Annex A

MODEL OFFICE NOTICE

Please note you should refer back to the office notices you issued following EPN 133.

New tax rules (tax simplification) and changes to the pension arrangements- a reminder of what is happening

From 6 April 2006 new simplified rules came into effect for the taxation of pensions. For most people the changes are beneficial.

As far as the taxman is concerned, there is now no limit on the amount of money you can save in a pension scheme or the number of pension schemes you can save in – although there are limits on the amount of tax relief you can get.

You will get tax relief on contributions of up to 100% of your earnings.

There is a limit on the increase in the value of your pension rights or benefits that you can have in any tax year and contributions you can pay into a pension scheme or arrangement without paying extra tax. This limit is known as the **annual allowance**. The annual allowance for the 2006/07 tax year is £215,000.

Each person will have a **lifetime allowance** (LTA) for the total value of pensions which can come into payment without having to pay extra tax... The LTA for the 2006/07 tax year is £1,500,000. Each time you start to take a pension from a pension scheme the value of the pension will be tested against your remaining LTA. Provided you have sufficient LTA left, your pension will be brought into payment and then taxed in the normal way while in payment. It will not normally be tested against the LTA again.

Please note that the annual allowance and lifetime allowance are sufficiently high that they will not affect the vast majority of people.

Putting a pension into payment from 6 April 2006

The new tax regime requires your APAC to carry out extra checks before they can put a pension into payment. Some of the information the APAC needs can only be provided by you when you retire. The Personal Details Form (PDF) - which you will receive when you are about to retire - will ask you to give the information needed. You need to be aware that your APAC will not bring your pension into payment before they have your properly-completed PDF.

Last year we told you about the changes to the Civil Service pension scheme as a result of the new tax rules. Here is a reminder of the main changes from 6 April 2006 and more importantly what will not change at that date.

Changes to the payment of WPS (widows'/widowers' pension scheme) refunds

If you are a member of **classic** who is eligible to receive a refund of WPS contributions on retirement, the refund will be paid as part of your retirement lump sum when you first draw your pension. In most cases this means that the refund will be tax-free.

Minimum age for payment of pension credits

Any one who is awarded a pension credit as part of divorce or dissolution proceedings will only be able to have the pension credit put into payment before they are 60 if they are unable to work through ill health.

Change to age limit for dependent children's pensions

Any new pensions for dependent children paid after 6 April 2006 will stop at age 23 even if the child is in full time education or training. Special rules will apply to dependent childrens' pensions already in payment at 6 April 2006.

New age limit

We will not be able to pay lump sums to members who have reached age 75. We will require members to draw their pension before their 75th birthday but we will not abate (reduce or suspend) their pension if they carry on working.

Allocation

If you want to allocate (give up) part of your pension to provide a bigger pension for your dependants after your death you will have to do so at the time your pension comes into payment. You will not be able to allocate after your pension has come into payment.

If you are in **classic**– you need to be aware that the option to allocate part of your pension to provide for a pension to be paid to your spouse/ civil partner before your death is no longer available.

Transfers from schemes other than occupational (employer sponsored) schemes

If you want to transfer pension rights from a non occupational pension scheme you must make your application within 12 months of being eligible to join **premium** or **classic.** You will not be able to transfer pension rights from arrangements which were classed as Free Standing Additional Voluntary Contribution arrangements or Additional Voluntary Contribution arrangements immediately before 6 April 2006

The Civil Service Additional Voluntary Contribution Scheme (CSAVCS)

- You will no longer be restricted to the current limit of 15% of salary to cover contributions to both the CSAVCS scheme and the Civil Service pension scheme.

- When you draw your CSAVCS benefits you will be able to draw 25% as a lump sum

- You can now transfer your CSAVC benefits out of the AVC scheme whilst remaining in the Civil Service as long as it is to a UK registered scheme or a qualifying recognised overseas pension scheme

The Civil Service Compensation Scheme (CSCS)

There are some technical changes to the arrangements for **classic** members who leave on Compulsory Early Retirement (CER) and Flexible Early Retirement (FER) but there will be no change in the actuarial value of benefits payable. **classic** members will have a choice between

Option A - taking an enhanced early pension and tax-free lump sum (plus a compensation lump sum for those leaving on CER) payable immediately without any reduction for early payment, and

Option B - receiving the early exit benefits solely in the form of compensation (in the same way that **premium**, **classic plus** or **partnership** members leaving on CER or FER do) with pension benefits deferred for payment at 60.

The repackaging and commutation options will no longer be available. Full details are contained in the booklet, “Civil Service Compensation Scheme (CSCS): Early retirement and redundancy for **classic** members – a guide to what is available”.

Revisions to your pension

Pensions in payment get revised for all sorts of reasons, one of the main ones being where someone retires before an expected pay increase has been agreed and paid. The new arrangements require your APAC to test any post-leaving revision you may get against your remaining LTA. The complex nature of this test is being written into the scheme’s administration software but your APAC will not have use of this particular aspect of it until at least late May. If you are retiring soon and are expecting a revision to your pension shortly afterwards, you need to be aware that the revision is unlikely to happen before the end of , May. But it will happen quite soon afterwards, when you will receive all that you are entitled to from the revision. We can only apologise for any further delay this will cause before you get your correct pension and are doing all we can to ensure that this is resolved as soon as possible.

What will not change?

It is important to be aware that many of the tax changes are permissive, and schemes do not have to make changes. The following aspects of **classic**, **premium** and **classic plus** are not changing at present:

- The maximum amount of tax-free lump sum you can take when you retire
- The limit on the maximum number of years of reckonable service you can earn
- The amount of added years you can buy
- The earnings cap that limits the amount of salary on which you can build up scheme benefits (also applies to **partnership** pension account)
- Transfers from an occupational pension scheme can still be accepted up to age 59 in most cases.

Further information

Further information and updated scheme leaflets can be found at:

www.civilservice-pensions.gov.uk