

Employer Guide

Increasing Benefits

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Introduction

This section outlines the available mechanisms by which pension benefits under the LGPS may be increased.

Buying extra pension by paying APCs Reg.16

Employees in the Scheme may choose to buy extra annual pension, up to a maximum of £7,194 (2020/21 figure), by entering into an Additional Pension Contribution (APC) contract. The maximum amount is increased by inflation on each subsequent 1 April.

There are 3 reasons why an employee may wish to enter into an APC contract which are as follows:

1. To buy extra pension
2. To buy back the pension which was lost ('lost pension') because the person was on authorised unpaid leave of absence during which the member was not treated as receiving assumed pensionable pay (e.g. unpaid additional maternity or adoption leave, unpaid shared parental leave).
3. To buy back the pension lost ('lost pension') because the person was on strike.

The amount of 'lost' pension, under reason 2 and 3, shall be calculated as 1/49th of the 'lost pensionable pay' for the period of unpaid leave if the person was in the main section during that period, or 1/98th of the 'lost pensionable pay' for the period of unpaid leave if they were in the 50/50 section during that period.

Please note that an employee in the 50/50 section is not permitted to enter into an APC contract for reason 1 (i.e. buying extra pension) though they may enter into an APC contract for reasons 2 or 3.

The employee may choose to make a one off contribution or regular additional contributions, in order to buy a set amount of extra pension or all of the 'lost pension', as the case may be. The cost (a cash amount NOT a percentage of pay) is determined by the employee's age and the amount they wish to purchase. It should be noted that the administering authority may not allow an amount of additional pension to be purchased by way of regular additional contributions on the grounds that it would be impractical to do so (e.g. if buying trivial amounts of pensions). Further information on this is available from LPPA.

If the APC contract is for reason 2 above and the employee makes the election within 30 days of returning to work (or such longer period as the employer may allow), the employer shall, for any individual period of absence up to 36 months, but not any period beyond that, pay 2/3rds of the cost of the APC. Alternatively, if they elect after this deadline, the cost will be met in full by the employee.

It should be noted however that an employer may voluntarily contribute towards the cost of purchasing extra pension, whether wholly or in part, via a "shared cost Additional Pension Contribution" should they so wish. It is a requirement for employers to have a written policy covering the circumstances when this would be used.

If the employee wishes to enter into an APC contract for any of the above reasons, they will need to sign a contract to do so. However, a medical declaration must be completed before we can allow a contract to be entered into, and, in certain cases, the member may be required to undergo a medical at a cost to the member.

If the employee has elected to pay by way of regular additional contributions, those contributions remain payable until the end of the period specified in the contract. However, the contributions would cease upon any of the following earlier events:

- One month after the member gave written notice to cease payments
- The employee joins the 50/50 section (unless the contract was to buy "lost pension")
- The employee ceases to be an active member in the employment to which the APC contract is attached
- The employee draws benefits on flexible retirement in the employment to which the APC the contract is attached
- The employee leaves the employment to which the APC contract is attached
- The employee dies

If the APC contract ceases early, the employee will receive a proportion of the additional pension that they set out to purchase. If, however, the contract ceased early due to ill health retirement to which the employee qualifies for tier 1 or tier 2 benefits, the contract is deemed completed.

Please see the 'Absence and Assumed Pensionable Pay' for more information on APCs.

Award of additional annual pension Reg. 31

Employers can award additional annual pension to active members of up to £7,194 (2020/21 figure), (less any amount of additional annual pension the employer has already contributed towards or is contributing towards under a shared cost APC). This is an increase from the 2008 Scheme maximum of £5,000 and the maximum of £7,194 will be increased each 1 April by inflation. Such an award may also be made within six months of leaving to those persons who have left on the grounds of redundancy or business efficiency.

The employer would make a one-off contribution in order to buy a set amount of additional pension for the member. The cost is determined by the employee's age and the amount purchased.

Additional Voluntary Contributions (AVCs) Reg. 17

Active members of the Scheme can pay additional voluntary contributions to increase retirement benefits and / or death benefits. Contributions are made via payroll thereby obtaining immediate tax relief at the highest rate of tax paid on earned income.

Each Fund has an in-house AVC provider.

Additional contributions are invested directly with the provider and members can invest in various options: Deposit approach, With-profits approach, Managed Fund approach (unit linked).

Previously, members who entered into an AVC contract before 1 April 2014 were unable to pay more than 50% of their pensionable pay (2008 scheme definition, so, for example, excluded non-contractual overtime) into their AVC fund. Members who entered into an AVC contract on or after 1 April 2014 were able to pay up to 100% of their pensionable pay (2014 scheme definition, so, for example, includes non-contractual overtime) into their AVCs. From

14 May 2018, all members, irrespective of when the AVC contract was entered, can pay up to 100% of their pensionable pay (2014 scheme definition, so, for example, includes non-contractual overtime) into their AVCs. Members must be mindful, though, of the annual allowance when deciding how much to contribute (see [the annual allowance factsheet](#) on our website).

At retirement, LPPA will advise members of their options regarding their AVC fund. These may include using it to receive extra tax-free cash, extra LGPS pension and/or an annuity with an insurance provider.

Shared Cost Additional Voluntary Contributions (SCAVCs) Reg. 17

This section is only applicable to organisations whose policy decision it is to provide for a SCAVC Scheme.

If a SCAVC Scheme is introduced, contributions are required from the Scheme member, but these do not have to match those of the employer.

Either party can terminate SCAVCs at any time.

Please see [LGA document](#) on SCAVCs.

Contracts taken out prior to 1 April 2014

The following elements of the 2008 Scheme are to be carried forward into the 2014 Scheme as outlined below by virtue of Regulation 15 of the Local Government Pension Scheme (Transitional Provisions and Savings) Regulations 2014.

Additional Regular Contributions (ARCs)

Contributions under existing ARC contracts entered into before 1st April 2014 continue to be payable (but the member can elect to cease the contract). Payments under these contracts are flat sums payable per pay period (not percentages of pensionable pay).

No new ARC contracts can be taken out after 31st March 2014 (but the member can take out an Additional Pension Contributions contract).

Added years contracts

Existing contracts entered into by members who elected before 1st April 2008 to purchase added years of membership continue in force (unless the member elects to cease the contract). Payments under these contracts are expressed as a percentage of the member's pensionable pay (2008 Scheme definition of pensionable pay). The contributions should only be deducted on the 2008 Scheme definition of pensionable pay i.e. excluding any pay that is pensionable in the 2014 Scheme but which was not pensionable in the 2008 Scheme – such as non-contractual overtime.