

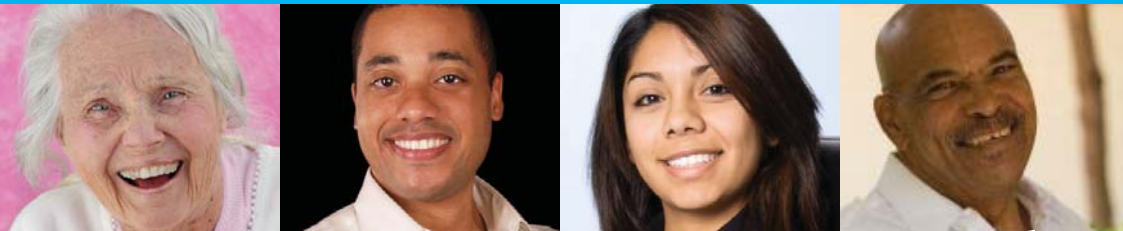
WEST MIDLANDS



PENSION FUND

West Midlands Pension Fund

Tax controls and your LGPS benefits



In this booklet, we look at the HM Revenue and Customs (HMRC) rules that govern pension savings.





Take a good new look

As you may be aware, the LGPS has undergone significant changes from 1 April 2008, details of which can be seen on the Fund's website wmpfonline.com

This booklet has been prepared in accordance with the current rules and regulations that apply to the LGPS (the date of publication is shown on the back of this booklet).

There are controls on the total amount of contributions you can make into all pension arrangements and receive tax relief and on the pension savings you can have before you become subject to a tax charge. This is in addition to any tax due under the PAYE system on pension payments.

You can, if you wish, pay up to 100% of your taxable earnings in any tax year (or £3,600 if greater) into any number of concurrent pension arrangements of your choice and be eligible for tax relief on the contributions.

There are two main allowances for pension savings – an annual allowance and a lifetime allowance. There are also protections for benefits earned up to 5 April 2006 if you are a high earner affected by the introduction of the lifetime allowance from 6 April 2006.

Most people will be able to save as much as they wish with full tax relief as their pension savings will be significantly less than the allowances.

Are there any limits on how much I can pay in contributions?

At the present time, there is no overall limit on the amount of contributions you can pay, although there is a limit of £5,000 on the extra LGPS pension you can buy and the amount you can pay to the Scheme's AVC arrangement is limited to 50% of your earnings. Although there is no overall limit on the amount of contributions you can pay to all schemes, tax relief will only be given on contributions up to a total of 100% of your taxable earnings.

What are the tax controls on my pension savings?

The annual and lifetime allowances cover any pension benefits you may have in all tax-registered pension arrangements – not just the LGPS – but excludes the state pension.





Annual allowance

This is the amount by which the value of your pension benefits may increase in any one year (disregarding the value of any benefits in the year that they become payable) without you having to pay a tax charge. Years run from 1 April to 31 March.

The annual allowance is set by the Treasury and for 2009/2010 is £245,000.

The assessment covers any pension benefits you may have in all tax-registered pension arrangements – not just the LGPS.

If you exceed the annual allowance in any year (other than the year that that all your benefits become payable), you are responsible for reporting this to HMRC on your

self-assessment tax return and for paying the annual allowance tax charge. The Fund will be able to tell you how much the value of your LGPS benefits, including any AVC arrangement you may have, has increased.

The annual allowance tax charge is 40% of any increase in benefits above the annual allowance. The tax charge will not apply if you have registered to have enhanced protection, but only if you keep enhanced protection throughout the relevant tax year.

Lifetime allowance

The lifetime allowance is the total value of all pension benefits you can have without triggering an excess benefits tax charge. If the value of your pension 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) is more than the lifetime allowance, or more than any primary lifetime allowance protection or enhanced protection you may have, you will have to pay tax on the excess benefits. The lifetime

allowance covers any pension benefits you may have in all tax-registered pension arrangements – not just the LGPS.

The lifetime allowance set by the Treasury for 2009/2010 is £1.75 million.

For pensions that start to be drawn on or after 6 April 2006, the capital value of those pension benefits is calculated by multiplying your pension by 20 and adding any lump-sum you draw from the Scheme – so, for example, an employee earning in excess of £143,500 per annum and with 40 years' membership in the LGPS could be affected.

