UK Research and Innovation



Added Pension webinar

For members of the RCPS

Tuesday 16 January 2024

Kye Honor, Joanna Ford & Gillian Heasman

Agenda



- What is added pension
- Added pension limits
- How to pay for added pension
- How added pension is worked out
- Examples
- Added pension for dependants
- Added pension and annual allowance
- Deadlines



Questions will be answered via the Q&A

https://jsspensions.nerc.ac.uk/

What is added pension?



Additional (extra) pension paid for by the scheme member

The pension age for added pension matches that of the main scheme membership; 60 (classic, premium or classic plus) or 65 (nuvos)

The cost for purchasing added pension is met by the scheme member

However, if a member is being made redundant under the Civil Service Compensation Scheme (CSCS), the redundancy lump sum may be used to purchase added pension

If added pension is purchased, an additional amount of annual pension is credited to the members accrued pension. This added pension is then increased in line with inflation each April (CPI)

Added pension is tax efficient way of saving towards retirement;

- Regular contributions paid through payroll, tax is automatically deducted after additional (and normal) pension contributions taken
- Purchases by cheque or bank transfer, tax relief is not automatic. Members must claim the tax relief themselves with HMRC (via Self-Assessment)

Calculators available on the JSS website; *Members > Increasing Benefits* page

Added pension limits



Upper limit on how much added pension can be purchased

The amount purchased is different to the cost of buying the additional pension

The 2023-24 limits are:

- Nuvos, Premium and Classic Plus £8,400 per annum
- Classic £6,800 per annum* (with associated standard lump sum of £20,400)

*For example, the total amount of added pension that a Classic member can buy, through their own added pension contributions, throughout their whole RCPS membership, is £6,800 per annum (they cannot purchase £6,800 p.a. each year)

The 2024-25 limits, with effect from 1 April 2024, are:

- Nuvos, Premium and Classic Plus £9,000 per annum
- Classic £7,300 per annum (with associated standard lump sum of £21,900)

Added pension purchased by a compensation payment (if being made redundant from RCPS employer) does not count towards the added pension limit

Added pension does NOT count towards the 75% limit for Nuvos members

How to pay for added pension



Added pension can be purchased by one off lump sum payments and / or regular monthly contributions

Lump sum payments

- Only one lump sum payment by the member, can be made, per scheme year. Scheme years run from 1 April to 31 March
- The minimum lump sum payment is £100
- Lump sums are not possible during the first year of scheme membership

Monthly payments (contributions)

- Regular monthly contributions must start from 1 April in each year. New members can start regular monthly contributions for added pension within three months of joining
- Regular monthly contributions can be set up for any number of scheme years
- Regular monthly contributions can be set as a fixed percentage of pay, or a fixed monetary amount
- The minimum regular monthly contribution is £10 per month (or the percentage equivalent of £10)



The amount credited is based on factors that have been set by our scheme actuary – the Government Actuary's Department

The added pension factors are specific to the RCPS and depend on whether an individual is a nuvos or non-nuvos member

Added pension factors are provided for lump sum purchases and for regular monthly contributions.

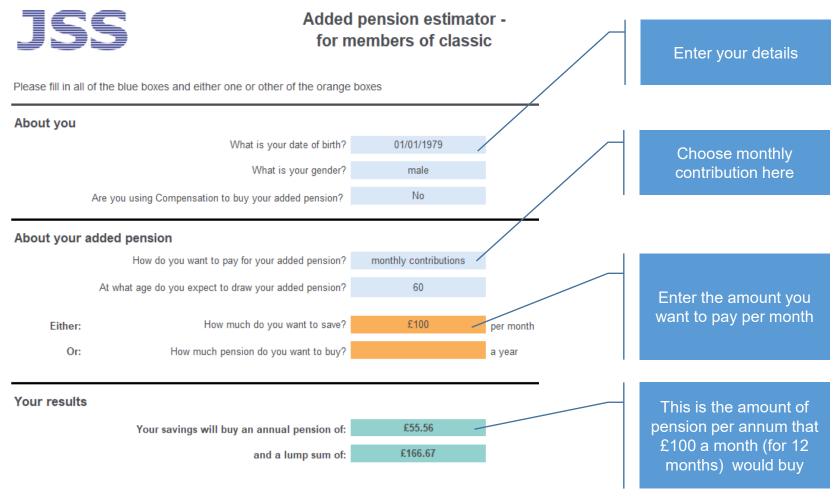
Added pension factors are subject to review. Factors are not gender specific.

For example, the <u>regular monthly contribution factor</u>, for a classic member who will be age 45 at 1 April 2024 is <u>21.60</u>. Assuming this person pays £100 per month, from April 2024 to 31 March 2025, the amount of added pension purchased for the total contributions of £1200 would be £55.56 per annum (with associated lump sum of £166.68).

• Calculated as: £1,200 divided by the factor 21.60 = £55.56 p.a.



