



# **Fife Pension Fund**

## **Increasing your Pension Guide**

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## Increasing your Pension Guide

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## Increasing your pension

Most of us look forward to a happy and comfortable retirement and in order to have that little bit extra during your retirement years you may wish to consider paying extra contributions, which are a tax efficient way of topping up your income when you retire.

There are a number of ways you can provide extra benefits; on top of the benefits, you are already looking forward to as a member of the LGPS (Local Government Pension Scheme).

As an LGPS member, you can

- **Buy extra pension**
- **Pay Additional Voluntary Contributions (AVCs)/ Shared Cost Salary Sacrifice AVCs arranged through the LGPS**

Outside of the LGPS, you can

- **Pay Free Standing Additional Voluntary Contributions (FSAVCs) to a scheme of your choice,**
- **Pay contributions to a stakeholder or personal pension plan.**

You can combine any of these options.

**You may wish to obtain independent financial advice before starting any sort of additional pension savings.**

## **Buying extra pension by paying Additional Pension Contributions (APCs)**

You can pay more contributions to buy extra pension but not if you are a member of the 50/50 scheme. The extra pension you buy is for your benefit only. Buying extra pension does not increase dependants' pensions.

You can choose to buy extra pension by making regular contributions from your salary, or you can pay by lump sum. However, you cannot make regular contributions if

- You are within one year of your Normal Pension Age (NPA)
- You are over NPA
- Fife Pension Fund decides spreading payment is not practicable

### **Regular Contributions**

If you choose to pay regular contributions, the APCs will be deducted from your salary. As with your normal contributions, tax relief on the APCs is automatically applied.

The minimum payment is one year, and the maximum is the number of complete years to your NPA.

The extra pension you buy in each year of the agreement will be added to your pension account at the end of that year. The extra pension you buy will be increased each year in line with inflation.

Fife Pension Fund will require you to submit a medical report confirming you are in reasonably good health, before your application can be accepted.

The contributions you pay will be reviewed from time to time and could change in the future. If this applies, we will let you know how much your contributions will change by. The revised contributions will be payable from the April following the review.

You can stop paying APCs at any time. If you stop paying before the end of your payment period, you will be credited with the extra pension you have paid for.

### **Lump Sum Payment**

You can make a one-off payment directly to Fife Pension Fund or pay the lump sum from your salary (provided your salary in the relevant pay period is sufficient to cover the lump sum).

If you pay Fife Pension Fund directly, you will be responsible for claiming the tax relief due by submitting a self-assessment tax return. Tax relief will be automatically applied if you pay the lump sum from a salary payment.

The extra pension you buy will be added to your pension account in the year you pay for it. It will then be adjusted each year in line with the cost of living.

## **How much does it cost?**

This will depend on

- How much pension you want to buy
- Your age when the contributions start
- Payment period

You can access an online calculator from the Increase Your Pension page on our website [Buy extra pension calculator :: LGPS Scotland \(scotlgpsmember.org\)](http://www.lgps.org.uk/members/buy-extra-pension-calculator) to get an idea of how much buying extra pension might cost.

## **How to set up an APC**

You can apply to set up an APC contract using the online calculator. Please send the completed application to The Pensions Team.

If you have more than one job, you must specify which job the extra pension is to be credited to. If you want to pay APCs for each job, you will need to submit separate applications for each job.

If you are paying APCs from your salary your employer will start taking the payments from the next available pay period after Fife Pension Fund agrees your application.

Fife Pension Fund has the right to refuse your application for regular payments if it thinks it is not practical – this will usually be if the payments are very small. Your employer will check that you earn enough to be able to make the payments you wish to pay.

## **When do I receive the extra pension?**

Any extra pension bought will be paid on top of your main scheme LGPS pension.

If you choose to retire early and draw your benefits before your NPA, or you are retired on redundancy or business efficiency grounds before your NPA, the extra pension you have bought will be reduced for early payment.

If you draw your benefits on flexible retirement, you can, if you wish, draw all the extra pension you have paid for too, although it will be reduced for early payment. If you do so, your APC contract will cease (if you are still paying these extra contributions when you draw your benefits), although you will be able to take out a new APC contract (provided you are at least one year before your NPA if you want to pay the APCs by regular contributions).

If you have to retire early because of permanent ill health, the extra pension will not be reduced for early payment.

If you retire after your Normal Pension Age, the amount of any extra pension you have bought will be increased as its being paid later.

On retirement, you can choose to exchange some of the extra pension you have bought for a tax-free cash lump sum in the same way as your main LGPS pension.

If you die in service, then no extra benefits from your APC contract will be payable. This is because the amount of extra pension you purchase is for you only.

If you die after leaving but before retirement and your benefits are held in the LGPS for payment (deferred benefits), then a lump sum of 5 times the extra annual pension you paid for will be payable.

## **Paying Additional Voluntary Contributions (AVC) arranged through the LGPS (in-house AVCs)**

All local government pension funds have an AVC arrangement in which you can invest money, deducted directly from your pay to an AVC provider. If you choose to pay AVCs under the LGPS, the AVCs are invested separately in funds managed by the AVC provider. You have your own personal account that, over time, builds up with your contributions and the returns on your investment, and will be available to you when you retire. You can often choose which investment route you prefer. Fife Pension Fund's AVC providers are currently **Prudential** and **Standard Life**.