For pensions already in payment before 6 April 2006, the capital value of these is calculated by multiplying the current annual rate, including any pensions increase, by 25. Any lump-sum already paid is ignored in the valuation.

When any LGPS benefit, or any other pension arrangement you may have, is put into payment you use up some of your lifetime allowance – so even if your pensions are small

and will not be more than the lifetime allowance you should keep a record of any pensions you receive. If you have a pension in payment before 6 April 2006, this will be treated as having used up part of your lifetime allowance.

If your LGPS benefits are more than your lifetime allowance, or your primary lifetime allowance protection or enhanced protection, you will have to pay tax on the excess. If excess benefits are paid as a pension the charge will be 25%, with income tax deducted on the ongoing pension payments; if the excess benefits are taken as a lump-sum they will be taxed once only at 55%.



Primary lifetime allowance protection

Primary protection is aimed at protecting benefits earned up to 5 April 2006 for those high earners affected by the introduction of the lifetime allowance from 6 April 2006 i.e. those whose benefits at 5 April 2006 already had a capital value in excess of the 2006/2007 lifetime allowance of £1.5 million.

To work out whether your benefits at 5 April 2006 were more than the 2006/2007 lifetime allowance of £1.5 million, you will need to add up the following:

a) for any LGPS pension benefits not in payment on 5 April 2006, multiply the annual pension built up to 5 April 2006 by 20 and add the lump-sum (benefits under (a) or (b) will, if necessary, need to be restricted to ensure they are not more than the maximum benefits allowed under the Scheme rules at 5 April 2006. If the value of your benefits at 5 April 2006 were more than HMRC benefit limits at that date and you wish to elect for

enhanced protection, you will have to give up the excess benefits – but the excess benefits given up could be reinstated if you lose or give up enhanced protection);

b) for any LGPS AVCs not in payment on 5 April 2006, add the fund value at 5 April 2006 (benefits under (a) or (b) will, if necessary, need to be restricted to ensure they are not more than the maximum benefits allowed under the Scheme rules at 5 April 2006);

c) for any benefits held in other pension schemes/arrangements not in payment on 5 April 2006, add the value as at 5 April 2006. You can obtain this from the administrators of that scheme/arrangement;

d) for any pension benefits already in payment on 5 April 2006, multiply the annual rate in payment at 5 April 2006, including any pensions increase, by 25 (but ignore any lump-sum already paid).



If the value of your pension benefits at 5 April 2006 was more than the 2006/2007 lifetime allowance of £1.5 million, you can register for primary protection. This gives you an individual lifetime allowance based on how much your benefits at 5 April 2006 exceeded the value of the 2006/2007 standard lifetime allowance. Your individual lifetime allowance increases at the same rate as the standard lifetime allowance. So, if your benefits at 5 April 2006 exceeded the 2006/2007 standard

lifetime allowance by 10%, your individual lifetime allowance will always be 10% higher than whatever the standard lifetime allowance is in future years.

If your pension rights are shared on divorce or dissolution of a civil partnership this will result in the individual lifetime allowance being reduced (or lost if it reduces to below the standard lifetime allowance).

Enhanced protection

You can register for enhanced protection (as well as primary protection) if the value of your pension benefits at 5 April 2006 was more than the 2006/2007 lifetime allowance of £1.5 million. You can also register for enhanced protection if you believe the value of those benefits may, in the future, be more than the standard lifetime allowance or if you believe your pension benefits in any one year will increase by more than the annual allowance.

Under enhanced protection, you will not pay tax on benefits in excess of the lifetime allowance provided your benefits at 5 April 2006 (if the value of your benefits at 5 April 2006 were more than HMRC benefit limits at that date and you wish to elect for enhanced protection, you will have to give up the excess benefits, but the excess benefits given up could be re-instated if you lose or give up enhanced protection) do not increase after then beyond certain limits (in general terms, by more than the greater of 5% per annum, the increase in inflation or increases in your pensionable pay). If the limit is exceeded, you will pay tax on the

excess. You will lose enhanced protection if you pay contributions into a money purchase pension arrangement (e.g. pay into the LGPS in-house AVC facility – you will not lose enhanced protection if you are paying AVCs at 5 April 2006 purely for extra life cover and carry on doing so after that date provided the terms are not varied significantly from those that applied under the policy at 5 April 2006 so as to increase the level of life cover or extend the period during which such benefits are payable, e.g. you do not adjust the premiums to purchase increased life cover) or if you start a new pension arrangement, or if you transfer your LGPS benefits to another defined benefit pension scheme. You can also voluntarily give up enhanced protection by giving notice that you no longer wish to keep it.

