NORTHERN IRELAND LOCAL GOVERNMENT OFFICERS' SUPERANNUATION COMMITTEE

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To: Chief Executives
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Circular 2/2016
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At: All Employing Authorities

Dear Colleagues,

Employee Contribution Rate Bands and Employer Contribution Rates from 1 April 2016, Ending of Contracting Out and Changes to Annual Allowance and Lifetime Allowance Regimes

This Circular has been issued to advise you that there is **no change** to the employee contribution rate bands for 2016/17, to advise of the ending of Contracting Out for all Scheme members and to explain briefly the changes to Annual Allowance and Lifetime Allowance that may affect your employees.

1. **Employee Contribution Rate Bands**

The Department of Environment has advised that there is no change to the pensionable pay ranges for the year from 1 April 2016. As a reminder the contribution rate bands for the main section of the Scheme are set out in Table 1. Members in the 50/50 section pay half these contribution rates.

Table 1 - Employee contribution rates from 1 April 2016

Band	Pensionable pay range	Contribution rate
1	**Up to £14,000**	**5.5%**
2	**£14,001 to £21,300**	**5.8%**
3	**£21,301 to £35,600**	**6.5%**
4	**£35,601 to £43,000**	**6.8%**
5	**£43,001 to £85,000**	**8.5%**
6	**More than £85,000**	**10.5%**

Please ensure that these rates and ranges are used when assessing individual contribution rates on actual pensionable pay (and not full-time equivalent) for your employees.

2. Employer Contribution Rates for 2016/17

The Fund is valued every three years by the Fund's actuary. As part of the March 2013 valuation the actuary certified the employers' contribution rates for the following three years. The majority of employers participate in a pooled employers' contribution rate, which was set at 20% for each of the three years from 1 April 2014 to 31 March 2017. A few employers have an individually assessed contribution rate and do not pay at 20%. Those employers with individually assessed rates should refer to their Rates and Adjustments Certificate for up to date details of the contributions that will be due in 2016/17.

The next triennial valuation will take place as at 31 March 2016 and depending on the outcome of that valuation, revised employers' contribution rates may apply from 1 April 2017.

3. Ending of Contracting Out

3.1 Background

Under the existing arrangements the LGPS (NI) (the Scheme) is contracted out of the Additional State Pension and in return members and employers pay lower National Insurance Contributions (the NI rebate). However, the introduction of the new State Pension on 6 April 2016 will end contracting out. Therefore, from 6 April 2016 Scheme members and employers will no longer be entitled to receive the NI rebate. These changes do not affect any pension benefits built up within the Scheme.

3.2 Action for employers before 5 April 2016

We understand that DSD will be advising employers how to communicate the changes to their employees i.e. the increase in NI contributions following the removal of the NI rebate. The Department of Work and Pensions has created emails, articles, posters etc. which DSD has advised are available for use in Northern Ireland as well as a factsheet for public sector employees, which is attached to this circular. These products are available on GOV.UK as part of the new State Pension toolkit at www.gov.uk/government/collections/state-pension-toolkit .

3.3 Action for employers in April 2016

The information below confirms the NI categories that will need to be applied for employees in April 2016 following the end of contracting-out.

"Contracting-out of the additional State Pension on a defined benefit (DB) basis will end on 5 April 2016. This means that from 6 April 2016 employees will automatically be brought back into the State Pension scheme and will no longer be able to use a contracted-out salary related (COSR) occupational pension scheme to contract out of the State Scheme.

Employees may, depending on their level of earnings, start to accrue entitlement to the new State Pension instead.

Eligibility for the contracted-out National Insurance contributions (NICs) rebate of 3.4% for employers and 1.4% for employees will also cease from this date.

The introduction of the new State Pension will bring with it some changes in what and how you report to HMRC:

- *from 6 April 2016: You will not be able to use your Contracted-out Salary Related (COSR) occupational pension scheme to contract employees out of the new State Pension scheme*
- *there will no longer be a requirement to report the Employers Contracting-out Number (ECON) and Scheme Contracted-out Number (SCON) details on Full Payment Submission (FPS) for tax years commencing 6 April 2016 and onwards*
- *there will no longer be a requirement to separate the National Insurance (NI) earnings between the Primary Threshold (PT) and Upper Accrual Point (UAP) & UAP to Upper Earnings Limit (UEL)*
- *there will be a requirement to report NI earnings between the PT to UEL as there was prior to 2009*
- *there will be one less column to complete on forms P11 and P60. These forms will be updated in due course and will be available on the Basic PAYE Tools or can be ordered from the Employer order line.*

All HMRC systems will be amended to reflect these changes and the UAP data field will be removed from the FPS and Earlier Year Update (EYU).

National Insurance Categories from 6 April 2016
Contracted-out National Insurance tables/categories D, E, I, K, L, N, O and V will be replaced by Standard National Insurance tables/categories A, B, J, M, P, Q, R, T, Y and Z".

3.4 Action for NILGOSC

NILGOSC is required by law to notify members that the Scheme is no longer contracted out and we will issue a general notification to members' home addresses later in the year. The change will not affect members' benefits from NILGOSC and in most cases their Scheme pension will include an amount equivalent to the Additional State Pension that they would have received had they not been contracted out.

4 Lifetime and Annual Allowance changes[1]

4.1 Background

The Government has made further changes to reduce annual pensions tax relief (Annual Allowance) for high income individuals as well as reducing the allowance for pension savings that an individual can build up over his or her lifetime (Lifetime Allowance). The changes and actions that an individual may wish to take are described in sections 4.4 and 4.5.

