



Nottinghamshire
County Council

Local Government Pension Scheme

PEN 33

Additional Regular Contributions (ARCs)



Introduction

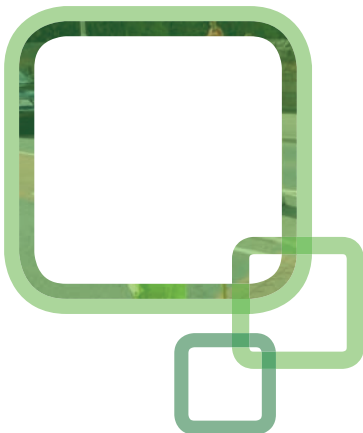
The Local Government Pension Scheme (LGPS) is an excellent “Final Salary” pension scheme which provides a very comprehensive range of benefits.

There are, however, ways of improving these benefits.

This booklet explains one of them.

The scheme allows members to buy additional pension by the payment of additional contributions in order to increase the level of benefit.

Through this plan you can provide extra financial security in retirement with tax relief on your contributions.



How would buying additional pension improve my benefits?

Additional Regular Contributions (ARCs) were introduced to the LGPS on 1 April 2008 and replaced the previous option to buy added years. The option to take out new added years contracts was withdrawn from April 2008, however those members with contracts already in place may continue to make those additional contributions in line with the original agreement.

Making ARCs increases your Annual Pension in multiples of £250 up to a maximum of £5000 a year. That is the total maximum for those with more than one employment. You can therefore boost your pension by £250, £500 or £750 a year - all the way up to the maximum of £5,000. The maximum permitted will increase each year in line with the cost of living.

The value of the additional pension bought also increases in line with the cost of living from the date of your first contribution to the date of the award of those benefits, and cost of living increases are also applied when the pension is in payment.

Your extra pension will be put into payment at the same time as your LGPS benefits.

ARCs do not provide an additional lump sum, but the rules currently allow you to give up some of your additional annual pension on retirement to provide a lump sum at a rate of £1 of annual pension for £12 of lump sum, subject to Her Majesty’s Revenue and Customs (HMRC) limits.

The additional pension element of your benefits will be subject to actuarial reduction if you retire voluntarily before your normal retirement age of 65, or actuarially increased should payment of benefits be deferred after age 65.

You can also choose to provide for dependants' benefits as part of your additional pension, although the amount of your ARCs will be higher if you choose to do this. If you do, a dependant's pension can only be paid to a dependant that is recognised by the LGPS 2008 Regulations to receive a survivor's pension. They must be a legal spouse, a civil partner, a nominated cohabiting partner, or an eligible child. A survivor's pension is equivalent to 37.5% of the member's additional pension, and if payable, a single eligible child would receive 18.75%. If there is more than one eligible child, the total additional pension will be 37.5% divided equally between the total number of children. The amounts payable to children where a partner's pension is not payable are increased to 25% and 50% respectively.

The dependants' pensions are based on the original amount of additional pension chosen, even if the member's pension has been reduced by commutation to lump sum, or reduced because of early payment.

Can anyone buy additional pension?

The County Council will not accept an election for ARCs unless it is approved by the Council's Occupation Health Physician, the cost of which (*approximately £105 in April 2010*) must be met by your-self. It should also be noted that if, as a result of the

medical examination, it is necessary to seek further information from your own General Practitioner, then you will also be liable for any additional costs incurred. You must be in reasonably good health before being allowed to pay ARCs as the contract may become paid up automatically if you are retired on ill health grounds or die in service before the completion of the ARC contract, and the additional cost of such is borne by the Pension Fund.

Will the contributions alter if I start to work part-time?

No, you will be required to pay the same amount of contributions as you did when you worked full-time.

How is the additional pension paid for?

ARCs have to be paid by way of regular deductions from pay. The tax relief (normally at your highest rate) is automatically given through the payroll. This means that tax is calculated on your pay after your pension contributions have been deducted. If you are a very high earner, you should check HMRC rules on tax relief.

The contract can start at any time in the year for a minimum length of one year and can be paid over any number of whole years but must start before age 64 and must cease before age 65. You may have more than one contract ongoing at the same time.

You may not purchase ARCs by payment of a lump sum.

What is the cost?

The amount of contributions you pay will depend on:

- your age when you start paying the additional contributions
- your gender
- the amount of additional pension you want to purchase
- the number of years over which you want to pay the contract
- whether you want to increase only your own pension or your own plus a dependant's pension.

An idea of the cost to you can be obtained from our website – visit our ARCs calculator at: www.nottspf.org.uk/index/arc-calculator-form.htm

Alternatively, a formal quotation can be obtained by completing the application form at the end of this guide and returning it to Notts LG Pensions Office.

Are there any tax implications I should consider?

Tax relief will normally be given on contributions up to 100% of your taxable earnings. High earners should check their tax position with HMRC.

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.

Under HMRC 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. More information is available in the member's Full Guide to the scheme, available from Notts LG Pensions Office or on our website: www.nottspf.org.uk

Will the payments change?

The contribution you choose to pay will not increase as your salary increases and is not indexed. However, the amount that you can pay is determined in line with guidance issued by the Government Actuary's Department (GAD) who have the authority to review that amount from time to time. Any increase in payments determined by GAD would then be applied from the following April.

Can I stop payments at any time?

Yes, but you should consider the burden of paying additional contributions before committing yourself in the first instance.

