ASSOCIATION OF LOCAL AUTHORITY CHIEF EXECUTIVES AND SENIOR MANAGERS

PENSIONS — FREQUENTLY ASKED QUESTIONS

Thirteenth Edition – November 2019

ANNEX 1
THE LIFETIME ALLOWANCE (LTA)

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1. What is the lifetime allowance (LTA)?

The lifetime allowance (LTA) is the maximum amount of pension savings/benefits you can have in your pension pot without incurring an additional income tax charge. Pension savings and benefits are counted from all sources other than the national state pension (e.g. from the Local Government Pension Scheme (LGPS), returning officer (RO) pensions, occupational pensions from previous employments, private pensions, Additional Voluntary Contributions (AVCs), Additional Pension Contributions (APCs), awards of additional pension etc.). If the value of your pension benefits when you draw them (excluding any state retirement pension, or any partner's or dependant's pension to which you may be entitled) is more than the LTA, or more than your protected LTA, you will have to pay tax on the excess benefits (see questions 9 and 10 below).

2. How much is the LTA?

The current (2019/20) level of the standard LTA is £1,055,000. It is expected to increase by inflation from 6 April 2020. The standard LTA is the limit that applies to all UK taxpayers unless they have additional special / personal protection (see question 11 below), which gives them a higher personal LTA level.

The LTA was first introduced on 6 April 2006, known as "A day". Its initial value in 2006/07 was £1.5m and it increased steadily to £1.8m in 2010/11. It then had a stepped decline through to 2016/17 as set out in the table below. When there has been a reduction in value, HMRC have offered various protections

Tax Year	Standard LTA
2010-11	£1.8m
2011-12	£1.8m
2012-13	£1.5m
2013-14	£1.5m
2014-15	£1.25m
2015-16	£1.25m
2016-17	£1.00m
2017 -18	£1.00m
2018 -19	£1.03m
2019- 20	£1.055m

3. How do I calculate the value of my pension savings for LTA purposes?

For pensions that start to be drawn on or after 6 April 2006 the capital value of your pension savings is calculated by multiplying your annual pension by 20 and adding on any "earned" lump sum you are entitled to draw from the pension scheme.

Remember, however, that you have to add on any other pension entitlements, from any source other than the national state pension, to get the full value of your pension savings. It is this total value of all your pension savings that has to be used for LTA purposes.

For pensions already in payment before 6 April 2006, the capital value of these benefits is calculated using a different formula. You should check with your Fund administrator, the impact this pension(s) has for you

When any LGPS benefit, or any other pension arrangement you may have, is put into payment you use up some of your LTA – so, even if such pensions are small and the capital value of them is well below the LTA, you still need to keep a record of them. If you have a pension that came into payment before 6 April 2006, this will still count as having used up some of your LTA.

If you were in the LGPS prior to April 2014 the pension benefits you earned up to that time will be increased to reflect the growth in your final salary/pensionable pay at retirement. In April 2014 the LGPS in England and Wales (April 2015 in Scotland and Northern Ireland) changed to a Career Average Revalued Earnings (CARE) scheme. From April 2014 (April 2015 in Scotland and Northern Ireland) the value of your pension savings at the end of each financial year will need to be calculated based on the value of your pensionable pay in that financial year and added to your "pot" from April 2015 (April 2016 in Scotland and Northern Ireland) revalued by the relevant CPI figure for each subsequent year.

Your employer provides you with an Annual Benefit Statement / Illustration normally in August for the preceding financial year . This normally sets out the value of your pension earned at 31st March and the value of any lump sum you have built up arising from your service prior to April 2008. The pension earned is normally broken down into:

- Pre April 2008 benefits earned (Pension and Lump sum)
- April 2008 to March 2014 (Pension)
- Post April 2014 (Pension)
-

The Statement also normally includes the value of benefits earned for LTA purposes. It will also provide an estimate of the value of benefits at your normal retirement date using standard assumptions

It's a simple calculation based on pension earned times 20 + lump sum

Thus, say pension earned to date is £45k and the lump sum is £100k

The value for LTA purposes will be (£45k*20) + £100k = £1m

The value of your pension quoted assumes you retire at your normal pension age. If you retire early on a voluntary basis, your pension and possibly lump sum will reduce and thus the value of your benefits will be less.