If you lose enhanced protection, you must notify HMRC within 90 days. Failure to do so could result in a fine of up to £30,000.

Making an election for protection

You have to register with HMRC by 5 April 2009 if you wish to obtain primary and/or enhanced protection. The relevant forms are available at <http://www.hmrc.gov.uk/pensionschemes/protection.htm>

If you are intending to retire before 6 April 2009 and are considering making an election for primary or enhanced protection, you may wish to wait until just before retirement before deciding whether or not to apply. That way, if it turns out that primary rather than enhanced protection is best for you, delaying a decision would be to your advantage as it would mean you would not have to surrender any excess pension rights at 5 April 2006.

You should seek independent financial advice before deciding whether (and when) to apply for primary or enhanced protection.

Transitional protection: lump-sums

When you retire you will, provided you have membership in the LGPS before 1 April 2008, be entitled to an automatic lump-sum from the LGPS, in addition to your pension.

There are two types of lump-sum protection available. These relate to members who, at 5 April 2006, either:

- had built up a lump-sum of £375,000 or more and the member has applied for primary and/or enhanced protection, or
- had built up a lump-sum that was more than 25% of the value of any pension rights not in payment at that time.

It is expected that very few (if any) LGPS members will have built up lump-sums that meet either of these limits. Information on the protection can be found on the HMRC website: <http://www.hmrc.gov.uk/manuals/rp-smmanual/RPSM03201060.htm>



More information

For more information or if you have a problem or question about your LGPS membership or benefits, please contact the Fund at the address shown on the back page of this booklet.

The national website 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 section '*Help With Pension Problems*' in our booklet '*All About Your Scheme*'.



Information produced by the Fund can be made available in several formats including large sight text, Braille and several community languages. If you have any special requirements or would like to speak face to face with a member of staff, please contact us to arrange how we may best meet your needs.

Please remember that special requirements may take a little longer than normal to organise, but you have our assurance that we will do our best to ensure you receive the information in the most appropriate and efficient manner possible.

Data Protection

To protect any personal information held on computer, Wolverhampton City Council is registered under the Data Protection Act 1998. This allows members to check that their details held are accurate. The Fund may, if it chooses, pass certain details to a third party, if the third party is carrying out an administrative function of the Fund, for example, the Fund's AVC provider. Members who wish to apply to access their data on Data Protection Act grounds should contact the City Council's Data Protection Officer on (01902) 554498, via e-mail at dataprotection@wolverhampton.gov.uk

This authority is under a duty to protect the public funds it administers, and to this end may use information for the prevention and detection of fraud. It may also share this information with other bodies administering public funds solely for these purposes.



Contact information

Write to us at:

West Midlands Pension Fund
PO Box 3948
Wolverhampton
WV1 1XP

Visit our website at:

wmpfonline.com

Email us on:

PensionFundEnquiries@wolverhampton.gov.uk

Telephone our Helpdesk on:

0300 111 1665

Send us a text on:

Text WMPF + your message to 60066.
Standard short code network charges apply.

Fax us on:

0845 230 1565

Lines are open during the following times:

8:30am to 5.00pm Monday-Thursday
8:30am to 4.30pm Friday

Minicom/Typetalk:

01902 554607

Calls may be monitored for training purposes

Help and information

Further information

We will ensure that all of our members are provided with relevant further information on request.

Comments and complaints

We welcome and value your comments on the standards of service we provide. If you have any comments you wish to make please contact us at the address shown at the top of the page.

We would also like to hear from you if you are not satisfied with the way you have been treated. If you wish, you can

Speak to Brian Bailey, Director of Pensions, on his personal number (01902) 552020 on any weekday between 9.00 and 9.30am or via email:

brian.bailey@wolverhampton.gov.uk

If you wish to make a formal complaint, you can write to:

Complaints and Compliments

Office of the Chief Executive
Civic Centre

St. Peter's Square
Wolverhampton
WV1 1NX