You may choose to cease paying additional contributions at any time by giving written notice of your wish to do so to Notts LG Pensions Office. You would be credited with the proportion of additional pension purchased to the date of ceasing payments.

If you subsequently wished to re-commence payment, if the facility is still available, you would be required to take out a new contract, the contribution rate for which is likely to be higher as it is linked to your age on taking out the contract. Another medical examination, at your own expense, would also be required.

What happens if I leave or retire early?

If you leave or retire before completion of the ARC contract, your contributions will cease and you will be credited with the extra pension that you have paid for at the point of leaving.

If you choose to retire early and draw your benefits before age 65, or you are retired 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.

What happens on ill-health retirement?

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 (tiers one and two only), you will be credited with all of the extra pension that you set out to buy, even if you have not completed full payment for it.

If you are entitled to a 3rd tier ill health pension, you will only be credited with that proportion of the extra pension which you have paid for by the date of leaving.

What happens when I die?

If you have arranged to buy additional pension for dependants, then an increased pension will be paid to them as previously detailed.

It is important to note that if you elect to purchase additional pension for yourself only, in the event of your death in service, no-one will benefit from the additional contributions that you have paid.

If you have left local government service but die before the pension starts (you have deferred benefits), an additional death grant equal to 5 times the value of the additional pension will be paid.

If you die whilst receiving the pension when under age 75, a lump sum of 10 times your extra annual pension minus any extra pension already paid to you is payable as an additional death grant.

What if my circumstances change?

If your marriage or civil partnership is legally ended, or nominated co-habiting partner no longer applies, the additional pension may be taken into account as part of any financial settlement. We will be required to provide information to the court in the same way as we are required to provide information about your Scheme benefits.

If the partnership is ended and the survivor element is no longer relevant, the current contract may remain in force without any adjustments. However, it is only possible to delete the dependant element from the contract by ceasing the contract in full and taking out a new contract without the dependant element. The contribution amount for the new contract is likely to be higher as it would be based upon the factors relevant at that time, and a further medical examination, at your own expense, would also be required. Members should assess this carefully to see if such an action would be beneficial.

Examples

(using factors applicable at April 2010)

Male aged 54 wishes to buy £1000 pa extra personal pension only (ie no dependants) over a period of 5 years:

Age at first contribution	54
Age factor	£61.05 for £250 pa extra pension
To buy £1000 pa additional pension (4 x £250)	4 x £61.05 = £244.20 per month over a 5 year period.

Female aged 25 wishes to buy £500 pa additional personal pension with the appropriate dependant's cover over a period of 10 years:

Age at first contribution	25
Age factor	£15.45 for £250 pa extra pension
To buy £500 pa additional pension (2 x £250)	2 x £15.45 = £30.90 per month over a 10 year period.

Male aged 35 wishes to buy the maximum personal pension only (no dependant's cover) over a period of 20 years:

Age at first contribution	35
Age factor	£12.08 for £250 pa extra pension
To buy £5000 pa (20 x £250)	20 x £12.08 = £241.60 per month over a 20 year period.

If you have internet access, why not try our ARCs calculator?

You can get quotes on different scenarios that best suit your circumstances. This will enable you to decide the most affordable and manageable payment period for yourself.

www.nottspf.org.uk/index/arc-calculator-form.htm

Alternatively, a formal quotation can be obtained by completing the application form opposite.

Additional Regular Contributions (ARCs)

PEN 33A

Application Form for an Assessment of the Cost of Buying Additional Pension

Surname: Mr/Mrs/Miss/Ms/Other

Forename(s):

Partnership

Status: Married / Single / Civil Partner / Nominated-Cohabiting Partner etc

Date of Birth: National Insurance No.:

Home
Address:

Preferred Payment Period: Years *(Number of whole years over which you wish to contribute. This must not take you beyond your 65th birthday.)*

I would like the quotation to be based on increasing my:

- personal benefits only
 personal plus dependant's benefits *(tick as appropriate)*

The quotation will provide details of the cost of purchasing an additional £250 annual pension unless you specify otherwise. This amount may then be multiplied up to the additional annual pension required. Please remember, this must be a multiple of £250 up to a maximum of £5000 per annum.

Signed: Dated: / /

This form should be returned to:

Notts LG Pensions Office
Employee Services Centre
Nottinghamshire County Council
c/o County Hall
West Bridgford
Nottingham
NG2 7QP

For office use only:
Procedure 1ARCQTE9



Disclaimer

The information in this booklet is based on our understanding, at the date of printing, of current pensions and taxation legislation, and of HM Revenue and Customs practice, all of which are liable to change.

Please remember this is only a guide, and we have deliberately used simple terms wherever possible, and cut out much of the technical detail which appears in the regulations. It is the actual regulations which will be used in the event of any dispute or disagreement.

Notts LG Pensions Office is not authorised, under the Financial Services Act, to give scheme members individual advice. If you wish to receive individual and independent advice you may wish to talk to a registered independent financial adviser. You will personally need to meet the cost of any charges made for the advice.



Nottinghamshire
County Council

Contacting us

email **lgpensions@nottsc.gov.uk**

phone **0115 846 3333**

fax **0115 846 3300**

post **Employee Services Centre,
Nottinghamshire County Council, c/o County Hall,
West Bridgford, Nottingham NG2 7QP**

internet **www.nottspf.org.uk**

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