

Dear pensioner member

Important Pension Changes

Introduction

As you may know, the rules of the Local Government Pension Scheme (LGPS) are made by the Office of the Deputy Prime Minister (ODPM).

Her Majesty's Revenue and Customs (HMRC) set tax limits on the amount of pension benefits a member can build up. (These tax limits are different to Income Tax, which may become due when a pension comes into payment).

From time to time, the rules of the Scheme and tax limits change. As your pension is already in payment, you are not always affected by the changes. Where this is the case there is no need to inform you about changes.

However, in April 2006 some important changes are taking place, which may affect you. These changes are explained below.

HMRC changes to tax limits

Before 6 April 2006, the tax limits that applied to pension benefits were known as regimes. The regime that applied to you was dependant on the date you joined the Scheme. There were 8 regimes and they were very complicated.

From **6 April 2006**, known as **A Day**, HMRC introduced one new single regime. This change is known as "**Tax Simplification**" and introduces:

- **A Lifetime Allowance (LTA)**. This is the total amount of pension savings (total value of all pension funds) that can be built up before incurring an extra tax. The current allowance is **£1.5million**. Any benefits built up over this amount will be subject to an extra tax charge.

The amount of the LTA will change over the years.

Although your pension is already in payment, it will count towards your LTA. With the exception of the State Pension, any other pensions you have in payment may also count towards this allowance.

- **Protection** for members whose pension benefits exceeded the above limit before 6 April 2006.
- **Annual Allowance of Pension Growth (AA)** This is the total amount your benefits can increase by within one year before being subject to extra tax. This years allowance is **£215,000**.

The amount of AA will change over the years.

Please note: The Pension Fund is unable to give financial advice. Please seek independent financial advice if you think these changes may affect you.

The following organisation's websites may be of assistance to you:

- IFA Promotion www.ifa.org.uk
- HMRC www.hmrc.gov.uk
- FSA www.fsa.gov.uk
- The Pensions Service www.pensions.gov.uk

If you need more information about your LTA and AA, please contact the Pensions Helpline on 0191 424 4141.

Other Tax Changes

A number of other tax changes have been introduced. However, some of these are voluntary and it is up to each pension scheme to decide if and how they want to adopt them.

Changes to the LGPS

The LGPS is currently undergoing a review known as "the Stocktake". The ODPM had planned to make a number of changes to the LGPS and at the same time, also make some changes to tie in with HMRC tax changes. It was hoped these changes would be in force from 1 April 06.

The regulations that will set out these changes had not been finalised at the time of writing. Therefore, I am unable to advise you of what they will be.

When the regulations are finalised I will write to you again to let you know about any changes that will affect pensioner members.

However in the meantime, if you require any further information please contact the Pensions Helpline.

Yours sincerely



Stephen Moore
Head of Pensions

Your Personal Information

We use the information you give us (and in return the information we give you) to do the tasks required for payment of your pension, to carry out the Fund's official business and to help stop crime and prevent fraud. Under the Data Protection Act 1998 South Tyneside Council is the Data Controller (the holder, user and processor) of the pension information held about you.

The Fund participates in the National Fraud Initiative exercise by passing your pension information on to the Audit Commission, where it is matched nationally to housing benefit and rent information to help to prevent and detect fraud. The Fund's participation in this exercise is mandatory.