

Added Benefits – Additional Pension Factsheet

HSC PENSION SERVICE

Email: hscpensions@hscni.net

Website: hscpensions.hscni.net

Orchard House,
40 Foyle Street, Derry
BT48 6TU

HSC Business Services Organisation
Pension Service

CONTENTS

Section	Page Number
Additional Payment Agreement	3
Costs of an Additional Payment Agreement	4
Early Retirement Reduction Buy Out (ERRBO) Agreement	5
Purchasing and Calculating Additional Pension	6
Tax Implications	7
Change in Plans or Circumstances After an Additional Payment Agreement has Started	8

ADDITIONAL PAYMENT AGREEMENT

You can only purchase additional pension from the 2015 Scheme. You must be an active contributing member. It's not possible to purchase additional pension to increase benefits from the 1995 or 2008 Schemes as these were closed on 31 March 2022. All active members were transitioned to the 2015 Scheme from 1 April 2022 as part of the public service pensions remedy, also known as McCloud. More information about the public service pensions remedy is available on our website (https://hscpensions.hscni.net/hsc-pension-scheme/mccloud-ruling-hsc/).

If you are a contributing member of the 2015 Scheme, in good health and not absent from work for any reason, you can buy additional pension. Even if you work 'as and when' or your pensionable pay varies.

You can purchase any amount of additional pension in multiples of £250 up to a maximum of £9,053 for members of the 2015 Scheme, this limit may change in the future.

If you purchased additional pension as part of the 1995 or 2008 Scheme you can still purchase up to an additional £9,053 annual pension as part of the 2015 Scheme.

You can purchase additional pension with cover for dependants. This could be your spouse, partner, or dependant children, each £250 of additional pension also increases the adult dependant's pension by £93.75 a year. For dependant children's pension, the increase is £187.50 a year to be paid in line with the rules of that benefit.

Any additional pension purchased in the 1995 or 2008 Scheme will be revalued in line with monthly increases in the rate of inflation. This could be before the additional pension comes into payment as a prepayment increase or whilst it is being paid as an in-payment increase. If the application to buy additional pension was made:

- on or before 31 March 2011 – it will attract prepayment increases in line with the Retail Prices Index (RPI) and in payment increases in line with Consumer Prices Index (CPI)
- on or after 1 April 2011 – both the prepayment and the in-payment increases will be in line with the CPI

Additional pension purchased in the 2015 Scheme is revalued by a Treasury Order each year before the additional pension comes into payment and increased in line with CPI inflation whilst it is being paid.

The Treasury Order is how the Treasury notifies the value of the change in prices or earnings to be applied as part of revaluation. The additional pension earned in a Scheme year (April to March) is revalued on 1 April of the following and each subsequent Scheme year until you retire.

For example, if the Treasury Order was 2% then the value of your earned additional pension would increase by 2% at the beginning of the following Scheme year. Additional pension does not receive the additional 1.5% applied to the standard earned pension. If an Order is negative it will result in the earned additional pension being reduced at the beginning of the following year.

COST OF AN ADDITIONAL PENSION AGREEMENT

The cost of additional pension is determined by factors provided by the Scheme Actuary. It can be paid for by:

- a single one-off payment (lump sum)
- instalments deducted from your pay for an agreed period; you can choose a period of whole years from one year up to a maximum of 20 years

Based on the limits explained earlier, you can make any number of additional pension purchases throughout your Scheme membership. You must make the application and complete all payments before your normal pension age.

In some circumstances your employer may buy some additional pension for you. They must do this by making a lump sum payment on your behalf.

Before deciding to purchase additional pension by instalments, check that your HSC earnings will be enough to meet the cost of paying both the monthly instalments and your normal tiered contributions every month. Payments cannot be made from other sources of income. Where there are gaps in HSC pensionable employment, you are unable to pay extra to make up for missed instalments. This means breaks in employment will therefore reduce the amount of additional pension bought by instalments.

If your HSC earnings will not be enough to meet the cost of paying both the monthly instalments and your normal tiered contributions every month, you can still purchase additional pension by making a lump sum payment whilst you are in HSC pensionable employment. Making a one-off payment will ensure the amount of additional pension purchased is not reduced because of instalments missed during a gap in pensionable employment when working ‘as and when’ or any breaks in HSC pensionable employment.

You will usually pay the same amount each month if purchasing additional pension by instalments. The start date of the agreement is the date that it was signed as being received by your employer but instalments will not be taken from your pay until we confirm acceptance in writing. This means that your first salary deduction may be for more than one month as your employer will backdate payments to your start date. Purchase by instalments is subject to review based on advice from the Scheme Actuary. Following reviews of the Scheme, the cost of future instalments of an existing arrangement could be changed.

EARLY RETIREMENT REDUCTION BUY OUT (ERRBO) AGREEMENT

If you are a member of the 2015 Scheme and have already started an ERRBO, your purchase of additional pension may be limited.

There is an overall limit on the total value of additional benefits that can be purchased in this Scheme, by the payment of additional contributions of £9,053 annual pension.

If you have:

- purchased or are currently purchasing ERRBO
- additional pension in the 2015 Scheme

We must take the value of those existing purchases into account when deciding how much additional pension you can buy. When we have your application, we'll tell you whether the amount of additional pension you can buy must be limited.

PURCHASING AND CALCULATING ADDITIONAL PENSION

You can look at the various options available to you and find out how much it's going to cost.

Once you have decided to purchase additional pension, you must complete an application (AP2) form. You should complete the remaining personal details and then pass the form to HSC Pension Service within 6 weeks of the date of application.