It will be very helpful to you if you understand how the LTA rules operate and the factors that will drive increases in the value of your benefits. Increases in final pensionable pay will drive the value of benefits earned prior to April 2014 and the value of your CARE pension benefits will increase each year based on your pay. For example:

Say Pay of £120k, and you are a standard scheme member with the normal accrual rate / pension build up rate of 1/49th

Pension earned is £120k/49 = £2,450

Growth in value of Benefits for LTA purposes is £49k (+ any final salary growth in pension and lump sum)

Before making any binding decisions, its essential that you get accurate figures from your own pension fund authority or, for a fee, from ALACE's Pensions Calculations Service (provided by Hymans Robertson, and to be contacted through ALACE consultant, Pete Morris and *not directly*. If the Consultant is unavailable and the matter is urgent, please contact the Honorary Secretary).

Remember the LTA covers <u>all</u> your pensions earned and saved excluding your state pension.

4. How is my LGPS pension savings tested against the standard LTA?

As indicated in question 3 above, the current earned value of your LGPS pension is multiplied by a factor of 20 and added to any tax-free lump sum you have earned. The resultant figure is referred to as "*the capital value*" of your benefits.

The LTA is tested against the value of your pension savings, based on the pension and lump sum amounts that you are going to receive. Examples of factors that may reduce the value of your benefits compared to those quoted in your benefit illustration include:

- any commutation (reduction) in pension to increase the tax free lump sum (see question 6 below);
- after the application of any actuarial reductions as a result of voluntarily retiring before your normal pensionable age
- after the application of a pension debit on divorce; and
- after any deduction made for utilising the "*Scheme Pays*" facility for Annual Allowance charges

Remember that you also need to include in the calculation any pension benefits from any other source other than your national state pension (see question 1 above).

5. What is the maximum tax free lump sum available at retirement?

The maximum tax-free lump sum is restricted to the lower of:

- 25% of the capital value of the benefits to be paid; or
- 25% of the LTA that applies to you – this will be the standard LTA unless you have special protection for a personal higher LTA (see questions 11 and 12 below).

In 2019-20 the standard LTA is £1.055 million, so the largest tax-free lump sum you can take if the standard LTA applies to you is £263,750. If, however, you have retained 'fixed protection 2012' for a personal LTA of £1.8m then the largest tax-free lump sum you can take is £450,000; or if you have 'fixed protection 2014' for a personal LTA of £1.5m it is £375,000; or if you have 'fixed protection 2016' for a personal LTA of £1.25 million it is £312,500. If you have primary, enhanced or individual protection, the sum protected will vary and be individual to you; you are permitted to take up to 25% of that figure as a tax-free lump sum.

6. What effect will taking a larger tax-free lump sum have on my pension?

If you were a member of the LGPS prior to 6 April 2008 you will have earned a tax-free lump sum equivalent to three times your pension as at that time, up-rated to reflect your pensionable pay at retirement. This will usually be below the maximum tax-free lump sum you are able to take (see question 5 above). You can also swap pension for lump sum, for every extra £12 of tax free lump sum you take, your index linked pension will be reduced (commuted) by £1.

So if, for example, the current standard LTA of £1.055 million applies to you, and you are due to receive a tax-free lump sum of £100,000 for your pre-2008 service but decide to "commute" (reduce) your pension so as to take the maximum permissible tax-free lump sum (£263,750), you would be taking an extra £163,750 as tax-free lump and would therefore lose approximately £13,650 from your annual pension.

If you decide to commute some of your pension into lump sum you do not have to choose the maximum option. You can take a tax-free lump sum of any amount between that which you had earned up to April 2008 and your maximum. Clearly, if you take less than the maximum amount your pension will be reduced by less.

Another way in which you can increase your tax free lump sum is to take your AVC savings as tax free cash provided that you do not exceed your maximum tax free lump sum limit.

You can take up to 25% of the total capital value of all your pension benefits in the form of a lump sum if you wish, even if that figure exceeds 25% of the LTA that applies to you, but any excess over the 25% LTA tax free figure will be subject to tax.

