

Judicial Pension Scheme

This note provides important information on the Judicial Pension Scheme.

Judicial Pension Board & Judicial Pension Advisory Board

Under the Judicial Pensions Regulations 2015 (the scheme regulations), there are three elements to the governance of the scheme: the scheme manager, the Judicial Pension Board and the Judicial Pension Scheme Advisory Board. The Lord Chancellor is the scheme manager and, as such, is responsible for managing and administering the scheme. The day-to-day administration is contracted out to Punter Southall as part of a contract with the Ministry of Justice for the administration of all judicial pension schemes.

The judicial pension board is responsible for assisting the scheme manager to secure compliance with the scheme regulations, any other legislation relating to the governance and administration of the scheme, and any requirements imposed by the Pensions Regulator. The Board also assists the scheme manager in the performance of his functions. In practice, this means that the Board is primarily concerned with stewardship of the scheme and matters such as:

- obtaining assurance about the quality of pension administration, and in particular the performance of Punter Southall;
- the effectiveness and value for money of the scheme administration;
- internal controls, risk management and audit;
- compliance with record-keeping requirements and data integrity;
- the quality of communications to scheme members.

The Board also has a role in relation to complaints and disputes, the exercise of discretions and amendments to scheme regulations.

With regard to complaints and disputes, the scheme manager must refer any second-stage complaint under the Internal Dispute Resolution Procedure to the Board for a recommendation.

Before exercising any discretion under the scheme regulations, the scheme manager must obtain a recommendation from the Board. These are decisions that Punter Southall or the scheme manager have to make about how to apply the scheme rules in certain circumstances. These are many and varied and the role of the Board in making recommendations is to ensure consistency and fairness.

The Judicial Pension Scheme Advisory Board is responsible for providing advice to the Lord Chancellor (at his request) on possible changes to the Judicial Pension Scheme 2015.

The Judicial Pension Board has now published information on the Judicial Pension Schemes, this can be accessed at the following link <https://www.gov.uk/government/groups/judicial-pension-board>

Cessation of “Contracting out” of the Additional State Pension

You may be aware that from 6 April 2016 the new ‘single-tier’ State pension was introduced. This replaced the existing Basic State Pension and Additional State Pension.

Under the existing arrangements, members of the Judicial Pension Schemes were contracted-out of the Additional State Pension and in return paid lower National Insurance contributions. The changes mean that from 6 April 2016, the Judicial Pension Schemes will no longer be contracted-out of the Additional State Pension.

These changes will not affect your accrued benefits, or the benefits you build up in the in future but you will pay higher National Insurance contributions and may receive more state pension.

Further information about the new State Pension, including changes to National Insurance arrangements, can be found at the following links <https://www.gov.uk/browse/working/state-pension> & <https://www.gov.uk/new-state-pension>

Guaranteed Minimum Pension “Indexation”

The Government recently announced it will continue to price protect the Guaranteed Minimum Pension (GMP) for members of public sector pension schemes with the introduction of the new State Pension in April 2016. The GMP is the minimum pension that the judicial pension scheme must provide as part of the conditions of contracting out of the State Earnings Related Pension Scheme (SERPS) for service before 1997 and is included in the judicial pension.

To manage the transition to the new State Pension, the government will continue its current practice of fully price protecting the GMP where the Additional State Pension uprating rules do not apply.

This means that those who reach State Pension Age on or after the 6th April 2016 and before the 6th December 2018 – when the State Pension Age equalises – will receive a fully indexed public service pension for their whole life. It will also ensure public service pension payments continue to be equal between men and women.

The Government is expected to launch a consultation this year on how to address this issue in the longer term, recognising the increased value of the new State Pension, and seeking to balance simplicity, fairness and cost for members, public service pension schemes and the taxpayer.

The full announcement can be found at the following link <https://www.gov.uk/government/news/government-one-step-closer-to-introducing-new-state-pension-this-year>

Revaluation of benefits (only applies to the Judicial Pension Scheme 2015)

A drafting error has been identified in the Judicial Pension Regulations 2015 regarding the definition of “index adjustment” and the relevant year of Consumer Prices Index (CPI) which should be applied. To ensure pensions are revalued correctly and in line with the policy intent a change to the regulations is required, this may be applied retrospectively to the pension accrued in 2015/16 and would be based on the change in the CPI for 2015/16 of -0.1%. We will let you know more once the regulations are changed.