If your additional pension contract is through instalments, payments will begin from the date your employer receives your AP2 form.

TAX IMPLICATIONS

You may be able to increase your benefits through the additional pension arrangement as well as methods described in other factsheets. This is dependent on overall HMRC and Scheme limits.

We cannot advise you about your personal tax position but members of a registered pension scheme, like the HSC Pension Scheme, can normally contribute up to 100% of their salary and claim tax relief.

When paying for additional pension by instalments tax relief is usually received through the Pay As You Earn (PAYE) system. If additional pension is purchased by a lump sum payment, you will need to contact HMRC or complete a self-assessment tax return to claim the tax back.

HMRC will not allow you to withdraw a tax-free lump sum and receive further tax relief by reinvesting the money back into a registered pension scheme. This is known as ‘recycling lump sums’ and could apply if the money is reinvested as a lump sum or in monthly payments.

You could be affected by this rule if you retire within two years of making an election to purchase additional benefits. If you think you could be affected, discuss your plans with a professional financial adviser before going forwards.

Both your main HSC pension and any additional pension you purchase are taxable income. Income tax is deducted from your pension at source before it is paid.

CHANGE IN PLANS OR CIRCUMSTANCES AFTER AN ADDITIONAL PAYMENT AGREEMENT HAS STARTED

Death before additional payment retirement age

If you die within 12 months of purchasing an additional pension, then the agreement will be cancelled, and your additional contributions or lump sum payment will be refunded.

If you die after the first 12 months, all future additional contributions due after the date of death will normally be waived and you will be credited with the full amount of additional pension that you were buying. This will only have effect if you have taken additional pension with dependants cover.

Ill-health retirement and your additional payment agreement

If you stop paying because you are entitled to an ill health pension and the application was made less than 12 months after buying the additional pension, the agreement will be cancelled, and your additional contributions will be returned. For this purpose, the application is deemed to be made on the date when you sign the medical evidence in support of the ill health retirement, not the date of retirement.

If you become entitled to an ill health pension and the application was made after the first 12 months, all future additional contributions due after the date of retirement will normally be waived and you will be credited with the full amount of additional pension that you were buying.

If you take early retirement and your additional payment agreement

Additional pension is payable at the same time as your main HSC Pension and is dependent on the Section or Scheme which you purchased the additional pension from, including the selected retirement age.

This could be the:

- 1995 Section, may select a retirement age of 60 or 65
- 2008 Section, may select a retirement age of 65 only
- 2015 Scheme, may select a retirement age equal to your normal pension age and this is age 65 or your State Pension age, whichever is later

Payment of additional pension cannot be delayed if benefits are taken before the selected retirement age. If you decide to take retirement before the chosen age, the value of the additional pension will be subject to a reduction for early payment. A reduction for early

payment also applies to members who hold Special Class status and claim their unreduced main HSC pension before the selected retirement age of the additional pension.

If you have been purchasing additional pension by instalments and have not completed the purchase when you retire, you will be credited with the proportion of additional pension that you have purchased before the application of the reduction for early payment. Where the purchase of additional pension is incomplete, it is not possible to pay the balance owed.

Early retirement due to redundancy or termination of employment

Your pension may be paid early because you have been made redundant or your employer terminates your employment. If you have completed the additional pension purchase by paying all contributions due, the additional pension will be reduced to take account of its early payment.

If you have been purchasing additional pension by instalments and have not completed the purchase when you retire, you will be credited with the proportion of additional pension that you have purchased before the application of the reduction for early payment. Where the purchase of additional pension is incomplete, it is not possible to pay the balance owed.

Partial retirement and your additional payment agreement

If you have an additional pension agreement, you can choose to claim these benefits at the same time as your partial retirement benefits.

If the amount of benefits you are wanting to take for partial retirement is more than the benefits you have in that Section or Scheme, your additional pension will automatically be payable and will be paid in full.

If you do not use all the benefits in the Section or Scheme when applying to take partial retirement, if you choose to take the additional pension, then it must be paid in full, and you cannot choose to claim part of the added benefits.

If you have not completed your monthly payments for the additional pension, then the amount paid will be adjusted based on the payments paid to date. If your additional pension is being paid before the selected retirement age of the purchase, a reduction factor for early payment will apply. For additional pension purchased in the 2008 Section or 2015 Scheme, late retirement factors will apply if pension benefits are claimed after normal pension age.

If you retire after your normal pension age

If you have purchased additional pension whilst a member of the 2008 Section or 2015 Scheme and retire after your normal pension age, the additional pension will be subject to an increase based on factors provided by the Scheme Actuary.
If you purchased additional pension in the 1995 section and retire after your normal pension age, then your additional pension will also be paid at this time. Payments of both pension and additional pension are not backdated.

Breaks in HSC employment

If you have breaks in HSC pensionable employment of less than 12 months, for example when changing jobs, you will be given the opportunity to continue your agreement after the break.

Where there are gaps in HSC pensionable employment, you are unable to pay extra to make up for missed instalments. Breaks in employment will therefore reduce the amount of additional pension bought by instalments. When you are in HSC pensionable employment you may purchase a further additional payment agreement and pay a lump sum to ensure that the total amount of additional pension purchased is not reduced.

Scheme Actuary review increases your monthly payments

If the cost of future instalments increases because of a review, then you will have the option to end your purchase. You would then be credited with the proportion of additional pension that you had paid for.

Stopping your monthly instalments

If you want to stop paying instalments for any other reason, you will need to contact us by emailing hscpensions@hscni.net and ask for the contract to be terminated. The additional pension agreement will stop, and you will be credited with the proportion of the additional pension that you have paid for.