Scottish Police Federation
5 Woodside Place Glasgow G3 7QF

JCC Circular 6 of 2016

Ref: CS/LS

8 February 2016

Attachments:

DWP – Public Sector Letter
Public Sector Factsheet

Dear Colleague

Increase in National Insurance following the introduction of the New State Pension

I refer to the above and attach useful information on the increases to National Insurance in April 2016, following the introduction of the New State Pension.

In simple terms this means that the relief currently applied to National Insurance Contributions on your police pension contributions will be abolished.

You should note that this is not a change to your police pension. It is a taxation change that simply happens to apply to a portion of your income. There is no material change to your police pension.

Yours sincerely

Calum Steele
General Secretary

Department
for Work &
Pensions

www.gov.uk

4 February 2015

Dear employers

Increase in National Insurance following the introduction of the New State Pension – April 2016

Background

You may have seen in the media that the new State Pension is being introduced on 6 April 2016 for those reaching State Pension age after that date. This reform means that the current, complicated, multi layered system of basic and additional State Pensions will ultimately be replaced with a clearer, single pension amount. In the long run, the new State Pension will mean that people will be clearer from a younger age about what they are likely to get from the state towards their overall pension income helping them to plan how best to save for their retirement.

As a consequence of the reforms, contracting-out of the additional State Pension for Defined Benefit schemes will come to an end. Contracting-out meant that employees and employers paid a lower National Insurance (NI) rate and gave up entitlement to additional State Pension in return for a broadly similar amount as part of their occupational pension. Currently most public sector defined benefit pension schemes are contracted-out. The main implication of this reform for scheme members is that from 6th April they will no longer receive the NI rebate. This will mean an increase in employee NI contributions of around 1.4% of earnings between the relevant NI thresholds, set each year by HM Treasury.

The reforms are being introduced on 6th April 2016 and employees will see the change in NI Contribution payments after that date.

Action

As a public service employer, who currently offers a contracted-out defined benefit pension scheme, your employees will be affected by this NI change. To assist you in communicating these changes to your employees we have a produced a number of products.

We have worked with departmental colleagues who lead on the main public sector pension schemes to ensure they are aware of these changes and the legal requirements relating to occupational pension schemes. Scheme administrators are required by law to notify members that their scheme is no longer contracted-out, but the requirement does not extend to include notifying them of the implication of this, i.e. the increase in NI contributions following the removal of the NI rebate.

It is worth confirming that this change will not impact upon an individual's occupational pension.

Indeed, the individual's occupational pension will in most cases include an amount that is equivalent to the additional State Pension they would have received if they had paid the higher standard rate of NI.

We suggest that you co-ordinate the communications you plan for your employees with your scheme administrators to ensure a joined up message is delivered to scheme members.

The materials attached include the things you need to know, plus some practical materials for you to use – or if you want to know more details then this pack will point you in the right direction. We've created emails, articles, posters, videos and images – and you're free to use them in whichever way suits you. We have included a factsheet specifically for public sector employees that you could use as a standalone product or you can use the messages in your own communication products to individuals. The key products are available on GOV.UK as part of the new State Pension toolkit at https://www.gov.uk/government/collections/state-pension-toolkit.

The recommendation from the Cabinet Office is that you begin communications to staff after the Autumn Statement, once NI bandings for 2016/2017 are announced.

If you have any feedback on the products please let us know by contacting state.pensioncomms@dwp.gsi.gov.uk.

Changes to the State Pension from April 2016

Public Service Employees

- This factsheet is about the ending of contracting-out of the Additional State Pension for Defined Benefit Pension Schemes.
- From 6 April 2016, there will be a new State Pension for people reaching State Pension age on or after this date. If you reach State Pension age before 6 April 2016 you will receive the current State Pension and you don’t need to read any further.

What is changing?

You will be able to claim the new State Pension if you are a man born on or after 6 April 1951 or a woman born on or after 6 April 1953.

The current State Pension is made up of two parts:

- the basic State Pension; and
- the additional State Pension (known as State Second Pension or SERPS).

If you pay into a salary-related workplace pension, such as a ‘final salary’ or ‘career average’ scheme, you are likely to be ‘contracted-out’ of the additional State Pension.

If so, you and your employer pay National Insurance at a lower rate because you get a National Insurance rebate. This means you may have little or no additional State Pension and you are building up a workplace pension instead.

From 6 April 2016 the new State Pension is introduced. It will replace the existing basic and additional State Pensions and contracting-out of the Additional State Pension (giving up entitlement to the Additional State Pension by paying lower National Insurance contributions and building up a workplace pension instead) will come to an end.