Further information

If you have any questions about your judicial pension please contact the scheme administrators, Punter Southall at MoJAdmin@puntersouthall.com

Judicial Pension Scheme 2015 - Annual Allowance and Scheme Pays Guidance Note

Important - The 1993 Judicial Pension Scheme and the yet to be established Fee-Paid Judicial Pension Scheme are not registered for tax purposes. Therefore any benefits accrued are not tested against either the Lifetime Allowance or Annual Allowance

Annual Allowance and Scheme Pays

The Annual Allowance is the limit set by HM Revenue & Customs (HMRC) to restrict the amount of tax relief available for pension savings. If the pension accrued in any tax year in the Judicial Pension Scheme 2015 is above the limit, the excess amount is subject to an Annual Allowance charge. The option of Scheme Pays allows a member to request the Judicial Pension Scheme 2015 to pay the tax due to HMRC on their behalf with a reduction being applied to their pension (pension offset).

Alignment of Pension Input Period

In January 2016 we explained the changes made to the Annual and Lifetime Allowance announced in the Budget (July 2015) to align the Pension Input Period (PIP) with tax years. For the 2015/16 tax year the Judicial Pension Scheme 2015 will have pre-alignment PIP of 99 days (1 April 2015 to 8 July 2015) and a post alignment PIP of 272 days (9 July 2015 to 5 April 2016).

A member will have an Annual Allowance of £80,000 in the pre-alignment PIP, plus any available carry forward from the previous 3 tax years. For the post-alignment PIP the Annual Allowance is £nil, however up to £40,000 can be carried forward from the pre-alignment PIP (plus any unused allowance from the previous 3 tax years).

The examples below detail how this may work for the 2015/16 tax year (assuming the member has no carry forward from the previous 3 tax years):

A High Court Judge with pension savings in the Judicial Pension Scheme 2015 of £66,064 for the pension input periods ending in 2015/16. As the savings in the post alignment PIP are more

| | Pension Accrued | Accrued Pension x 16 | Annual Allowance | Excess above Annual Allowance |
|--------------------|-----------------|----------------------|------------------|-------------------------------|
| pre-alignment PIP | £1,117 | £17,872 | £80,000 | £nil |
| post-alignment PIP | £3,012 | £48,192 | £40,000 | £8,192 |
| Total | £4,129 | £66,064 | | £8,192 |

than £40,000 there is an Annual Allowance charge on the excess.

A Senior Circuit Judge with pension savings in the Judicial Pension Scheme 2015 of £52,922 for the pension input periods ending in 2015/16. As the savings in the post alignment PIP are less

| | Pension Accrued | Accrued Pension x 16 | Annual Allowance | Excess above Annual Allowance |
|--------------------|-----------------|----------------------|------------------|-------------------------------|
| pre-alignment PIP | £896 | £14,336 | £80,000 | £nil |
| post-alignment PIP | £2,416 | £38,656 | £40,000 | £nil |
| Total | £3,312 | £52,922 | | £nil |

than £40,000 there is no Annual Allowance charge.

The example above is for illustration purposes only and does not take into account the personal financial position of members of the judicial pension scheme.

Reporting the Annual Allowance charge to HMRC

If your pension savings exceed the Annual Allowance in any relevant tax-year and you do not have any unused Annual Allowance to carry forward from your previous three tax-years you will have an Annual Allowance charge to report and pay to HMRC.

You will need to tell HMRC in your self-assessment tax return about your pension savings and liability to pay the Annual Allowance charge as part of this return. The tax return will require you to complete the Additional Information pages detailing the growth in your pension and the amount that it exceeds the Annual Allowance.

The annual benefit statement which will be issued to you in June each year by Punter Southall will include details of your accrued pension and Annual Allowance used in the Judicial Pension Scheme 2015.

The timeline for submitting your tax return for 2015/16 is detailed below:

| Self-Assessment | Deadline |
|---|--------------------------|
| Benefit Statement issued by Punter Southall | 30 June 2016 |
| Register for Self-Assessment | 5 October 2016 |
| Paper tax returns | Midnight 31 October 2016 |
| Online tax returns (Due to security arrangements with HMRC senior judges are unable to file online have until 31 January to file the paper return) | Midnight 31 January 2017 |
| Pay the tax you owe or elect for Scheme Pays | Midnight 31 January 2017 |
| Notify scheme administrator of Scheme Pays election | 31 July 2017 |

Please note: if the annual allowance charge is less than £2,000 the timetable may be different.

