



Increasing your benefits

In this leaflet we explain how, as a member of the Local Government Pension Scheme, you can pay extra to increase your pension benefits.

Where pension terms are used, they appear in ***bold italic*** type. These terms are defined at the back of this leaflet.

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.

You can improve your retirement benefits by paying:

- Additional Regular Contributions (ARCs) to buy extra LGPS pension
- Additional Voluntary Contributions (AVCs) to the in-house AVC scheme
- Free Standing Additional Voluntary Contributions (FSAVCs) to a scheme of your choice
- Contributions into a stakeholder or personal pension plan

You can combine any of these options.

Are there any limits on how much I can pay to increase my pension benefits?

At the present time there is no overall limit on the amount of contributions you can pay (although there is a limit on the extra Scheme pension you can buy and on the amount you can pay into the Scheme's AVC arrangement). However, tax relief will only be given on contributions up to 100% of your taxable earnings.

Additionally, under HM Revenue and Customs tax rules there are controls on the pension savings you can have before you become subject to a tax charge - these will mainly affect some higher paid people. These are explained in more detail below.

As your normal LGPS contributions are between 5.5% and 7.5% of your pay this leaves a significant proportion of your taxable earnings that you can invest in ARCs or AVCs.

Can I increase my dependant's benefits?

You can pay extra contributions to increase the level of your husband's, wife's, ***civil partner's*** or ***nominated co-habiting partner's*** pension and any pension payable to your ***eligible children*** on your death.

The options explained:

Paying additional regular contributions (ARCs) to buy extra LGPS pension

You can pay more in contributions to buy up to £5,000 of extra annual pension in blocks of £250. This is payable on top of your normal LGPS benefits.

You can buy extra pension for yourself and, if you wish, extra pension for your husband, wife, **civil partner**, **nominated co-habiting partner** or **eligible children** on your death.

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

You can start to buy extra pension at any time up to your 64th birthday. You decide how long you want to pay extra contributions for, although it must be for a number of whole years and payments must be completed by age 65.

The cost to you of buying extra pension is calculated in accordance with guidance issued by the Government Actuary; this can be reviewed at any time. The extra pension you are buying will increase in line with the cost of living, both before and after you draw your pension.

You can choose to stop paying ARCs at any time by notifying Pension Services and your employer in writing. You will be credited with the extra pension that you have paid for at the time of ceasing payment.

If you leave or retire before completing payments, your contributions will cease and you will be credited with the extra pension that you have paid for at the time of leaving. This will increase the value of your LGPS benefits. However, if you are retired due to permanent ill health and you qualify for the type of ill-health pension where your benefits are based on enhanced membership, you will be credited with all the extra pension that you set out to buy, even if you have not completed full payment for it.

Your extra pension will be paid at the same time as your LGPS benefits.

If you choose to retire early and draw your benefits before age 65, or retire on redundancy or business efficiency grounds, the extra pension you have bought will be reduced for early payment.

If you draw your benefits on flexible retirement, you will be able to draw the extra pension you have paid for, although it will be reduced for early payment.

If you draw your pension after age 65, the amount of your extra pension will be increased to account for late payment.

On retirement, you can choose to exchange some of the extra pension you have bought for a cash lump sum in the same way as your main LGPS pension. For more information on exchanging part of your pension for a lump sum see the leaflet **Your LGPS retirement benefits**.

If you die in service and you opted to pay for dependant's benefits when you took out your original ARC contract, then extra benefits will be payable to your husband, wife, **civil partner**, **nominated co-habiting partner** and to **eligible children** as if you had completed all payments. If you did not opt to pay for dependant's benefits when you took out your original contract, then no extra benefits will be payable.

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. If you die on pension when under age 75, a lump sum of 10 times your extra annual pension minus any extra pension already paid to you may be payable. If you opted to pay for dependant's benefits when you took out your original ARC contract, then extra benefits will be payable to your husband, wife, **civil partner**, **nominated co-habiting partner** and to **eligible children**.

For more details contact Pension Services. You may be required to undergo a medical examination at your own expense before being allowed to buy extra pension.

Paying Additional Voluntary Contributions (AVC) into the in-house AVC Scheme

All local government pension funds have an in-house AVC scheme where you can invest money, deducted directly from your pay, through an AVC provider. Norwich Union is the RBK Pension Fund 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 when you retire to buy an additional pension of your choice. You can choose which investment route you prefer.

You decide how much you can afford to pay. You can pay up to 50% of your taxable earnings 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 (at your highest rate) automatically through the payroll. You qualify for full tax relief on all pension contributions up to 100% of your taxable earnings, including your normal contributions.