7. What are the main pros and cons of taking a larger lump sum?

This is an important decision because once your benefits are brought into payment, you cannot change your mind. Before making this important decision, you should consider taking professional independent financial advice and evaluate the issues that may be important to you, such as –

- how long do you think you will live for?
- what do you want to do in retirement / when and what is your demand for capital– if, for example, you want to buy a property abroad, or help your children onto the 'property ladder' then a larger lump sum may be attractive to you;
- you are swapping taxed pension for tax free lump sum, the tax rate will dependent on your income but at current rates, this is likely to be 20% or 40% and may change as your income changes - (For example say £10k pension swapped for £120k tax free lump sum, the reduction in pension after income tax at the higher rate will be £6k and £8k if taxed at standard rate;
- remember, however, that your pension will increase in line with inflation, whereas your lump sum payment, as a single payment, will not;
- your assumptions on investment returns, inflation and interest rates

- your state of health.

It is also worth bearing in mind the LTA tax implications, if your pension pot for LTA purposes exceeds the LTA that applies to you, you will, by commuting some of your pension into lump sum, reduce the value of your pension savings and thus your tax charge if any, will be less. This is because the formula used for assessing the size of your pension savings for LTA purposes results in the value of your pension savings falling by £8k for every £1k of pension swapped for lump sum.

For example, if the standard LTA is assumed to be £1m (for illustrative purposes) and your standard benefits at retirement are:

Pension £50k
Lump Sum £100k

This gives a value of £1.1m and an excess of £100k

Assuming Maximum tax free Lump sum swap of £12.5k pension for extra £150k lump sum. The adjusted benefits are:

Pension £37.5k
Lump Sum £250k

This gives a value of £1m and thus **0** excess and no LTA tax liability.

Gains from swap

- £150k lump sum
- No LTA charge, Excess reduced by £100k, Tax saving of £25k if excess taken as a pension (the tax rate is 55% if the excess is taken as a lump sum)

Losses from swap

- £12.5k reduction to your taxed index linked pension but this will be partially offset by your marginal rate of tax which could be 20% or 40% or a combination of both rates depending on your personal financial circumstances

Deciding which option is best is clearly an important decision on which you may want to take independent financial advice.

8. What is a protected lump sum?

If, on 6 April 2006, you had lump sum benefits totalling more than £375,000, from all your pension providers, you could have applied to HMRC to protect your lump sum from tax charges. If you did this then you would also have applied at the same time for either primary or enhanced protection and you would have received a certificate from HMRC confirming that you held such protection. That certificate would also advise you of your lump sum protection.

9. What additional tax charges are applied if the capital value of my pension benefits exceeds the LTA?

An LTA charge is payable when the capital value of pension benefits brought into payment (see Q4) exceeds the LTA or your protected LTA. The State Pension is not included in these calculations.
This will be a more complicated process where you have multiple pension savings that are brought into payment (crystallised) at different times.

The rate of tax you pay on pension savings above your LTA depends on how you take your pension savings:

- 55% if you take the excess as a tax free lump sum; and
- 25% if you take it by way of pension (and your pension then has current tax rates applied).

How you meet the tax charge is a decision that you will take at retirement. You may want to take advice from an independent financial adviser on this matter.

The tax charge is designed to be broadly neutral irrespective of whether it is taken from your lump sum or as a reduced pension as illustrated below. However, this is on average and factors such as life expectancy and your marginal tax rate are important factors in determining which is best for you.

Say pension savings are £100,000 greater than the LTA.
Thus, tax due if £100,000 excess is taken as a lump sum = £55,000 (£100,000 x 55%)

If taken from the pension, £100,000 lump sum equates to £5,000 pension (HMRC factor for valuing pension is 20)
Tax charge is 25% of £5,000 = £1,250 (this will normally be paid by your pension fund to HMRC).
Pension subject to income tax, assuming higher rate payable, is taxed at 40%
Thus, tax paid on remaining £3,750 pension is £3,750 x 40% tax = £1,500
The total tax paid on the pension at an annual equivalent = £2750 (£1,250 reduced pension + income tax at £1500).
Lifetime equivalent cost = £2,750 x 20 (HMRC factor for valuing pension) = £55,000

10. How do I pay the LTA charge if I take my excess benefits in the form of pension?

The 25% charge is normally deducted from your pension when it is paid to you. You do not need to meet the charge before your pension is paid to you. An age related factor is used to determine the reduction to your pension which is around 20, if you take your benefits at 60, the factor will be higher if you are younger and lower if you are older.

For example, say excess is £100k and you have chosen the pension option to meet the tax charge. The tax charge is £25k (25%) which equates to a reduction in pension of £1,250 (£25k/20). Income tax is then paid in the normal way on the pension brought into payment.