The timeline detailed above is applicable for future tax years, unless HMRC advise of different deadlines for submitting tax returns.

HMRC have published a help sheet 'HS345 Pension savings - tax charges' on their website at: <https://www.gov.uk/government/publications/pensions-tax-charges-on-any-excess-over-the-lifetime-allowance-annual-allowance-special-annual-allowance-and-on-unauthorised-payments-hs345-self>

How Scheme Pays works

If the pension you accrue in the Judicial Pension Scheme 2015 is subject to an Annual Allowance charge you may elect for the scheme to pay some or all of the charge on your behalf.

The Judicial Pension Scheme 2015 will only pay the Annual Allowance charge if we receive a Scheme Pays election notice before 31 July 2017 (for the 2015/16 tax year) and the growth in your judicial pension exceeds the Annual Allowance.

Scheme Pays – example calculations

Example 1 (2015/16)

The following example illustrates the pension offset for a High Court Judge with a salary of £177,988 who is a member of the Judicial Pension Scheme 2015. The pension accrued will be £4,129 and the Annual Allowance charge will be £3,686 in 2015/16 (based on a marginal rate of tax at 45%).

Information required to calculate the offset

| | |
|---|--------------|
| A. Date of birth | 14/05/1969 |
| B. Tax year Annual Allowance charge is incurred | 2015/16 |
| C. Relevant date | 5 April 2016 |
| D. Member's age (last birthday) | 46 |
| E. Gender | Female |
| F. Tax charge | £3,686 |
| G. Normal pension age | 67 |

Calculating the pension offset

The offset to be applied to the pension for the scheme paying the tax charge is determined by factors provided to the Scheme Manager which are consistent with normal actuarial practice (determined by the Government Actuary's Department). In this example the calculation is as follows:

$$£3,686 \div (6.397^{(1)} \times 1.52^{(2)}) = \mathbf{£379.08 \text{ per annum}}$$

The offset will increase in line with the Pension (Increase) Acts and will be deducted from the pension on retirement. If the member retires before or after normal pension age an adjustment will be applied to the pension offset.

^{(1)&(2)} The factors represent the amount of pension payable from normal retirement age and are set out in the Government Actuary's Department guidance note

Notes

- The example above is for illustration purposes only and does not take into account the personal financial position of members of the Judicial Pension Scheme 2015.
- The Scheme Pays factors are subject to change from time to time to take account of normal actuarial practice.
- The State Pension Age is currently subject to review and may change in the future.

Example 2 (2016/17)

The following example illustrates the pension offset for a High Court Judge with a salary of £179,768 who is a member of the Judicial Pension Scheme 2015. The pension accrued will be £4,170.62 and the Annual Allowance charge will be £25,528 in 2016/17 (based on a marginal rate of tax at 45%) and the new Tapered Annual Allowance of £10,000.

Information required to calculate the offset

| | |
|---|--------------|
| A. Date of birth | 12/02/1964 |
| B. Tax year Annual Allowance charge is incurred | 2016/17 |
| C. Relevant date | 5 April 2017 |
| D. Member's age (last birthday) | 53 |
| E. Gender | Male |
| F. Tax charge | £25,528 |
| G. Normal pension age | 67 |

Calculating the pension offset

The offset to be applied to the pension for the scheme paying the tax charge is determined by factors provided to the Scheme Manager which are consistent with normal actuarial practice (determined by the Government Actuary's Department). In this example the calculation is as follows:

$$£25,528 \div (8.803^{(1)} \times 1.32^{(2)}) = \mathbf{£2,196.91 \text{ per annum}}$$

The offset will increase in line with the Pension (Increase) Acts and will be deducted from the pension on retirement. If the member retires before or after normal pension age an adjustment will be applied to the pension offset.

^{(1)&(2)} The factors represent the amount of pension payable from normal retirement age and are set out in the Government Actuary's Department guidance note

Notes

- The example above is for illustration purposes only and does not take into account the personal financial position of members of the Judicial Pension Scheme 2015.
- The Scheme Pays factors are subject to change from time to time to take account of normal actuarial practice.
- The State Pension Age is currently subject to review and may change in the future.