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

If you have previously paid in-house AVCs to the LGPS in England or Wales, these can be transferred to the AVC arrangement offered by your new Pension fund administrator. If you have paid AVCs to a different scheme, you can transfer these to the LGPS to purchase extra membership but an election to do so must be made within 12 months of joining the LGPS, unless your employer allows you longer. This is an employer **discretion**; you can ask your employer what their policy is on this matter.

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 can do this at the same time as you draw your LGPS benefits or you can choose to delay payment until any time up to the eve of your 75th birthday. If you work after age 65 you cannot buy an annuity until you stop working and retire, or you reach the eve of your 75th birthday if this is earlier.

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**

If you retire with immediate payment of your benefits you may be able to 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 factors which do not tend to change.

Take your AVCs as cash

If you draw your AVCs at the same time as your LGPS pension, you may be able to take some or all of your AVCs as a tax-free lump sum.¹ If you retire (other than on flexible retirement) and decide to draw your AVCs later, you can normally only have up to 25% of your AVC fund as a lump sum.

¹ 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) and the total lump sum does not exceed £412,500 (2008/2009 figure) less the value of any other pension rights you have in payment.

- **Buy extra membership in the LGPS**

If your election to start paying AVCs was made before 13 November 2001 you may be able in certain circumstances, such as 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. This membership counts as pre 1 April 2008 membership in the calculation of your benefits. To find out how benefits are calculated on pre 1 April 2008 membership see the leaflet **If you joined the LGPS before 1 April 2008**.

If you leave 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, drawn at the same time as your LGPS benefits or deferred until the eve of your 75th birthday at the latest.

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

Paying Free Standing Additional Voluntary Contributions (FSAVCs)

This is similar to in-house AVCs but it is 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 taxable earnings, less your normal pension contributions.

Your AVC 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 sum².

You can also pay FSAVCs to provide additional life cover. Your LGPS membership already gives you cover of three times your pay if you die in service, but you can increase this amount via an FSAVC or use the FSAVC to provide additional dependants benefits on your death in service. This may be subject to satisfactory completion of a medical questionnaire.

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.

² Provided the lump sum does not exceed £412,500 (2008/2009 figure) less the value of any other pension rights you have in payment.

You choose how much to pay into the arrangement. You can pay up to 100% of your total taxable earnings in any one tax year (or £3600 if greater) into any number of concurrent pension arrangements of your choice and be eligible for tax relief on those contributions. There are controls on the pension savings you can have before you become subject to a tax charge – these are explained in **Do the tax rules on pension savings limit the extra I can pay?**

If you pay into a personal pension plan or stakeholder pension scheme, the contributions you make to it are invested in funds managed by an insurance company. You have your own personal account that, over time, builds up with your contributions and the returns on your investment, and will be available later in your life to convert into additional benefits. You can often choose which investment route you prefer.

When the benefits are paid, you will be able to take up to 25% of your Fund as a tax-free lump sum², with the remainder available to buy you an annuity from an insurance company, bank or building society (but you can defer purchasing an annuity until the day before your 75th birthday at the latest).

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 annual increases, and whether you also want to provide for dependants' benefits.

Annuities are subject to annuity rates which 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. Conversely a fall in interest rates reduces the pension which can be purchased.

I am already buying extra LGPS membership. Can I buy any extra benefits?

To buy extra LGPS years (added years) you must have opted to do so before 1 April 2008. If you're already paying extra contributions to buy extra years, you'll continue to pay for them and receive extra benefits on the same basis that you had agreed to buy them. For information on what happens if you are paying added years on leaving or retirement, see the leaflet sections **Leaving your Job before Retirement** and **Your LGPS retirement benefits**.

Even if you are buying extra years, you can still pay additional contributions to buy extra LGPS pension (ARCs) and/or pay Additional Voluntary Contributions (AVCs), if you wish.

Can my employer award me any extra pension benefits?

Your employer, at their **discretion**, can award you up to 10 years extra membership to improve your retirement benefits. They can also grant you up to £5,000 extra annual pension. Your employer can also pay into your in-house AVC scheme. This is known as a shared cost AVC arrangement.

These are **discretions** your employer can use if they so wish; you can ask your employer what their policy is on this.

² Provided the lump sum does not exceed £412,500 (2008/2009 figure) less the value of any other pension rights you have in payment.

What happens if I pay extra and I am absent from work?

If you have entered into a contract to buy extra pension (ARCs) or extra LGPS membership (added years) and you are absent from work due to:

- authorised leave of absence, jury service, strike action, maternity, paternity or adoption leave, you must continue to make the extra pension payments and/or payments to buy additional membership you had contracted to pay as if you were not on leave; or
- reserve forces leave, you continue to build up extra pension/membership but you will only have to pay your extra contributions if your reserve forces pay is equal to or exceeds your normal pay.