You should get a statement from your pension administrator telling you how much tax you owe if you go above the LTA. Your pension provider will deduct the tax before you start getting your pension. You will need to report the tax deducted to HMRC by filling in a self-assessment tax return.

11. What type of personal LTA protections have been available?

On 6 April 2006 two types of protection were available – **primary protection** and **enhanced protection**. You had to apply to HMRC for either of these before 6 April 2009.

You could apply for **primary protection** if your pension benefits were already worth more than the then standard LTA of £1.5 million on 5 April 2006. You could apply for **enhanced protection** regardless of the value of your accrued benefits as at 5 April 2006. You can hold both primary protection and enhanced protection. If you have questions relating to your primary and / or enhanced protection, please discuss the issue initially with your fund administrator or an ALACE pension consultant.

When the standard LTA was reduced from £1.8m to £1.5m on 6 April 2012 you could apply for **fixed protection 2012 (FP12)** to give you a personal LTA of £1.8m, provided you applied to HMRC before the deadline. You could not apply for FP12 if you already held primary or enhanced protection.

When the standard LTA was reduced from £1.5m to £1.25m on 6 April 2014 you could apply for **fixed protection 2014 (FP14)** to give you a personal LTA of £1.5m, provided you applied to HMRC before the deadline. You could not apply for FP14 if you already held primary or enhanced protection or FP12.

When the standard LTA was reduced from £1.5m to £1.25m on 6 April 2014 you could also apply for Individual Protection 2014 (IP14). You could apply to HMRC for IP14 provided the capital value of your pension pot exceeded £1.25m on 5 April 2014**.** IP14 gave you a personal LTA equivalent to the capital value of your pension savings on 5 April 2014 up to a maximum of £1.5m. You could apply for IP14 until 5 April 2017. You can hold IP14 *and* enhanced protection, or IP14 *and* FP12 or FP14 or FP16 (see Q.12 below). You cannot, however, hold both IP14 and primary protection.

12. What types of personal LTA protections are currently available?

There are 2 different types of protections that you can consider applying for. These are:

Fixed Protection 2016

Individual Protection 2016

The HMRC website explains what each protection does and whether you can keep building up your pension. Some background information is set out below.

When the standard LTA was reduced from £1.25m to £1m on 6 April 2016 the HMRC announced it would be introducing a new fixed protection, **fixed protection (2016) (FP16)** to give you a personal LTA of up to £1.25m**.** No deadline for applications for FP16 has yet been set. The HMRC has an online service for pension scheme members to apply for FP16. Applicants will be given a reference number by the HMRC which should be kept safe. You cannot apply for FP16 if you already hold primary or enhanced protection or FP12 or FP14. However, there is no point in applying for FP16 unless you left the LGPS before 6 April 2016.

Fixed protection will be lost if you:
- Continue active membership and have further benefit accrual;
- Make further money purchase contributions; and
- Can be lost through transfers to other arrangements

If you have fixed protection, you should always check with an expert that future actions will not unexpectedly result in the loss of your Fixed Protection.

When the standard LTA was reduced from £1.25m to £1m on 6 April 2016 the Government introduced a new individual protection, **individual protection 2016 (IP16).** You can apply to HMRC for this provided the capital value of your pension pot exceeded £1m on 5 April 2016**.** IP16 gives you a personal LTA equivalent to the capital value of your pension savings on 5 April 2016 up to a maximum of £1.25m. As with FP16, the HMRC has an online service for pension scheme members to apply for IP16. HMRC will send you a reference number rather than a certificate once you have successfully applied for IP16 which you need to keep safe. You can still apply for IP16 if you already have enhanced protection, FP12, FP14, or FP16. You cannot apply for IP16 if you have either primary protection or IP14. If you have any of the above protections other than FP16 and IP16 you should have a personal certificate from the HMRC confirming that you hold that protection and outlining the rules that relate to it.

13. In what circumstances can I lose fixed protection (FP)?

You cannot give up FP voluntarily, but from 5 April 2012 (in the case of FP12), from 1 April 2014 (in the case of FP14), and from 1 April 2016 you can lose it if you –

- make further contributions to a money purchase pension arrangement (e.g. AVCs or into a personal pension plan);
- built up further benefits in the LGPS that exceeds "benefit accrual" (see question 15 below);
- built up new benefits in a defined benefits scheme other than the LGPS or in a cash balance pension scheme above benefit accrual; or
- join a new pension scheme – unless you are transferring pensions within the LGPS (note that moving from the England and Wales LGPS to the Northern Ireland or Scotland Schemes, or vice versa, counts as joining a new scheme).