Example 3 (2016/17)

The following example illustrates the pension offset for a High Court Judge with a salary of £179,768 who is a member of the Judicial Pension Scheme 2015. The pension accrued will be £4,170.62 and the Annual Allowance charge will be £25,528 in 2016/17 (based on a marginal rate of tax at 45%) and the new Tapered Annual Allowance of £10,000.

Information required to calculate the offset

| | |
|---|--------------|
| A. Date of birth | 25/07/1968 |
| B. Tax year Annual Allowance charge is incurred | 2016/17 |
| C. Relevant date | 5 April 2017 |
| D. Member's age (last birthday) | 48 |
| E. Gender | Female |
| F. Tax charge | £25,528 |
| G. Normal pension age | 67 |

Calculating the pension offset

The offset to be applied to the pension for the scheme paying the tax charge is determined by factors provided to the Scheme Manager which are consistent with normal actuarial practice (determined by the Government Actuary's Department). In this example the calculation is as follows:

$$£25,528 \div (7.007^{(1)} \times 1.46^{(2)}) = \mathbf{£2,495.35 \text{ per annum}}$$

The offset will increase in line with the Pension (Increase) Acts and will be deducted from the pension on retirement. If the member retires before or after normal pension age an adjustment will be applied to the pension offset.

^{(1)&(2)} The factors represent the amount of pension payable from normal retirement age and are set out in the Government Actuary's Department guidance note

Notes

- The example above is for illustration purposes only and does not take into account the personal financial position of members of the Judicial Pension Scheme 2015.
- The Scheme Pays factors are subject to change from time to time to take account of normal actuarial practice.
- The State Pension Age is currently subject to review and may change in the future.

Example 4 (2016/17)

The following example illustrates the pension offset for a Circuit Judge with a salary of £133,506 who is a member of the Judicial Pension Scheme 2015. The pension accrued will be £3,097 and the Annual Allowance charge will be £8,473 in 2016/17 (based on a marginal rate of tax at 40%) and the new Tapered Annual Allowance of £10,000.

Information required to calculate the offset

| | |
|---|--------------|
| A. Date of birth | 18/12/1972 |
| B. Tax year Annual Allowance charge is incurred | 2016/17 |
| C. Relevant date | 5 April 2017 |
| D. Member's age (last birthday) | 44 |
| E. Gender | Female |
| F. Tax charge | £8,473 |
| G. Normal pension age | 67 |

Calculating the pension offset

The offset to be applied to the pension for the scheme paying the tax charge is determined by factors provided to the Scheme Manager which are consistent with normal actuarial practice (determined by the Government Actuary's Department). In this example the calculation is as follows:

$$£8,473 \div (5.842^{(1)} \times 1.58^{(2)}) = \mathbf{£917.95 \text{ per annum}}$$

The offset will increase in line with the Pension (Increase) Acts and will be deducted from the pension on retirement. If the member retires before or after normal pension age an adjustment will be applied to the pension offset.

^{(1)&(2)} The factors represent the amount of pension payable from normal retirement age and are set out in the Government Actuary's Department guidance note

Notes

- The example above is for illustration purposes only and does not take into account the personal financial position of members of the Judicial Pension Scheme 2015.
- The Scheme Pays factors are subject to change from time to time to take account of normal actuarial practice.
- The State Pension Age is currently subject to review and may change in the future.

Example 5 (2016/17)

The following example illustrates the pension offset for a Circuit Judge with a salary of £133,506 who is a member of the Judicial Pension Scheme 2015. The pension accrued will be £3,097 and the Annual Allowance charge will be £8,473 in 2016/17 (based on a marginal rate of tax at 40%) and the new Tapered Annual Allowance of £10,000.