[1] At the time of writing the legislation has not been finalised and could be subject to change.

4.2 **Action for employers**

Employers may wish to draw the changes to Annual and Lifetime Allowances to the attention of their employees. We recommend that potentially affected individuals take independent financial advice from an advisor who can assess and quantify the extent of any potential tax liability and advise on the benefits of remaining in the Scheme and registering for Fixed Protection 16 (FP16) or Individual Protection (IP16). Further details on these protections are described under paragraphs 4.5.2 and 4.5.3.

4.3 **Action for NILGOSC**

NILGOSC will be writing to those individuals whom it can identify as possibly being affected by either the annual allowance or lifetime allowance changes. However, we are only aware of members' pension savings within the Scheme and cannot take other pension provision into account.

4.4 **Annual Allowance (AA) changes**

The Annual Allowance (AA) is the amount by which member's pension savings can increase in one year before becoming subject to a tax charge. From 6 April 2016 a tapered annual allowance will apply to high earners. Members who have a taxable income below the threshold of £110,000 (i.e. members earning approximately £122,000 in the Scheme and paying contributions of 10.5% of pay) will not be affected. Members who exceed this threshold income will have an 'adjusted income' calculated for the year and their annual allowance will be reduced by 50p of each £1 of adjusted income in excess of £150,000. The 'adjusted income' is the total of all sources of taxable income in that tax year plus the value of any pension savings in that year.

Those members with high salaries should seek independent financial advice to determine whether their earnings exceed the 'threshold' income. Some high earners may then need further assistance with the calculation of their 'adjusted income' taking into account all their earnings to identify whether their annual allowance is tapered and the level of Annual Allowance charge which may apply from 2016/17 onwards.

To help align the pension scheme year with the 2016/2017 tax year some transitional measures were introduced to the Annual Allowance in the current tax year. This included splitting the tax year into two mini years for Annual Allowance purposes and providing a maximum carry forward of £40,000 into the second mini tax year.

4.5 **Lifetime Allowance changes**

The Lifetime Allowance (LTA) is a limit on the total amount of pension savings that an individual can build up over his or her lifetime without incurring an extra tax charge. The LTA for 2015/16 was £1.25 million, but this will reduce to £1 million for the 2016/17 tax year. It will then increase annually in line with the Consumer Price Index from 2018/19.

The formula below is used to determine the capital value of a member's pension savings in the Local Government Pension Scheme (NI) (LGPS (NI)).

Capital value = (Annual Pension x 20) + Lump sum + value of AVC fund (if any)

A member can use the calculator on our website at http://www.nilgosc.org.uk/tax-limits-on-your-pension to find out the capital value of their pension rights. If the capital value of their pension benefits exceeds the LTA a tax charge will be payable on the excess payments at a rate of 25% on the pension and 55% on the lump sum. This is known as the LTA charge.

4.5.1 **HMRC Protections**

HMRC intends to introduce two transitional protections for some individuals who had planned their pension savings on the basis that the LTA would be £1.25 million. The transitional protections will effectively be the same as Fixed Protection 2014 and Individual Protection 2014 (IP14). Legislation for both the reduction in LTA and the protections will be delivered in the Finance Bill 2016. As a result it will not be possible for members to apply for protection until after April 2016. Members will need to have the protection in place before they take their benefits if they want to avoid paying the LTA charge.

4.5.2 Fixed Protection 2016 (FP16)
Subject to certain conditions, applying for fixed protection will set a member's LTA at £1.25 million. To keep FP16 they may not be able to accrue any future pension savings and will have restrictions on where and how they can transfer pension benefits. This means that any members of the LGPS (NI) applying for Fixed Protection will have to become deferred members by 6 April 2016. Further details about fixed protection 2014 can be found at http://www.hmrc.gov.uk/manuals/ptmanual/ptm093500.htm . Members wishing to apply for FP16 should consult an independent financial adviser.

4.5.3 Individual Protection 2016 (IP16)
For individual protection a member must have total benefits from pension savings, including those already in payment on 5 April 2016 which are more than £1 million and not have primary protection (whether active or dormant).

When they have individual protection their LTA will be equal to the value of their pension savings at 5 April 2016, subject to an overall maximum of £1.25 million, but unlike fixed protection, they will be able to continue saving. Any contributions and investment growth over their individual lifetime allowance will be subject to the LTA charge. Further details about IP14 can be found at http://www.hmrc.gov.uk/manuals/ptmanual/ptm094000.htm .

4.5.4 HMRC Online applications for Transitional Protection
These protections do not apply automatically and members must apply for them after 5 April 2016. HMRC is introducing a new online self-service system which will be available from July 2016. Members will need to provide details about themselves and their pension savings as well as details of any other LTA protections that they may have. HMRC has introduced an interim process for Scheme members wishing to taken their benefits after 5 April 2016 but before July 2016. In these cases, members will need to contact HMRC in writing with details of their intention to rely on IP2016 or FP2016 and request a temporary

reference number for NILGOSC. These members will then have to make a full online application in July.

4.5 **Important - additional notes**

At the time of writing the legislation reducing the LTA is not made and the methods of protection are not finalised. There may be future changes before the legislation is made.

Please do not hesitate to contact the Pensions Development Team or myself if you have any queries.

Yours sincerely

Zena Kee

Zena Kee
Pensions Manager