

Falkirk Council Pension Fund

Guidance Note

Additional Regular Contributions (ARCs)

Buying Extra Pension – how much extra pension can I buy?

You can buy extra pension for yourself and, if you wish, your dependants on your death, by paying additional regular contributions (ARCs).

You can buy extra pension of a minimum of £250 a year up to a maximum of £5,000 a year. You decide how much extra pension you want to buy in blocks of £250. The value of this extra pension will increase annually in line with inflation from the date of your first ARC payment. When you reach retirement, we will pay your extra pension at the increased value. After retirement, your extra pension will continue to increase in line with inflation.

Instead of choosing to take the extra pension when you retire you can choose to give up some, or all, of the extra pension for a tax free lump sum, within limits set by HM Revenue and Customs.

As with all financial transactions, you should consider taking independent financial advice before committing yourself.

When will my extra pension be paid?

The extra pension you buy will be paid to you at the same time your normal scheme benefits are paid.

The normal retirement age in the Local Government Pension Scheme (LGPS) is age 65.

If you decide to retire before age 65, then the extra pension you have bought will be reduced in the same way that your normal scheme pension will be reduced because it is being paid early.

If you retire after age 65, then the extra pension you have bought will be increased in the same way that your normal scheme pension will be increased because it is being paid at a later date than normal.

If, while you are an active member of the scheme, you qualify for an ill health pension and your employer retires you on ill health grounds, you will be treated as having paid your ARC contract in full. This means that you will be given the total extra pension which you had applied to buy.

What happens if I leave the LGPS before my payments finish?

If you stop paying your ARC contract early for any of the following reasons, then only the extra pension you have actually bought will be awarded to you:

- you choose to stop paying ARCs, or
- you leave the scheme early with an entitlement to preserved benefits, or
- you retire voluntarily before the ARC contract is fully paid up.

The actual extra pension you have bought is calculated as follows:

Extra pension being bought by ARC contract x $\frac{\text{Period ARCs paid}}{\text{Period ARCs should have been paid}}$

Example of calculation of actual extra pension, where payments have stopped before the ARC contract fully paid up.

A member is buying £1,000.00 a year extra pension, at the cost of £40.32 a month, payable over 20 years. He stops paying the contract after 5 years. The actual extra pension he has bought is:

- (i) total extra pension being bought by ARC contract = £1,000.00
- (ii) ARCs payable for 20 years
- (iii) ARCs actually paid for 5 years

Actual extra pension bought: (a) £1,000.00 x $\frac{(c) 5}{(b) 20}$ = £250.00 a year

What happens if I die?

Lump sums which would be payable:

- If you leave the scheme early, with entitlement to preserved pension benefits, and die before the preserved benefits have been paid to you, your beneficiaries will get a lump sum equal to five times your extra annual pension.
- If you die after you have retired, and before your 75th birthday, your beneficiaries will get a lump sum equal to ten times your extra annual pension, less any extra pension which has already been paid to you. However, if you decided to commute your extra pension for a tax free lump sum at retiral, there will be no lump sum due to your beneficiaries.
- If you die while still an active member of the scheme and you are buying extra pension only for yourself, there will be nothing payable from your ARCs contract.

The extra dependants pension which would be payable:

If you choose to buy extra pension for your dependants as well as yourself and die while still an active scheme member, after you have retired or while you are entitled to preserved pension benefits, an extra dependants pension is payable to your spouse, civil partner or nominated co-habiting partner. An extra pension is also payable to your eligible children.

If you die while still an active member of the scheme your ARCs contract will be treated as if it had been fully paid. The extra dependant's benefits would therefore be based on the total extra pension which you had applied to buy.

The extra dependants' benefits payable are:

If you have a spouse, civil partner or nominated co-habiting partner –

- your spouse, civil partner or nominated co-habiting partner will receive an annual pension of 37.5% of your extra annual pension.
- if you have one eligible child, he/she will receive an annual pension of 18.75% of your extra annual pension.
- if you have two or more eligible children they will receive an annual pension of 37.5% of your extra annual pension, shared equally between them.

