

**Pensions Q&As**

**Solent Pension Plan**

**August 2019**

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## **1. Introduction**

One of the benefits automatically available to you at Solent is membership of one of our pension arrangements.

Some of you will be eligible for membership of and may already be a member of the Teachers' Pension Scheme (TPS) or the Local Government Pension Scheme (LGPS). However, we have another pension arrangement which is available to you, the Solent Pension Plan, which is a defined contribution pension scheme provided by Aviva.

The Solent Pension Plan is only available to you if you first opt-out of either the TPS or the LGPS (as applicable). This FAQ booklet explains the Solent Pension Plan in more detail, to help you understand whether membership of the Solent Pension Plan may be right for you.

## **2. Defined benefit and defined contribution explained**

### **2.1 What type of scheme is the Solent Pension Plan?**

The Solent Pension Plan is a defined contribution pension plan, which is part of the Aviva Mastertrust.

### **2.2 What is the difference between the Solent Pension Plan and the TPS/LGPS?**

The TPS and the LGPS are both defined benefit pension schemes. The Solent Pension Plan is a defined contribution scheme.

### **2.3 What is the difference between a defined benefit pension scheme and a defined contribution pension scheme?**

In a defined benefit scheme, the member's pension depends on their pensionable salary; the number of years that they build up benefits in the scheme (known as pensionable service); and the rate at which the member builds up pension for every year of pensionable service (normally referred to as the accrual rate).

The benefits under the TPS and the LGPS are paid for by a mixture of member and employer contributions. Member contributions are paid as a fixed percentage of salary. Solent's employer contributions can change, depending on how much is required to be able to pay everyone's promised pension benefits.

In a defined contribution scheme both the member and the employer pay into a member's personal pension account. In the Solent Pension Plan this is the 'Workplace Retirement Account'. The money in the member's Account is then invested. The member can then use their Account at retirement to decide how and when they take their pension benefits (see further details in sections 4 & 5 below).

### 3. Contribution rates

#### 3.1 What will I contribute to the Solent Pension Plan?

Employee Contribution Rate	Employer Contribution Rate
3% (default contribution rate)	6% (default contribution rate)
4%	8%
5%	10%

Contributions are paid into your Account on a 'Salary Sacrifice' basis. Further details of how this works are set out in sections 6 & 7.

#### 3.2 What are the contribution rates under the TPS?

Employee contribution rates under the TPS are based on the amount a member earns. The pension contribution bands are shown in the table below. They usually change each April:

Annual Salary Rate from 1 April 2019	Member Contribution Rate
Up to £27,697.99	7.4%
£27,698 to £37,284.99	8.6%
£37,285 to £44,208.99	9.6%
£44,209 to £58,590.99	10.2%
£58,591 to £79,895.99	11.3%
£79,896 and above	11.7%

#### 3.3 What are the contribution rates under the LGPS?

Employee contribution rates under the LGPS are based on the amount a member earns. The pension contribution bands are shown in the table below. They usually change each April:

If your actual pensionable pay is:	You pay a contribution rate of:
Up to £14,400	5.5%
£14,401 to £22,500	5.8%
£22,501 to £36,500	6.5%
£36,501 to £46,200	6.8%
£46,201 to £64,600	8.5%
£64,601 to £91,500	9.9%
£91,501 to £107,700	10.5%
£107,701 to £161,500	11.4%
£161,501 or more	12.5%

There is a 50:50 option under the LGPS, so you can pay 50% of the contributions and receive broadly 50% of your pension benefits under the scheme.

### **3.4 Can I change the amount I contribute?**

You can not change the amount you contribute if you are a member of the TPS. Contributions may change if you move up or down any of the salary bands.

If you are a member of the LGPS you can choose the 50:50 option (see 3.3 above), otherwise you can not make any other changes to the amount you contribute. Again, contributions to the LGPS may change if you move up or down any of the pay bands.

As a member of the Solent Pension Plan you can change the amount you contribute from the default 3% to either 4% or 5%.

## **4. Pension benefits at retirement**

### **4.1 What is the benefit entitlement under the Solent Pension Plan?**

A defined contribution scheme, such as the Solent Pension Plan, offers flexibility to a member on how they wish to use their Account to provide benefits. Options available include the purchase of an annuity (this is an income for life) and taking the account as a lump sum or a series of lump sums (further details are contained in section 5).