14. What is "benefit accrual"? and how is it breached?

In most pension schemes "*benefit accrual*" simply refers to accruing, or paying in more cash into your pension savings. In the LGPS it has a slightly different meaning because the LGPS is a "*defined benefits*" pension scheme. In a defined benefits pension scheme, it is possible to accrue more benefits into a pension pot provided the "relevant percentage" is not exceeded. The relevant percentage for any one financial year is the percentage increase in the Consumer Price Index (CPI) in the September of the previous financial year. Only after the growth in your pension savings has exceeded this figure does "*benefit accrual*" for the purposes of a defined benefits pension scheme occur.

This is complicated and there are material risks of breaching the beneficial accrual rate. As time has passed, with new LGPS rules introduced, it has become more difficult to move in and out of the Scheme without potentially material adverse consequences re either your tax position or benefits (particularly if you retire in the interests of efficiency).

If you are considering such an approach, you should seriously consider seeking advice in advance to confirm that the benefit accrual rules are not breached. Some members automatically lost their protection when the "relevant percentage" (inflation) was negative, and they continued to be a member of the LGPS. For example, anyone holding FP12 or FP14 who stayed in the LGPS after 5 April 2016 will automatically have lost their FP because any additional accrual in 2016 -17 will mean that the "relevant percentage" had been exceeded.

It also means that anyone applying for FP16 who stayed in the LGPS after 5 April 2016 will also have automatically lost their FP16.

Your Fund administrator should be able to advise you whether your pension savings have increased by more than the relevant rate, if it has, it's too late and you will have lost your protection.

It is also worth remembering that leaving the LGPS or switching to the 50:50 option is an important decision. It is important therefore to consider taking independent financial advice before taking such a decision in order to ensure that you are aware of the full financial and other consequences of doing so.

15. What happens if I lose my protected LTA?

If you lose your Lifetime Allowance Protection you have an obligation to inform HMRC within 90 days of doing so, otherwise you may face a financial penalty.

You are required to notify HMRC that benefit accrual has taken place within 90 days of this date, and that you have lost your FP. Failure to do so may result in a financial penalty being applied. It is not an automatic penalty, and each case will be considered by the HMRC on its own merits.

Once the initial penalty is issued, however, there is an automatic daily penalty for non-payment.

A member is often not aware that they have lost their Fixed Protection, or it is a long time after the event when they did so. If you think you have lost or about to lose your Fixed Protection, you should ask your Fund Administrator for help in determining when it was lost. Clearly, this is more difficult when a member has a number of separate pension savings. **It is important to tell HMRC as soon as you can that you have lost your Fixed Protection.**

If you have not taken your retirement benefits (a benefit crystallisation event), HMRC are normally sympathetic in considering late notifications and determining whether or not to apply penalties.

You will revert to the standard LTA (£1.055m in 2019/20) applying at the time of your retirement or if you have Individual Protection whichever is the higher and pay additional tax charges on any benefits earned in excess of the LTA applying at the date of your retirement. **If you do not hold Individual Protection, you should check whether you are eligible to apply for IP 2016**.

16. If I opted out of the LGPS, permanently or temporarily, to retain my fixed protection (or enhanced protection), will the auto-enrolment arrangements affect my ability to retain FP or EP?

If you are automatically enrolled by your employer back into the LGPS, you have one month to opt out again to avoid losing your protection.

17. What is Individual Protection (IP) And how do I apply for it?

Individual Protection (IP) was introduced by the government from 6 April 2014. It was only relevant for those whose total pension saving was worth £1.25m or more at 5 April 2014. The original IP gave you a protected LTA equal to the value of your pension savings on 5 April 2014 – up to an overall maximum of £1.5 million. It had a deadline for applications of 5 April 2017 and can, therefore, no longer be applied for.

When lowering the standard LTA from £1.25m to £1m from 6 April 2016 the Government announced a new form of individual protection – Individual Protection 2016 (IP16).

With Individual Protection, an advantage is that further pension savings can continue to be made.