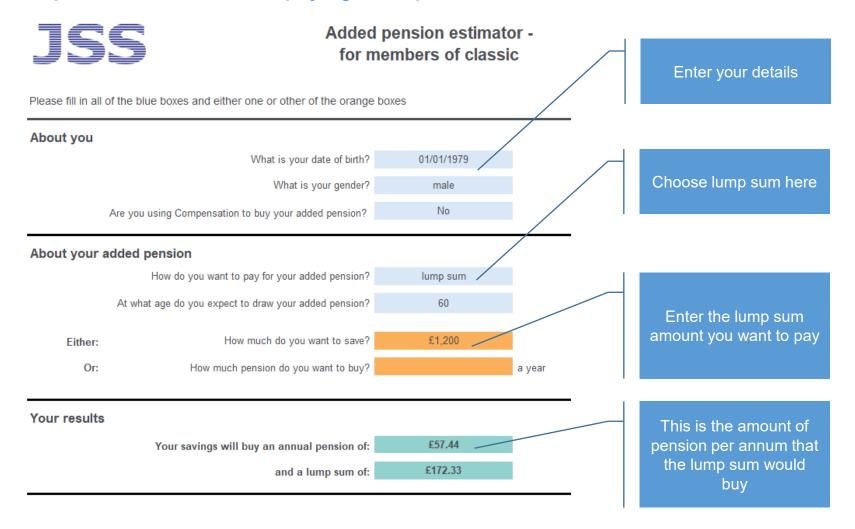
Example 1: Classic member paying £100 a month via payroll deduction



Calculator on JSS website: Members / Increasing Benefits

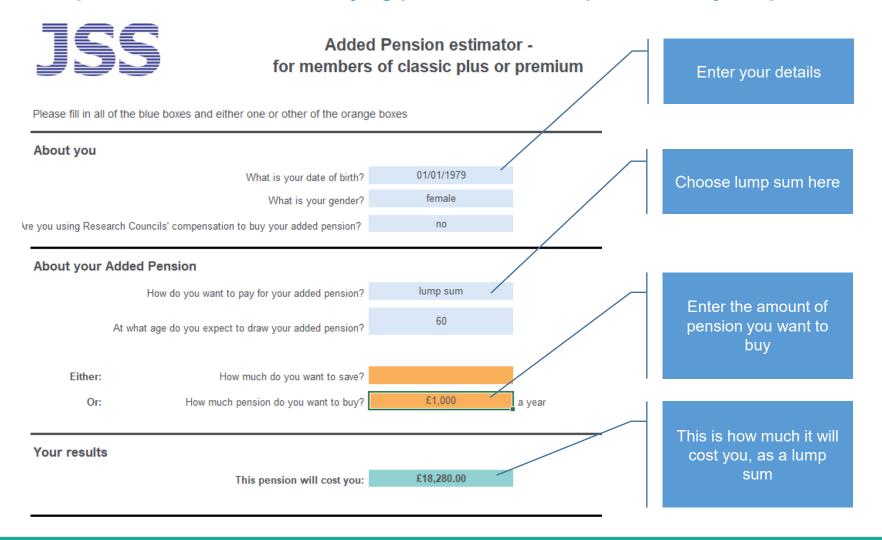


Example 2: Classic member paying a lump sum of £1200





Example 3: Premium member buying pension of £1,000 per annum by lump sum





Example 4: Nuvos member paying £100 a month to buy additional pension for themselves and dependants

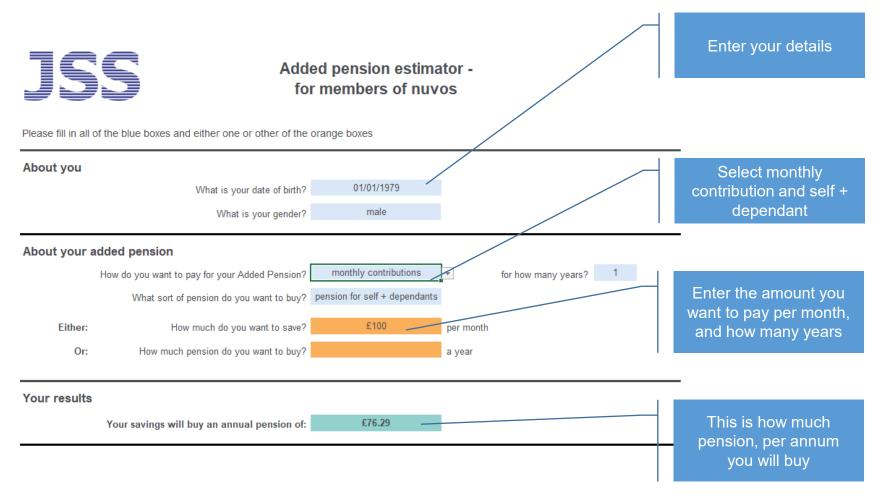


Table of examples



Further examples of added pension purchased and what it could increase to assuming CPI at 2.0%.

