

The Local Government Pension Scheme – LGPS

AVC Arrangements – Possible Changes

This information does not apply to employees who are members of the Teachers' or the Firefighters' Pension Schemes. The note is only applicable to members of the LGPS.

The LGPS allows its members to pay Additional Voluntary Contributions AVC's by regular payroll deductions.

AVC's have offered LGPS members some considerable tax advantages in that scheme members, who are tax payers, can pay AVC's, get tax relief on the AVC contributions and then in many cases take their AVC fund as an additional tax free lump sum at retirement.

For example, a person can pay £1000 into the AVC' scheme and if they pay tax at the 20% rate they will get 20% tax relief, so in net pay terms the £1000 AVC investment will only result in their "take home" pay falling by £800 after allowing for £200 in tax relief. At retirement they can access £1000 as an additional tax free lump. In short, they give up £800 in "take home pay" and then take an extra £1000 tax free lump sum at retirement.

This facility to access 100% of an AVC investment as an additional tax free lump sum is not available to employees in the other major public sector pension schemes e.g. Teachers, Civil Service, NHS.

A new LGPS is coming into being nationally on the 1st April 2014 and HM Treasury are considering requiring the LGPS to fall into line with the other public sector schemes and limit the tax free lump sum option available from AVC's to 25% of the AVC fund, the balance of the AVC fund would then have to be used to buy additional pension which would be taxable.

We still do not have full details of how this change will be implemented, our current understanding is that LGPS members who take out an AVC arrangement **before 1st April 2014** will be protected and retain the right to access 100% of their AVC fund as an additional tax free lump sum subject to HM Revenue and Customs limits. We cannot however guarantee that this protection will be available, as the revised legislation which will bring in the changes is not yet available. Persons who are not paying AVC but thinking of doing so may however wish to note that this change is likely to be made and take note of what we understand the likely protection will be. **The Council will not however accept any liability if HM Treasury do not enact the scheme changes and protections in the expected form.**

Prudential do impose an exit charge where a person has entered into an AVC arrangement after 19 August 2012 and withdraws any funds within 5 years of the first contribution. These charges were introduced to deter people from holding AVC's for a short period as this imposes significant additional administrative costs upon them.

If you are interested in paying AVCs please contact the Prudential at: - www.pru.co.uk phone 0800 032 6674 or for further details contact Alan Whittle in the pensions section on 01670 623569, Alan.Whittle@northumberland.gov.uk

Tax Changes – Higher Earners

From 6th April 2014 the Annual Allowance, the maximum amount by which an individual's pension rights can grow in any one year before additional tax is due will reduce from £50,000 to £40,000 and the Lifetime Allowance, the total value a person may have in all pension arrangements at retirement will reduce from £1.5M to £1.25M. The value of AVC investments is taken into account when assessing tax due under either of these limits. If you are concerned about these tax allowance changes you should

consider taking independent financial advice.