IP16 gives a protected LTA equivalent to the value of your total pension pot on 5 April 2016 provided that exceeds £1m up to a maximum protection of £1.25m.The value of any pension savings above the protected Lifetime Allowance will be liable to the Lifetime Allowance charge.

If you do not have any form of personal LTA protection, including if you have now lost your original enhanced protection or fixed protection, and your pension pot was worth more than the current standard LTA as at 5 April 2016, then you should seriously consider applying for IP16.

If your pension savings were worth more than £1m on 5 April 2016 you can apply online to HMRC for IP16. Go on the HMRC website, put "*Individual Protection 2016*" into the search engine and it will take you to a list which includes *"Pension schemes: protect your lifetime allowance"*. Click on this and it will take you to the relevant guidance notes and form.

You will need to have an accurate total value of your pension savings as at 5 April 2016 from all your pension sources, (other than the national state pension), for example from the LGPS, returning officer pension, private pensions, AVCs etc.

The maximum protection you can apply for under IP16 is £1.25m even if the value of your pension pot as at 5 April 2016 exceeded this figure.

18. Can I lose individual protection (IP)?

No – unlike fixed protection you will not lose IP (14 or 16) if you continue pension saving . Any pension savings, however, in excess of your protected LTA under IP, will be subject to an additional lifetime allowance tax charge.

Individual Protection may have no value if another separately held protection is more valuable or the standard LTA exceeds your protected LTA.

19. Can I hold other types of protection in addition to individual protection (IP)?

Yes. You can hold IP and enhanced protection (EP) or fixed protection (FP12, FP14 or FP16).

You cannot apply for IP16 if you already hold primary protection or IP14.

20. If I already have enhanced protection (EP) or fixed protection (FP12, FP14 or FP16), is it worth also applying for individual protection 2016 (IP16)?

Possibly, although it depends on your own particular circumstances, in particular, the value of your pension savings on 5/4/16 and the value when you retire.

If your pension pot was worth more than the current Lifetime Allowance on 5 April 2016, even if that value is not as great as the protected LTA you have through your EP or FP, IP16 could still act as a form of insurance should you lose your EP or FP which, with FP you will have done if you have stayed in the LGPS after 5 April 2016 . While it may not be as good as the protection you have under EP or FP, it may be better than the current standard LTA of £1.055m. The Government has indicated that the standard LTA is expected to increase annually in line with inflation

21. If, despite acquiring LTA protection, I will still face additional tax charges in respect of the LTA when I retire, should I utilise the 50:50 option?

The 50:50 option was introduced into the LGPS from April 2014 in order to encourage low paid employees to stay in LGPS. It is also used by some high earners who are trying to contain the growth in their pension savings to reduce tax charges. With the 50:50 option you pay half your normal rate of contribution and, in return, build up half the standard CARE pension during that period. So, if you opted for the 50:50 option for the entire year, the growth in your CARE benefits would only be half what it would otherwise have been. Final salary benefits are normally based on your final pensionable pay.

Your Fund administrator will have a notice period for members wanting to opt into the 50:50 option or return to the Standard scheme. It is therefore possible in any one year to adjust the time you are using the 50:50 option to help manage the growth in your pension savings.

While you are using the 50:50 option you still retain the full value of your other benefits such as the death grant and, if you are aged 55 or over, you also retain the possibility of immediate access to your pension benefits, and without them being actuarially reduced, if you are prematurely retired on redundancy or business efficiency grounds. Your Fund will have more detail on it's website of the implications of switching to the 50:50 option.

Decisions relating to maintaining standard LGPS membership, switching to the 50:50 option or opting out are very important decisions and you should consider taking independent financial advice on such matters. These are complex matters and often the answer is only clear with hindsight. The assumptions made for the higher paid ALACE members in particular will be significant factors in evaluating the best value for money of the options available to members.

These are difficult decisions because they will be based on many assumptions such as: pay, pay growth, inflation, when and the grounds on which you retire, your use of Scheme Pays in respect of Annual Allowance charges, the mix of your pension benefits (pension v lump sum and the scale of swapping pension for lump sum) and there will also be personal factors that will influence the decision.

Before utilising the 50:50 option it might be worthwhile obtaining some detailed forward estimates of benefits and tax charges at retirement based on your assumptions to help determine which option offers the best value for money taking account of your contributions, potential benefits and tax charges.

