45,501</td> <td>£85,300</td> <td>7.2%</td> </tr> <tr> <td colspan="2">More than £85,300</td> <td>7.5%</td> </tr> </tbody> </table>	From	To	Gross Rate	Up to £13,500		5.5%	£13,501	£15,800	5.8%	£15,801	£20,400	5.9%	£20,401	£34,000	6.5%	£34,001	£45,500	6.8%	£45,501	£85,300	7.2%	More than £85,300		7.5%
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Contribution flexibility	Yes, member can pay 50% contributions for 50% of the pension benefit	No																																																						
Normal Pension Age	Equal to the individual member's State Pension Age (minimum 65)	65																																																						
Lump Sum Trade Off	Trade £1 of pension for £12 lump sum	Trade £1 of pension got £12 lump sum																																																						
Death in Service Lump Sum	3 x pensionable pay	3 x pensionable pay																																																						
Death in Service Survivor Benefits	1/160th accrual based on Tier 1 ill health pension enhancement	1/160th accrual based on Tier 1 ill health pension enhancement																																																						
Ill Health Provision	<b>Tier 1</b> - immediate payment with service enhanced to Normal Pension Age <b>Tier 2</b> - immediate payment of pension with 25% service enhancement to Normal Pension Age <b>Tier 3</b> - temporary payment of pension for up to 3 years	<b>Tier 1</b> - immediate payment with service enhanced to Normal Pension Age (65) <b>Tier 2</b> - immediate payment of pension with 25% service enhancement to Normal Pension Age (65) <b>Tier 3</b> - temporary payment of pension for up to 3 years																																																						
Indexation of Pension in Payment	CPI	CPI (RPI for pre 2011 increases)																																																						
Qualifying period for pension	2 years	3 months																																																						

Further details regarding the new scheme are shown on a dedicated website at [www.lgps2014.org](http://www.lgps2014.org).

[www.cornwallpensionfund.org.uk](http://www.cornwallpensionfund.org.uk)

### Contact

**Pensions Section, Third Floor, South Wing, County Hall, Truro, TR1 3AY**  
 E-mail: [pensions@cornwall.gov.uk](mailto:pensions@cornwall.gov.uk)

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 Telephone: 0300 1234 100 Email: [enquiries@cornwall.gov.uk](mailto:enquiries@cornwall.gov.uk)  
[www.cornwall.gov.uk](http://www.cornwall.gov.uk)