If you do not have a spouse, civil partner or nominated co-habiting partner –

- if you have one eligible child, he/she will receive an annual pension of 25% of your extra annual pension.
- if you have two or more eligible children, they will receive an annual pension of 50% of your extra annual pension, shared equally between them.

For the purposes of calculating extra dependants' benefits, your extra annual pension is the extra pension which would have been paid to you ignoring the following:

- any amount of extra pension given up to provide a lump sum at retirement.
- any increase to your extra pension due to you retiring after age 65.
- any reduction to your extra pension due to you retiring before age 65.

The extra dependants' pension will increase annually in line with inflation from the date of your first ARC payment up to the date the dependants pension starts to be paid, and will continue to increase in line with inflation while it is in payment.

How much will it cost me?

The cost depends on:

- the amount of pension you would like to buy,
- the payment period you choose,
- your age,
- whether you are male or female, and
- whether you decide to include dependant's benefits.

The costs are set by the Scheme Actuary and, at sometime in the future, they may increase these costs. If this happens you can choose to either:

- stop your additional contributions, or
- continue to pay additional contributions at the higher rate.

To work out your monthly contribution, you will need to look at the attached tables:

- **Tables C and D** show the cost for buying £250 a year extra pension for yourself only.
- **Tables E and F** show the cost for buying £250 a year of your own extra pension plus extra dependants' pension.

Look for your current age in the left hand column, and look at the rows across the page, which show the number of years that you can pay additional contributions. The costs shown on the tables are all monthly amounts.

You decide how many years you would like to spread the cost over. This must be

- a period of at least twelve months,
- in whole years, and
- starting before age 64 and ending before your 65th birthday.

Payments can begin at any time of the year and you may have more than one contract if you wish, as long as you do not exceed the maximum £5000 total extra pension which you are allowed to buy. You can choose to stop paying at any time.

If you need any further information, please contact the Pension Section of Falkirk Council. We cannot offer financial advice, but we can discuss your options with you.

ARCs payments are the same each month however they will be subject to future increases determined by the scheme actuary. Any revised ARC rate will be payable from the next 1 April following the date the payment was revised.

How do I set up an ARC contract?

If you decide to go ahead with ARCs, you will need to complete the enclosed application form and return it to Falkirk Council Pensions Section.

You will also need to provide a letter from your GP indicating that you are likely to remain fit enough to remain in post until your ARC contract is due to come to an end. Should you fail to satisfy the medical requirements you will not be able to buy any extra pension.

If Falkirk Council accepts your application we will notify you in writing and instruct your employer to start deducting the ARCs from your pay.

If you wish to stop paying the ARCs early, you must write to the Pensions Section. We will instruct your employer to stop deducting the ARCs and will write to you to let you know the amount of extra pension you have bought.

How do I pay?

You will pay an additional contribution each month to buy your extra pension. Your employer will deduct this contribution from your pay along with your basic scheme contributions. If you pay tax, you will automatically receive tax relief.

Where can I find further information?

- Call Falkirk Council Pensions Section on **01324 506329**
- E-mail us at pensions@falkirk.gov.uk
- Write to us at the Pensions Section, PO Box 14882, Falkirk Council, Municipal Buildings, Falkirk, FK1 5ZF

Example

A 40 year old female member wants to buy extra pension for herself only. Here is the cost of buying £250 of pension, shown over different periods:

- Cost over 1 year : £192.56 a month (less tax relief)
- Cost over 5 years: £ 42.77 a month (less tax relief)
- Cost over 10 years: £ 24.52 a month (less tax relief)
- Cost over 20 years: £ 16.41 a month (less tax relief)

Should this member choose to buy £500 of pension and spread the cost over 10 years, it will cost her $£24.52 \times 2 = £49.04$ a month (less tax relief), which is a total of $(£49.04 \times 12 \times 10 =)$ £5884.80 (less tax relief) over the whole ten years.