Your Fund administrator may be able to help with these calculations. Alternatively, you could seek the help of an expert in this field to do some estimates for you which would incur a fee. ALACE offers members a Pension Service supplied by Hymans Robertson but ALACE cannot recommend a service provider. This is accessed through our pension consultant, Pete Morris or the Hon Sec., if the consultant is not available.

22. Should I opt out of the LGPS to avoid / contain LTA charges and / or Annual Allowance charges

As in the response to the question above, a decision to leave the LGPS permanently is a significant decision. It should not be taken lightly, and you should take sound independent financial advice to help you reach a decision.

Many of the points made in response to the question above re the case for switching to the 50:50 option continue to apply. Evaluation can be undertaken based on assumptions that may or may not come to pass. Your Fund administrator may be able to help with some matters, on standard assumptions or you may want further support from an expert in evaluating the case where a fee will be payable. ALACE offers members a Pension Service supplied by Hymans Robertson. Robertson but ALACE cannot recommend a service provider. This is accessed through our pension consultant, Pete Morris.

If you choose to leave the LGPS permanently your pension benefits will be preserved/deferred and become payable in full from your “normal pension age” which for most members will currently be age 65, 66, 67 or 68. Benefits can be taken from 55 and they will normally be subject to actuarial reduction for early payment. There could be circumstances where the benefits are paid without reduction such as retirement due to ill health or on compassionate grounds.

Deferred / Preserved benefits are increased in line with inflation so that they hold their value in real terms when they eventually come into payment. Some members may have reserved rights to an earlier pensionable age if they have the protections afforded by the “85 year rule”.

Take note, you should be aware of the impact on the “ insurance benefits” of leaving the LGPS. Some examples are set out below:

If you are retired by your Council early through redundancy or on business efficiency grounds, and you have opted out of the LGPS, you may **not** be able immediately to receive your unreduced pension benefits before your normal pension age. Had you remained in the Scheme and were aged 55 or over, your pension benefits are not reduced.

If you are retired early on ill health grounds your preserved benefits could be paid from any age, but the benefits would be greater had you not opted out of the Scheme because of the possible enhancements arising from ill-health retirement.

If you die in service, the normal death benefits include a death grant of three times salary. If you have opted out of the Scheme, however, and are therefore a deferred member, the death grant is five times the amount of annual pension that you would have received if you could have drawn it on the date of death – this is likely to be a significantly smaller amount. Dependants benefits may also be less.

If you leave the LGPS you will not, of course, have to make any further contributions from your pay to your pension, although you will see an increase in your income tax (which is the loss of tax relief on your pension contributions). Your deferred benefits will increase in line with inflation which would be helpful if future pay increases were less than inflation.

Leaving the LGPS will also save your employer money (as there are significant employer contributions to your pension).There may be scope for negotiation with your employer on the sharing of the benefit on employer contributions, but legal advice should be sought on the legitimacy and legality of any such arrangement. The current problems that the NHS is experiencing with its senior doctors and consultants because of pension tax issues may make such issues .clearer

Deciding to leave the LGPS is a very important decision and it is advisable to take independent financial advice before making such a decision.

23. Can I reduce my LTA additional tax charges by taking Flexible Retirement?

If you are aged 55 or over and, with your employer's consent, reduce the hours you work, or the grade in which you are employed, you can make a request in writing to your employer to receive all or part of your pension benefits. This is known as flexible retirement – see question 10 in the main *Pensions: FAQs* document. As set out there, if the payment of benefits takes effect before your normal pension age, **the benefits payable will normally be actuarially reduced in accordance with guidance issued by the Government Actuary** on *Flexible Retirement*, although your employer may in certain circumstances waive, in whole or in part, any such reduction as long as to do so is in accordance with the authority's published policy.

If you continue to earn pension benefits on your part-time salary following flexible retirement, your pension benefits paid and those to be brought into payment when you retire will be taken into account in assessing your LTA position. **You will therefore want to check with your pension fund whether this will mean that, at that time, you will incur (additional) tax charges and what they will be. In addition, all other pensions will also be taken into account.**

Flexible retirement may prevent your pension savings increasing by as much as it would have done if you had just kept on working full-time until your normal pensionable age, and therefore reduce the total amount of additional tax charges that you eventually pay in respect of the LTA. It is important, however, to look at the full implications of such a move – financial, legal, managerial and reputational.

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