Dorset County Pension Fund

Administered by Dorset County Council

Pension scheme update August 2016

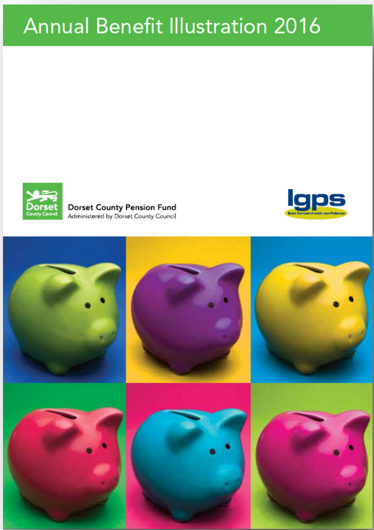
New State Pension and National Insurance changes

CARE Pensions and CPI

Project Brunel

Pension Savings Taxation

This leaflet provides you with important information regarding the Local Government Pension Scheme (LGPS). If you have any queries regarding any of the topics discussed in this leaflet, please do not hesitate to contact a member of the pensions team at: pensionshelpline@dorsetcc.gov.uk



Welcome to your 2016 newsletter

Your 2016 annual benefit illustration shows the benefits you have accrued in the Dorset County Pension Fund (DCPF) up to 31 March 2016.

Your illustration includes any final salary benefits you may have built up if you were a member of the scheme before 1 April 2014 and your Career Average Revalued Earnings (CARE) benefits accrued from 1 April 2014.

It is very important that you check your illustration carefully and agree the pay used. The pay was provided by your employer and should be queried with your employer / payroll provider if you think it may be incorrect.

Please note that your service history is not shown in your illustration as this is no longer relevant to your pension accrual. Only service history prior to 1 April 2014, as provided in last year's illustration, will affect your pension build up.

New State Pension and changes to National Insurance

The DCPF wrote to all active members of the fund in March this year to explain why National Insurance Contributions would increase in April 2016.

As a member of the LGPS you were previously not paying National Insurance Contributions into the Additional State Pension, this is called 'contracting out'. However, from 6 April 2016 the new 'single tier' State Pension replaced the basic and additional State Pension for people who reach State Pension age after 5 April 2016 and the contracted out status for all LGPS members ended. This means you are now paying a higher amount of National Insurance than in previous years (unless you are already over State Pension age).

As a result of any historic contracting out you may find that your single tier State Pension could have a reduction, this reduction is called Contracted Out Pension Equivalent (COPE). Every year that you continue working after April 2016 any COPE amount applied will lessen, providing a smaller deduction to your State Pension. Further information can be found at www.gov.uk/browse/working/state-pension

Pensions Saving Taxation

Annual Allowance

From 6 April 2014 the Annual Allowance (AA) for tax relief on pension savings was reduced to £40,000. An AA tax charge will be due where a member exceeds the AA across all their pension savings and where insufficient unused allowance is available from the previous 3 tax years.

Tapered Annual Allowance

This new measure will take effect from 6 April 2016. It will further restrict pension tax relief by introducing a tapered reduction in the amount of the annual allowance for individuals with an 'Adjusted Income' of over £150,000. The adjusted income includes an amount equivalent to your annual pension growth (for Defined Benefit Schemes such as the LGPS), or the value of pension contributions made (for Defined Contribution Schemes).

The Tapered Annual Allowance will only affect individuals whose 'threshold income' exceeds £110,000 per annum. The threshold income is your taxable pay less tax deductible items such as your pension contributions.

More information can be found at;

www.gov.uk/government/publications/pensions-tapered-annual-allowance

Lifetime Allowance – reduction with effect from 6 April 2016.

The Lifetime Allowance (LTA) is the amount of savings you can take from your pension schemes before a tax charge applies. The LTA is currently £1 million.

If the overall value of your pension savings at retirement exceeds the LTA, the excess is subject to a tax charge.

The LTA is calculated by multiplying your annual pension by 20 then adding on any lump sum entitlement, including any accrued AVC fund.

Protection arrangements are available for individuals who could be impacted by the reduction.

From 6 April 2016 two protection regimes are available, Individual Protection 2016 (IP2016), and Fixed Protection 2016 (FP2016). There is no application deadline for these protections, but you must apply for protection before you take your benefits. HMRC has introduced a new online facility for pension scheme members to apply for protections. More information can be found at; www.gov.uk/guidance/pension-schemes-protect-your-lifetime-allowance

Important

You are responsible for your personal tax liability; the administrators of the LGPS do not know what other pension savings you may have so it is important that you take appropriate tax advice if you consider you may be affected by any of the tax charges. The Dorset County Pension Fund is not able to provide tax advice to individuals.

Tax Considerations Presentations—November 2016

The Dorset County Pension Fund will be providing a presentation on tax considerations for high earners. During the presentation information will be provided on general annual allowance and life time allowance calculations and charges.

Afterwards there will be an opportunity to speak individually to a member of the pensions team, however please be aware that the DCPF are unable to provide advice, only information.