### **4.2 What is the benefit entitlement under the TPS and the LGPS?**

Both the TPS and the LGPS are now '*career-average revalued earnings*' schemes. A new member on joining the TPS is currently building up pension benefits at the rate of 1/57<sup>th</sup> of their pensionable earnings each year plus index linking. A new member on joining the LGPS is currently building up pension benefits at the rate of 1/49<sup>th</sup> of their pensionable pay each year plus index linking. In such schemes the relevant fraction of your pensionable pay is 'banked' each year and then your total pension at the end of each year receives a cost of living adjustment.

You may be aware that some members in both the TPS and the LGPS still receive the old '*final salary*' benefits. This is where their pension at retirement is based on a percentage of their final salary multiplied by the number of years they have been a member of the scheme.

## **5. Advantages of a defined contribution pension arrangement**

### **5.1 Are there any advantages to a defined contribution pension arrangement over a defined benefit pension arrangement?**

Yes there are, depending on your individual circumstances.

From April 2015 the Government introduced a greater choice and flexibility in terms of how and when benefits can be taken from a defined contribution scheme, including:

- Full access to all of a member's funds immediately, provided they have reached the minimum pension age, currently 55. (A member can receive up to 25% of their fund tax-free.)
- A member can buy an annuity (a regular income for life) if they wish to do so with all or part of their fund.
- A member can keep some or all of the funds invested and access them over time. Flexi-access draw down allows you to draw down some of your pension savings as cash whilst any remaining balance in your Account remains invested.

It is important to note that any income or pension benefits are subject to tax as appropriate to an individual's circumstances and the choices they make.

## **5.2 Do the TPS or the LGPS offer this flexibility?**

No the TPS and the LGPS are not able to offer the same choice and flexibility in terms of how and when pension benefits can be taken from the scheme.

Both the TPS and the LGPS offer flexibility in terms of when you can take your pension, providing you have reached minimum pension age (normally age 55). However, the amount of your annual pension is largely fixed based on your pension entitlement (see 4.2 above).

In both the TPS and the LGPS you can commute some of your pension at the start of retirement for a cash lump sum. Up to 25% can be commuted, which is payable tax free under current legislation. Your annual pension is then reduced by a corresponding amount.

Both the TPS and the LGPS also provide other fixed benefits, such as benefits on ill health retirement and benefits on death, which may be payable to a spouse, partner or dependant.

## **5.3 Does the Solent Pension Plan offer flexibility in terms of investment options?**

Yes it does.

There are a range of funds you can choose from, all of which have an Aviva 'risk rating' of between 1 and 7 (1 being the lowest volatility and 7 being the highest volatility). Aviva review each fund's risk rating annually.

You can also choose to invest in an alternative investment programme, such as lifetime or lifestyle investment options.

If you are not confident about making your own investment choices you can stay in the scheme's default investment option.

Further details about investment options can be found in the ‘Investment fund risks and aims guide’ available from:

[Solent Microsite](#)

## **6. Salary Sacrifice arrangements**

### **6.1 What is Salary Sacrifice?**

Salary Sacrifice is, for most people, a much more cost effective way in which to save for retirement.

### **6.2 How does Salary Sacrifice work?**

With Salary Sacrifice you give up the right to receive part of your basic gross salary (i.e. the % you would pay personally to the Solent Pension Plan), in exchange for a corresponding increase to the pension contribution paid by Solent on your behalf.

As you are giving up part of your gross salary in exchange for an increased employer pension contribution you will be paying national insurance contributions (NICs) on a lower gross salary, which means that you will be paying less NICs. This effectively maximises NIC tax efficiencies, whilst maintaining the same value of pension contributions being paid into the scheme on your behalf.

### **6.3 Will Salary Sacrifice require a variation to my terms and conditions of employment?**

Yes.

The Salary Sacrifice arrangements operate on the basis that when you join the Solent Pension Plan you will be automatically opted-in to the scheme on a Salary Sacrifice basis (unless your income falls below a minimum threshold). Therefore, Solent will need to agree with you a variation to your terms and conditions of employment to record the amount of your gross salary that will be given up in exchange for an increased employer pension contribution.

Whilst you are opted-in to the Solent Pension Plan on a Salary Sacrifice basis we will retain a record of your ‘notional’ salary (i.e. your gross salary before you exchanged part of it for an enhanced employer pension contribution). This ‘notional’ salary will be used to calculate other contractual benefits Solent offers, such as life assurance, parental leave. It will also be used to determine future pay rises.

### **6.4 Is Salary Sacrifice always beneficial?**

Not always.

There are circumstances in which Salary Sacrifice may not be beneficial to you or could have an impact on your state benefits and statutory payments. You will automatically be to opt-out of the Salary Sacrifice arrangements in such circumstances and contributions will be deducted from your net pay.