You can pay AVCs if you are in either the main or 50/50 section of the scheme.

You decide how much you can afford to pay. You can pay up to 100% of your pensionable pay into an in-house AVC in each job where you pay into the LGPS.

AVCs are deducted from your pay, just like your normal contributions. Your LGPS and AVC contributions are deducted before your tax is worked out, so, if you pay tax, you receive tax relief automatically through the payroll. You qualify for tax relief (normally at your highest rate) on all pension contributions up to 100% of your taxable earnings, including your normal contributions.

Deductions start from the next available pay period after your election has been accepted and you may vary or cease payment at any time whilst you are paying into the LGPS.

### **Here are the different ways you may be able to use your in-house AVC Fund on retirement:**

- **Buy an Annuity**

This is where an insurance company, bank or building society of your choice takes your AVC Fund and pays you a pension in return.

You would buy an annuity at the same time as you draw your LGPS benefits.

An annuity is paid completely separately from your LGPS benefits.

The amount of annuity depends on several factors, such as interest rates and your age. You also have some choice over the type of annuity, for example whether you want a flat-rate pension or one that increases each year, and whether you also want to provide for dependants' benefits in the event of your death.

Annuities are subject to annuity rates which in turn are affected by interest rates.

When interest rates rise, the organisation selling annuities is able to obtain a greater income from each pound in your AVC fund, and therefore can provide a higher pension. A fall in interest rates reduces the pension which can be purchased.

- **Buy a Top-up LGPS Pension**

When you take your LGPS benefits you can use some or all of your AVC fund to buy a top-up pension from the LGPS. This automatically provides an inflation-proofed pension and dependants' benefits and is based on set purchase factors which can change from time to time.

- **Take your AVCs as cash**

You can take some or all of your AVC fund as a tax-free cash lump sum but you can only take it all as a lump sum if you take it at the same time as your main LGPS benefits and **provided**, when added to your LGPS lump sum, it does not exceed 25% of the overall value of your LGPS benefits (including your AVC fund).

- **Buy extra membership in the LGPS**

If you started paying AVCs **before** 30 June 2005 you may be able to in certain circumstances (such as flexible retirement, retirement on ill health grounds, or on ceasing payment of your AVCs before retirement) to convert your AVC fund into extra LGPS membership in order to increase your LGPS benefits.

- **Transfer your AVC fund to another pension scheme or arrangement**

You can transfer your AVC fund to another pension scheme or arrangement, including to a scheme that offers flexible benefits, independently of your main scheme benefits; and provided you have stopped paying AVCs, you can even transfer your AVC fund even if you continue to contribute to the LGPS.

You should be aware that there may be tax implications associated with accessing flexible benefits. The income from a pension is taxable; the rate of tax you would pay depends on the amount of income that you receive from a pension and from other sources.

### **Flexible retirement**

If you draw benefits on flexible retirement and your AVC contract started on or after 30 June 2005 you can choose to take all your AVC fund at the time you take your flexible retirement benefits, and, if you wish, continue paying AVCs.

If your AVC contract started before 30 June 2005 your AVC contract will cease, and you will have to use all your AVC fund in one of the above ways at the time you draw your flexible retirement benefits.

### **Leaving Before Retirement**

Your contributions will cease when you leave. The value of your AVC fund will continue to be invested until it is paid out. Your AVC plan is similar to your main LGPS benefits: it can be transferred to another pension arrangement or drawn at the same time as your LGPS benefits.

Payments into in-house AVCs will stop when you leave or retire.



## Getting guidance

Deciding how to use your AVC plan is one of the most important financial decisions you are likely to make, so we recommend you get guidance from Pension Wise to help you decide which option is best for you.

[Pension Wise](#) is a government service from [MoneyHelper](#) that offers free, impartial guidance about your defined contribution pension options. Your AVC is a defined contribution pension that is attached to your LGPS pension.

Because it is such an important decision, Fife Pension Fund is not allowed to proceed with your application to access or transfer your AVCs until you tell us you have either received guidance from Pension Wise or you wish to opt out of taking guidance from Pension Wise. This is a legal requirement. The Pensions Team will offer to book a Pension Wise appointment for you when you contact them about accessing or transferring your AVC plan.

## How do I start paying AVCs?

### Paying AVCs to Prudential

For more information on paying AVCs, and to set up an AVC Prudential plan online, please visit [www.pru.co.uk/localgov](http://www.pru.co.uk/localgov)

### Paying AVCs to Standard Life

For more information, please visit [www.standardlife.co.uk/pensions](http://www.standardlife.co.uk/pensions) or phone 0345 278 5643. If you wish to start an AVC plan with Standard Life, please complete the Standard Life application form which you can download from the Forms and Publications section at [Standard Life AVC Application Form | Fife Pension Fund](#) or contact The Pensions Team on 03451 555555 849091 and we will post an application form to you. Please return the completed form to The Pensions Team who will then instruct Standard Life to set up your AVC plan.