Information required to calculate the offset

| | |
|---|-------------------|
| A. Date of birth | 14/05/1960 |
| B. Tax year Annual Allowance charge is incurred | 2016/17 |
| C. Relevant date | 5 April 2017 |
| D. Member's age (last birthday) | 56 |
| E. Gender | Male |
| F. Tax charge | £8,473 |
| G. Normal pension age | 66 years 2 months |

Calculating the pension offset

The offset to be applied to the pension for the scheme paying the tax charge is determined by factors provided to the Scheme Manager which are consistent with normal actuarial practice (determined by the Government Actuary's Department). In this example the calculation is as follows:

$$£8,473 \div (10.722^{(1)} \times 1.22^{(2)}) = \mathbf{£647.74 \text{ per annum}}$$

The offset will increase in line with the Pension (Increase) Acts and will be deducted from the pension on retirement. If the member retires before or after normal pension age an adjustment will be applied to the pension offset.

^{(1)&(2)} The factors represent the amount of pension payable from normal retirement age and are set out in the Government Actuary's Department guidance note

Notes

- The example above is for illustration purposes only and does not take into account the personal financial position of members of the Judicial Pension Scheme 2015.
- The Scheme Pays factors are subject to change from time to time to take account of normal actuarial practice.
- The State Pension Age is currently subject to review and may change in the future.

Scheme Pays Q&A

Q. Do the Annual Allowance and Lifetime Allowance apply to JUPRA?

No, as JUPRA and the Fee-Paid Judicial Pension Scheme (to be established later this year) are not registered for tax purposes the Annual Allowance and Lifetime Allowance do **not** apply.

They do however apply to the Judicial Pension Scheme 2015 and the Judicial AVC arrangements, this includes AVC's paid by members of JUPRA.

Q. Why is the pension multiplied by 16 to calculate the Annual Allowance value?

This is the factor set by HMRC to determine the value of pension accrual in a defined benefit pension scheme which is tested against the Annual Allowance limit.

Q. What is Scheme Pays?

Scheme Pays allows a member to request the pension scheme to pay the tax bill (Annual Allowance charge) if they exceed the limit. This means the scheme will pay the Annual Allowance charge directly to HMRC on behalf of the member and a reduction will then be applied to their pension to offset the tax paid.

Q. Is there a Scheme Pays option for the Judicial Pension Scheme 2015?

Yes, Scheme Pays is available if the benefits accrued in the scheme exceed the Annual Allowance.

Q. Can I have the Annual Allowance tax charge deducted from my salary?

No, the Ministry of Justice are not able to pay the Annual Allowance charge on your behalf and recover the tax paid from your salary payments. The HMRC rules only permit you or the scheme to pay the tax charge.

Q. When do I have to request the Judicial Pension Scheme 2015 that I wish to elect Scheme Pays?

For the Judicial Pension Scheme 2015 we must receive your election by the 31 July in the year following the tax year the Annual Allowance charge applies. For example, if the Annual Allowance charge is for the 2015/16 tax year the deadline for will be 31 July 2017.

Q. When will the Scheme Pays amount be recovered?

The Judicial Pension Scheme 2015 will recover the Annual Allowance charge by applying a permanent reduction to your pension when you retire.

Q. How is the reduction to my pension calculated?

The Annual Allowance tax charge paid by the scheme will be converted into an amount to be deducted from your pension using factors provided by the Government Actuary's Department (GAD). The GAD factors and guidance can be found on the following link www.gov.uk/government/groups/judicial-pension-board

Q. What if I transfer out my benefits from the Judicial Pension Scheme 2015?

If you transfer your benefits out of the Scheme, the transfer value will reflect any Annual Allowance tax charges paid by the scheme.

Q. Can I make an election for Scheme Pays after I have retired?

No, the Judicial Pension Scheme 2015 must receive your request before you receive your pension.

Q. Will it affect my dependants' pension?

No, the benefits payable to your dependants will be based on your pension before any deduction for Scheme Pays is applied.

Q. What happens if I exceed the Annual Allowance again?

The process is repeated for any tax year in which you request the Judicial Pension Scheme 2015 to pay your Annual Allowance tax charge.

Q. Where can I find more information on the alignment of pension input periods?

HM Revenue & Customs published a technical note which can be found on the following link <https://www.gov.uk/government/publications/pensions-technical-note-transitional-provisions-for-aligning-pension-input-periods/pensions-technical-note-transitional-provisions-for-aligning-pension-input-periods>

Q. Where can I find information about the Lifetime Allowance?

You can find information on the Lifetime Allowance in the note we published in January 2016, a copy can found on the following link www.gov.uk/government/groups/judicial-pension-board