All employees will pay the same rate of National Insurance.

Am I contracted-out?

Three-quarters of people reaching State Pension age in the first two decades of the new State Pension will have been contracted-out at some point.

As a member of a public service defined benefit pension scheme you are likely to have been contracted-out of the additional state pension by your employer. Look at your last payslip. If you’re contracted out the letter ’D’ will be next to your National Insurance payments. It could also show letter E, L, N or O.

How will the changes affect me?

If you have been contracted-out, both you and your employer pay a lower rate of National Insurance contributions, and in return your pension scheme is required to provide a pension that meets a minimum standard. The reduction to National Insurance is known as the “National Insurance rebate”.

From 6 April 2016, you’ll no longer be able to contract-out. This means you’ll pay the standard rate of National Insurance instead of the lower rate that you currently pay. This will be an increase of 1.4% of earnings between the HM Treasury thresholds[1].

[1] £5,824 (the Lower Earnings Limit) and £40,040 - 2016/17 rates

Changes to the State Pension from April 2016
Public Service Employees (continued)

Will I be worse off?

The vast majority of people who have been Contracted Out will end up better off over their lifetime as a result of the changes. We estimate that around 90% of those people who reach State Pension age in the two decades following the introduction of the new State Pension will receive enough extra State Pension over their retirement (compared against what they would have received under the current system) to offset their increased National Insurance contributions.

Do I have to do anything?

No. Your employer and pension scheme administrator will make the necessary changes.

How will my State Pension be affected?

Under both the current and the new systems, the amount of State Pension you will receive will take account of any periods when you have been contracted-out of the additional State Pension. This reflects the fact that you have paid a lower amount of National Insurance during those periods.

How will the new State Pension be calculated?

On 6 April 2016, DWP will calculate:

- the amount you would have received under the existing State Pension rules (including basic State Pension, any additional State Pension, and any Graduated Retirement Benefit); and
- the amount you would receive if the new State Pension had been in place at the start of your working life (this is calculated as 1/35th of the full new State Pension amount for each qualifying year) minus a deduction for the years you were contracted-out.

The higher of these two amounts will become your starting amount for the new State Pension.

The starting amount calculation ensures that people who qualify receive at least as much new State Pension as they would have done based on their own National Insurance account under the old scheme.

Both calculations will take into account any period when you were contracted-out of the additional State Pension, which means you may have little or no additional State Pension. This is because whilst you were contracted-out, you will have paid lower National Insurance contributions than people on the same salary as you who were not part of a contracted out pension scheme.

However, in most cases, the pension you get from your contracted out pension scheme(s) should include an amount at least the equivalent of the additional State Pension you would have received if you had not been contracted out. This amount is referred to as the Contracted Out Pension Equivalent (COPE) and is shown on your State Pension statement. Your total pension from your private pension scheme could be higher than this amount.

Changes to the State Pension from April 2016

Public Service Employees (continued)

The COPE amount is a Government estimate based on your National Insurance record. It is paid as part of your overall scheme pension benefits and is not normally identified separately by the scheme. The amount that you will get from your workplace pension will depend on the scheme rules and is not affected by the amount you will get from the new State Pension.

How much will I get in the new State Pension?

If you have contracted-out at any time, although your starting amount may be lower than the full rate of the new State Pension, you may be able to increase your new State Pension amount by adding further qualifying years to your National Insurance record after 6 April 2016 by paying National Insurance contributions, or getting National Insurance contribution credits.

Your starting amount will then increase by **1/35th of the full new State Pension amount for each qualifying year added to your record from 6 April 2016 until you reach State Pension age or you reach the full weekly amount – based on a full new State Pension amount of £155.65, this will be around £4.45 per week for each additional qualifying year.**

What happens if my scheme's normal pension age is earlier than my state pension age or I decide to take early retirement or take part in a voluntary exit scheme?

Your work pension will be paid at your scheme's normal pension age, according to your scheme's rules and the law.

If you take early retirement or leave work through a voluntary exit scheme before April 2016, you'll have to wait until your State Pension age before you can apply for the new State Pension.

Where can I go to find out more?

If you are over 55 years old you can apply for a State Pension statement:

https://www.gov.uk/state-pension-statement

If you reach state pension age on or after 6 April 2016, you will be able to claim the new state pension. You can visit the DWP website to find out more about it:

www.gov.uk/new-state-pension

You can read more about transition to the new State Pension and contracting-out here:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/210299/single-tier-valuation-contracting-out.pdf

www.hmrc.gov.uk

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