## Salary Sacrifice Shared Cost AVCs

LGPS employers can choose to offer Salary Sacrifice Shared Cost AVCs (SSSCAVCs). The main advantage of joining a salary sacrifice SCAVC scheme is that you pay less National Insurance Contributions in addition to receiving tax relief.

It is an employer decision whether to offer salary sacrifice SCAVCs.

Fife Council has set up a salary sacrifice SCSAVC scheme with Prudential. More information on this scheme can be found on the Council's intranet in the HR online section about Employee Benefits.

If you are not employed by Fife Council, please contact your HR Service to find out if your employer participates in a salary sacrifice scheme with Prudential.

## Other Ways to increase your retirement income

### **Paying Free Standing Additional Voluntary Contributions (FSAVCs)**

These are similar to in-house AVCs but are not linked to the LGPS in any way. With FSAVCs, you choose a provider, usually an insurance company. **You may want to consider their different charges, alternative investments, and past performance when you do this.** You choose how much to pay into an FSAVC arrangement. You can pay up to 100% of your UK taxable earnings, less your normal pension contributions.

Your FSAVC fund should grow as it is invested and will be available later in your life to convert into an additional pension of your choice. You can often choose which investment route you prefer. You can take up to 25% of the value of your FSAVC fund as a tax-free lump sum. You can also pay FSAVCS to provide additional life over.

### **Contribute to a concurrent personal pension plan or stakeholder pension scheme**

You may be able to make your own arrangements to pay into a personal pension plan or stakeholder pension scheme at the same time as paying into the LGPS. With these arrangements, you choose a provider, usually an insurance company. You may want to consider their charges, alternative investments, and past performance when you do this.

## **I am already buying extra LGPS membership and/or paying Additional Regular Contributions. Can I buy any extra benefits?**

Even if you are already buying added years under a contract which you entered into before 1 April 2009, and / or are purchasing additional pension through an Additional Regular Contribution (ARC) contract which you entered into before 1 April 2015, you can still pay Additional Pension Contributions (APCs) to buy extra LGPS pension (APCs), and / or pay Additional Voluntary Contributions (AVCs), or Free Standing AVCs (FSAVCs), or contribute to a concurrent personal pension plan or stakeholder pension scheme, if you wish.

## What if I'm paying extra and I am absent from work?

Rules apply if you are paying extra contributions, and you are absent from work due to:

- sickness or injury,
- relevant child related leave,
- authorised leave of absence,
- a trade dispute, or
- reserve forces service leave

If you

- Entered into a contract before 1 April 2015 to buy extra pension (ARCs) or,
- Entered into a contract before 1 April 2009 to buy extra LGPS membership (added years) and

you are absent from work due to sickness or injury on full or reduced pay, or absent due to child related leave, authorised leave of absence, a trade dispute or reserve forces service leave where your reserve forces leave pay is equal to or greater than your normal pay, you must continue to pay the extra pension contributions you had contracted to pay as if you were not on leave. Where necessary, these can be collected from your pay when you return to work. If you are absent from work due to sickness or injury on no pay or are on reserve forces service leave where your reserve forces leave pay is less than your normal pay, the extra contributions are deemed to have been paid.

If you

- entered into a contract to pay Additional Pension Contributions (APCs)

and you are absent from work due to sickness or injury on full or reduced pay, or absent due to relevant child related leave, authorised leave of absence, a trade dispute or reserve forces service leave, you must continue to pay the extra pension contributions you had contracted to pay as if you were not on leave. Where necessary, these can be collected from your pay when you return to work. If you are absent from work due to sickness or injury on no pay the extra contributions are deemed to have been paid.

If you are:

- paying Additional Voluntary Contributions (AVCs)

and are absent from work due to sickness or injury, relevant child related leave, authorised leave of absence, a trade dispute or reserve forces service leave then you can continue to make payments in respect of any such AVC or SCAVC contracts.

## Do the tax rules on pension savings limit the extra I can pay?

There are HMRC (HM Revenue and Customs) controls on

- the amount of pension savings you can make in a year known as the Annual Allowance, and
- the total amount of pension savings you can have in all pension schemes, known as the Lifetime Allowance

before you have to pay extra tax. This is in addition to any income tax you pay on your pension when it is paid to you. Most people will be able to save as much as they wish because their pension savings are less than the allowances.

The Annual Allowance increased to £60,000 from 6 April 2023.

The UK Government has confirmed that no-one will pay a lifetime allowance tax charge from 6 April 2023. If a tax charge arose before this date, it is still payable. The lifetime allowance will be abolished completely from 6 April 2024.

You can find more information on the Annual Allowance and Lifetime Allowance on our website [The Annual Allowance Factsheet 2023 | Fife Pension Fund](#).

There is no limit on the amount of pension contributions you can pay. You will not get tax relief on all your contributions if you pay more than your taxable pay into your pension in a tax year.

## Contact Details

Website: [www.fifepensionfund.org](http://www.fifepensionfund.org)

Email: [pensions.section@fife.gov.uk](mailto:pensions.section@fife.gov.uk)

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