Figures based on someone born in 1979; in Classic/Premium they will have 15 years to normal scheme pension age (60), and 20 years in Nuvos (65).

| Scheme/Type | Type of purchase | Amount paid | Added Pension purchased (p.a.) | Associated pension lump sum | Cost to member | Pension accrued (Note 1) | Pension paid (Note 2) |
|-------------------|------------------|-------------|--------------------------------|-----------------------------|-------------------|-----------------------------|--------------------------|
| Classic | Monthly | £100 | £56 | £167 | £1,200 | £75 | £2,041 |
| Classic | Monthly | £250 | £139 | £417 | £3,000 | £187 | £5,103 |
| Classic | Lump sum | £1,000 | £48 | £144 | £1,000 | £64 | £1,759 |
| Classic | Lump sum | £5,000 | £240 | £718 | £5,000 | £323 | £8,815 |
| Premium | Monthly | £100 | £64 | | £1,200 | £86 | £2,077 |
| Premium | Monthly | £250 | £159 | | £3,000 | £214 | £5,193 |
| Premium | Lump sum | £1,000 | £55 | | £1,000 | £74 | £1,789 |
| Premium | Lump sum | £5,000 | £274 | | £5,000 | £368 | £8,944 |
| Nuvos (self only) | Monthly | £100 | £84 | | £1,200 | £124 | £3,015 |
| Nuvos (self only) | Monthly | £250 | £209 | | £3,000 | £310 | £7,538 |
| Nuvos (self only) | Lump sum | £1,000 | £72 | | £1,000 | £107 | £2,596 |
| Nuvos (self only) | Lump sum | £5,000 | £359 | | £5,000 | £534 | £12,978 |

Note 1 - Pension accrued to Normal Pension Age assuming annual revaluation of 2.0% (based on CPI). Added pension purchased in 2024 scheme year

Note 2 - Assumes pension in pay for 20 years from normal scheme pension age, with annual increases based on CPI of 2.0%. Includes automatic pension lump sum for Classic members

Contributions paid through payroll automatically attract tax relief; this is not factored in to 'cost to member'.

Added pension for dependants



The appropriate proportion of added pension purchased by Classic, Premium and Classic Plus members automatically applies for dependants' benefits.

For example, a classic member's surviving spouse's pension is normally 50% of pension accrued. If a classic member purchases £2,300 per annum of added pension, if a surviving spouse's pension is payable, the surviving spouse's pension would have £1,150 per annum of added pension included

The added pension proportion applicable for a surviving spouse or partner, for nuvos, premium and classic plus members is normally 37.5%. For example, if a nuvos member purchases £2,300 per annum of added pension, the spouse or partner pension would have £862.50 per annum of added pension included.

Nuvos members can chose whether to purchase added pension for just themselves, or whether they want added pension for 'self and dependants'. The choice will impact the level of added pension credited.

Added pension and Annual Allowance



Added pension purchased counts towards pension savings for Annual Allowance (AA) purposes

The AA for 2023-24 is £60K. If added pension has been purchased, as long as there is unused allowance (albeit in year of purchase, or from carried forward 'unused allowance') no annual allowance tax charge would be due

Example 1: if nuvos pension accrued at 5 April 2022, inclusive of added pension (if purchased), was £9000 per annum, and it was then £12,000 at 5 April 2023, pension savings are deemed to be £48,000

Calculated as follows: (£12000 less £9000) x 16 = £48,000

Example 2: if £3K of added pension is also purchased during 2022-23, the pension savings would be £96,000

Calculated as follows: (£15000 less £9000) x 16 = £96,000

If there was insufficient unused allowance from the previous 3 years, an annual allowance tax charge would be due.

The tax charge can be paid through Scheme Pays, where we pay the tax on the members behalf and reduce their pension.

Deadlines, forms and more information



Buying added pension by lump sum this scheme year (1 Apr 2023 to 31 Mar 2024):

- Paying through payroll, application form to JSS by 9 Feb 2024
- Paying by bank transfer, application form and payment to JSS by 16 Feb 2024

Buying added pension by monthly contribution for 2024 scheme year; effective from 1 Apr 2024. Application form to JSS by **8 Mar 2024**

Late applications will not be accepted

Added Pension reminder 2024: https://jsspensions.nerc.ac.uk/docs/added-pension-reminder-2024.pdf

Added Pension calculators: https://jsspensions.nerc.ac.uk/members/increasing.asp

Added pension further information: https://jsspensions.nerc.ac.uk/members/increasing.asp

UK Research and Innovation



Thank you

- Email questions to <u>memberships@jss.ukri.org</u>
- We will upload a recording of this to our website, with these slides

Research Councils' Pension Scheme

https://jsspensions.nerc.ac.uk/