

PENSIONS UPDATE EXTRACT:

5. Changes to State Pensions – National Insurance (NI) Changes 2016

From 6 April 2016 the government will introduce a new flat rate basic state pension which will replace the current multi-tier arrangement for new pensioners. Currently the basic state pension is supplemented by either the Additional State Pension (ASP) paid for by NI contributions or by occupational 'contracted out' pension schemes such as the Local Government Pension Scheme (LGPS). In return for the employer providing an occupational pension scheme in place of the whole or part of the ASP, both employers and employees currently receive a rebate on their NI contributions. The result of the introduction of the new state pension means there is no requirement for an alternative to ASP so 'contracted out' status ceases and the NI rebate stops.

Consequently, the NI rebate will no longer apply and both employers and employees will see an increase in their NI contributions, for employers this is in the region of 3.4% between certain thresholds and 1.4% for employees. For the Council as an employer it is estimated that this will add 2-3% to the current pay bill or around £2.5m to £2.7m and will also result in employees in the LGPS seeing a decrease in their salary from April 2016. Across the LGPS as a whole it is estimated that the additional cost to employers could be in the region of £700m.

To ensure that employers and employees are aware of the forthcoming changes, Q&A leaflets provided by the Local Government Association (LGA), have been sent to employers and employees. A copy of the one being sent to scheme members alongside the annual newsletter and annual benefits statements is attached as an appendix to this paper for information for the Committee.