

THE ASTON UNIVERSITY PENSION SCHEME (AUPS) A GUIDE TO THE SCHEME ADDENDUM TWO

CHANGES TO THE STATE PENSION AND THE IMPACT ON AUPS

Introduction

For many years, prior to April 2016, the State Pension was made up of two parts: the Basic State Pension and the Additional State Pension (the “top up” element to the state pension, sometimes called State Second Pension or SERPS). Many occupational pension schemes were allowed to “contract-out” of the Additional State Pension if they met a quality test. This included AUPS. Being “contracted-out” meant that employees (and employers) paid lower National Insurance (NI) contributions whilst they were members of the pension scheme, through the application of an NI rebate, but therefore did not build up any Additional State Pension. Effectively, the “top up” element to the State Pension was replaced by membership of the relevant occupational pension scheme.

However, from 6 April 2016, the Basic and Additional State Pensions is to be replaced with a flat rate State Pension. As a result, “contracting-out” will end, there no longer being an Additional State Pension to “contract out” from. The rebate on scheme members’ and employers’ NI contributions will also cease and their NI contributions will increase.

Why is the State Pension changing?

The Government’s aim is to introduce a simpler, fairer system where people have a clearer idea about what pension the state will provide, making it easier to plan their retirement savings.

Individuals reaching State Pension Age before 6 April 2016 will get their State Pension under the current system.

When an individual has paid into a “contracted-out” pension scheme between 6 April 1978 and 5 April 2016 and they attain State Pension age on or after 6 April 2016, the amount of new flat rate State Pension they receive will be reduced in respect of any period in which they have been “contracted-out”. This is to reflect the fact that they and their employer have paid a lower rate of NI. In this case the employee is less likely to receive the full amount of the new State Pension, however, this will depend on their individual NI record and how many qualifying years they have after April 2016. They would be able to build up further qualifying years towards the full flat rate State Pension if they continue working and paying NI after April 2016.

For further information about the calculation of the new State Pension please refer to www.gov.uk/new-state-pension/overview

Impact on AUPS

Although “contracting-out” ends on 5 April 2016, it will be many years before it ceases to impact on the scheme and its members who joined prior to the date. All benefits built up on **Pensionable Service** between 6 April 1978 and 5 April 2016 must continue to be treated as they were required to be treated under the “contracting-out” legislative requirements.

Overleaf we highlight references to “contracting-out” requirements and the State Pension in the “Guide to the Scheme” and how these will be different for **Pensionable Service** from 6 April 2016.

AMENDMENTS TO “A GUIDE TO THE SCHEME”

Terms used in the booklet (foldout cover)

State Second Pension (S2P). See explanation overleaf on the new flat rate State Pension and end to contracting-out.

Contributions (page 8 and 9)

With the end of contracting-out you will no longer pay a lower rate of National Insurance though being a member of the **Scheme**. You will however continue to receive tax relief on your contributions.

Below are some examples of typical contribution costs:

Pensionable Pay	Gross monthly contribution	Tax relief	Net monthly cost to you	Gross weekly contribution	Tax relief	Net weekly cost to you
	(6.35%)	(20%)		(6.35%)	(20%)	
£15,000	£79.38	£15.88	£63.50	£18.24	£3.65	£14.62
£20,000	£105.83	£21.17	£84.66	£24.36	£4.87	£19.49
£25,000	£132.29	£26.46	£105.83	£30.45	£6.09	£24.36

Benefits on normal retirement (page 13)

Will my pension be increased after I retire?

Whilst the first 3% of any annual increase due on a **GMP** built up between 5 April 1988 and 5 April 1997 will continue to be paid by the **Scheme**, the State has ceased to pay increases on **GMPs** for anyone reaching State Pension Age after 6 April 2016.

The introduction of the flat rate State Pension has altered how state pensions are calculated and increased for these individuals. Further information can be obtained from the Department of Work and Pensions or see www.gov.uk/new-state-pension.

Benefits on leaving before retirement (page 20)

What happens to my pension when I leave?

If you are eligible to receive a refund of contributions there will no longer be a deduction made from the refund in respect of the cost of reinstating you into the **State Second Pension (S2P)** for **Pensionable Service** on or after 6 April 2016. A deduction would still be required in respect of any **Pensionable Service** before 6 April 2016. Tax continues to be deducted at 20%.

You are reminded that no refunds can be made in respect of any period where you have been a member of the “Pension Salary Conversion”.

State Scheme and Regulatory Bodies (page 24)

State Scheme

With the introduction of the new flat rate State Pension in April 2016, the Basic State Pension and State Second Pension (S2P), subsequently referred to as the Additional State Pension, is being replaced for anyone reaching State Pension Age on or after 6 April 2016. Further information can be obtained from the Department of Work and Pensions or see www.gov.uk/new-state-pension.

Disclaimer: The information contained in this addendum cannot override the Rules of the Scheme or legislative requirements and confers no right to benefits or entitlement.