If you are paying Additional Voluntary Contributions (AVCs) and are absent from work due to authorised leave of absence, jury service, strike action, maternity, paternity or adoption leave you can arrange to continue to make your AVC payments throughout your leave.

If you are on Reserve forces leave, your AVC payments will continue unless you choose to discontinue them.

Where necessary, your employer will contact you about making the relevant contributions.

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

There are HM Revenue and Customs controls on the total amount of contributions you can make into all pension arrangements and receive tax relief and on all the pension savings you can have before you become subject to a tax charge. These controls are known as the lifetime allowance and the annual allowance.

You can, if you wish, pay up to 100% of your taxable earnings in any tax year (or £3600 if greater) into any number of concurrent pension arrangements of your choice and receive tax relief on the contributions.

The lifetime allowance is the total capital value of all your pension arrangements which you can build up without paying extra tax. If the value of your benefits when you draw them (not including any state retirement pension, state pension credit or any spouse's, **civil partner's** or dependant's pension you may be entitled to) exceeds your lifetime allowance, a tax charge will be made against the excess. The lifetime allowance for 2008/2009 is £1.65 million.

The annual allowance is the amount your pension savings can increase by in any one year (disregarding the year that all your benefits from the Scheme become payable) without paying extra tax. The annual allowance for 2008/2009 is £235,000.

Most scheme members' pension savings will be significantly less than the allowances.

There are protections for benefits earned up to 5 April 2006 in respect of those high earners affected by the introduction of the lifetime allowance from 6 April 2006. You can find out more about these from the leaflet on **Tax controls and your LGPS benefits**.

More information

For more information or if you have a problem or question about your LGPS membership or benefits, please contact:

Pension Services
Royal Borough of Kingston
Guildhall 2
Kingston upon Thames
KT1 1EU
Fax 020 8547 5611

www.kingston.gov.uk/pensions

pensions@rbk.kingston.gov.uk

You can speak to us or e-mail us as follows, according to the first letter of your surname:

1st Letter of your Surname	Pension Services Team Member	Telephone	E-mail
A to G	Gary Stephenson	020 8547 5615	Gary.Stephenson@rbk.kingston.gov.uk
H to R	Kathryn Derbyshire	020 8547 5610	Kathryn.Derbyshire@rbk.kingston.gov.uk
S to Z	Geraldine Wells	020 8547 5722	Geraldine.Wells@rbk.kingston.gov.uk

The national web site for members of the LGPS can be found at www.lgps.org.uk

You can find out about what you can do if you are not happy about a decision made about your LGPS pension position from the leaflet section **Help with Pension Problems**.

Disclaimer

The information in this leaflet applies to individuals who were contributing members of the Local Government Pension Scheme on 1 April 2008 or who have since joined. This leaflet was up-to-date at the time of publication in September 2008. This leaflet is for general use and cannot cover every personal circumstance nor does it cover specific protected rights that apply to a very limited number of employees. In the event of any dispute over your pension benefits, the appropriate legislation will prevail as this leaflet does not confer any contractual or statutory rights and is provided for information purposes only.

Some terms we use

Civil partnership

A Civil Partnership is a relationship between two people of the same sex (civil partners) which is formed when they register as civil partners of each other.

Discretion

This is the power given by the LGPS to enable your employer or your administering authority to choose how they will apply the Scheme in respect of certain provisions. Under the LGPS your employer or your administering authority are obliged to consider how to exercise their discretion and, in respect of some (but not all) of these discretionary provisions, to have a written policy on how they will apply their discretion. They have a responsibility to act with 'prudence and propriety' in formulating their policies and must keep them under review. You may ask your employer or your administering authority what their policy is in relation to a discretion. Your administering authority is Royal Borough of Kingston.

Eligible children

Eligible children are your children. They must, at the date of your death:

- be under 18 and be wholly or mainly dependent on you, or
- be aged 18 or over and under 23, be dependent on you, and be in full-time education or undertaking vocational training (although a dependant child who commences full-time education or vocational training after the date of your death may be treated as an eligible child up to age 23), or
- in some cases, a dependant child of any age who is disabled may be classed as an eligible child.

In all cases, the children must have been born before or within a year of your death.

Nominated co-habiting partner

To be able to nominate a cohabiting partner, of either opposite or same sex, to receive a survivor's pension on your death, your relationship has to meet certain conditions laid down by the LGPS. Information on these conditions, and how to make a nomination, are set out in the leaflet section **Life cover – protection for your family**.