Please email pensionshelpline@dorsetcc.gov.uk if you would like to attend this presentation with **Tax Considerations Presentation** in the title. Please would you indicate whether you would also like a 10 minute, individual, one to one, session in this email.

- Wednesday 9 November 2016 at 4:00pm in Committee room 2 at County Hall, Dorchester, DT1 1XJ
- Thursday 24 November 2016 at 10:00am in the Council Chambers at Bournemouth Borough Council, Town Hall, BH2 6DY

Your CARE pension account and negative CPI

From April 2014 any pension you build up is referred to as a Career Average Revalued Earnings (CARE) pension. CARE works by calculating your pension every year, based on your pay in that year; this amount is added into your pension account each year. The value of your pension account is adjusted each April in line with inflation. This is to ensure the CARE pay of your LGPS pension maintains its value.

In the LGPS the inflation index used is the Consumer Prices Index (CPI) for September. In September 2015, this index was the negative figure of - 0.1%.

This means that the CARE pension you have built up in your pension account between April 2014 and March 2016 will actually go down in value by a tenth of one percent. Please note that any benefits you have built up in the Scheme or transferred into it before April 2014 will not be affected as they will be calculated using your final pay when you eventually leave the scheme or retire.

Example

Active member with 5 years service pre 1 April 2014 with an annual pay of £20,000

Pre 2014 pension = **£1,666.67** (5 / 60 X £20,000)

Post 2014 pension = **£820.40**

- Pension input 2014/2015: £20,000 / 49 = £408.16 + £4.90 (2015 CPI 1.2%)

◊ **2014-2015 account = £413.06**

- Pension input 2015/ 2016: £20,000 / 49 = £408.16 PLUS £413.06 (2014/15 input) = £821.11 MINUS - 0.82p (2016 Negative CPI 0.1%)

◊ 2015-2016 account = £820.40

Total pension **= £2,487.07** pension paid per annum at Normal Retirement Age

Negative CPI is taken from your 2014 pension account. Only the two years of pension accrued after 1 April 2014, plus last year's CPI increase, in your pension account has the 0.1% decrease applied. Any pension built up before 1 April 2014 will be unaffected by the negative CPI figure.

Win a £50 Marks & Spencer Voucher

The DCPF are running a competition to find a photograph of Dorset for the front of the Pensions Newsletter 2017. For a chance to win a £50 Marks & Spencer gift voucher, kindly donated by our in-house AVC providers, Prudential, please send in an electronic version of a photograph you have snapped of Dorset. The winning entry will be displayed and credited in the newsletter sent in September 2017.

All entries should be emailed in to pensionshelpline@dorsetcc.gov.uk with **Competition Entry** in the title, by 31 October 2016.

Please note this competition is not open to employees of the Dorset County Pension Fund.

Additional Voluntary Contributions

Additional Voluntary Contributions (AVCs) offer you a tax-efficient way to save for your retirement in addition to your Local Government Pension Scheme. AVCs attract tax relief, up to annual limits, which means the money you would normally pay in tax, is paid into your AVC as tax relief instead. For every £100 you contribute to your AVC, the cost to you will only be £80 (if you're a basic rate taxpayer). If you are a higher or additional rate taxpayer, the saving will be even more. The more you contribute, the more tax you save, and the more your AVC pot receives a boost.

As with any investment, it is important to remember the value of your AVC can go down as well as up and you may not get back the amount you put in. Every month you add to your AVC pot, it could help you make the most of the time you still have until retirement.

To find out more about AVCs, visit www.pru.co.uk/lgnewsletter. You can find worked examples and handy tools and videos to help illustrate how an AVC could help you and how much you could achieve. Alternatively call the Prudential Retirement Specialist Team on 0800 032 7535.

Taxation information is based on their understanding, as at June 2016, of current tax legislation, HM Revenue & Customs practice and LGPS scheme rules, all of which may change without notice. The impact of taxation (and any tax relief) depends on individual circumstances.

Brunel Pension Partnership (Investment Pooling)

In 2015 the government announced that they wanted the 89 Local Government Pension Scheme funds to pool their investments into larger pools in order to achieve savings in investment management costs.

In response to the government agenda, Project Brunel was set up to explore the options for pooling investment assets across ten Funds. The founding Funds include The Environment Agency Pension Fund, and the Local Government Funds of Avon, Buckinghamshire, Cornwall, Devon, Dorset, Gloucestershire, Oxfordshire, Somerset and Wiltshire. The collective assets of the pool are approximately £23 billion.

The objective of pooling the assets is to achieve savings over the longer term from both lower investment management costs and more effective management of the investment assets. The pool will look to deliver the savings based upon the collective buying power the collaboration initiative will produce. Local accountability will be maintained as each individual fund will remain responsible for strategic decisions including asset allocation. The pooling of assets will only affect the implementation of the investment strategy in terms of manager appointments.

More information and updates about the project can be found on the Project Brunel website at:

www.brunelpensionpartnership.org

Disclaimer

Information in this leaflet is correct at the time of printing and is provided for information purposes only. We cannot cover personal circumstances and any advice given does not affect your statutory rights or over-ride existing legislation.