

**PCSPS(NI)**

Principal Civil Service Pension  
Scheme (Northern Ireland)



Department of  
**Finance and  
Personnel**

[www.dfpni.gov.uk](http://www.dfpni.gov.uk)

## One pension or two? Making a choice

**C**  
classic

### Who should read this leaflet?

You should read this leaflet if:

- you are currently an active member of the **classic** arrangement; and
- you previously worked in the Northern Ireland Civil Service (NICS) and left with a **preserved pension**.

If you already have a **preserved pension**, and are now building up another one in **classic**, you will have a choice to make when you either:

- next leave the NICS; or
- reach **pension age**.

The choice you have is whether to have:

- two separate pensions awarded to you, or
- one pension based on your combined service. We call this option **aggregation**.

The choice explained in this leaflet is not open to members who have a preserved award because they opted out of the scheme. You should read this leaflet together with the letter you have been sent, setting out the options available to you and the information about your pensions benefits.

We have tried to keep the jargon that we use in this leaflet to a minimum. However, we do have to use some technical terms. Terms shown in bold print are explained in the glossary at the end of this leaflet.

### Why are you asking me to make a choice now?

The Inland Revenue are making changes to how they tax pensions from 6 April 2006. These changes might affect people who opt for **aggregation**. So we are offering you the opportunity to consider the impact of the tax changes and to **aggregate** before they come into force.

## You say 'might affect me' – how likely is it that these changes will affect me?

The changes will not affect you if you **aggregate** your two periods of service in the tax year in which we begin paying you all your benefits. The changes might affect you if you leave the NICS before reaching **pension age**. However, they are only likely to do so if you have high earnings. As you will see, the example that we give on page 3 involves someone earning £90,000.

## What are these tax changes?

On 6 April 2006 The Inland Revenue are introducing an annual allowance. This is the amount by which your pension rights (from all pension arrangements) can increase in any tax year before you have to pay tax. The annual allowance for the tax year 2006/07 is £215,000. If the value of your pension rights increases by more than £215,000, you will have to pay tax on the amount by which the increase exceeds the annual allowance.

## What are the advantages and disadvantages of **aggregation**?

**Aggregation** can allow you to increase your pension considerably. However, **aggregation** may not be good for you if you now work in a lower grade and earn relatively less than you previously did. **Aggregation** would also mean that you could not take only your **preserved pension** when you reached **pension age**. You should also take into account your personal circumstances when deciding whether to **aggregate**. If, for example, you are getting divorced, you should take legal advice on how **aggregation** could affect any divorce settlement. The Court will take the value of your pension into account when agreeing a divorce settlement.

## I've decided to go for **aggregation** – how do the tax changes affect me?

**Aggregation** can significantly increase the value of your pension. If you choose to **aggregate** after 6 April 2006 any increase in pension will count towards the annual allowance unless you begin receiving your benefits in the same tax year.

## How can pension entitlement increase by so much in one year?

Under the new tax rules, the increase in your annual pension has to be multiplied by 10. The increase in the amount of lump sum that you will receive when you retire has to be added to that figure.

## If I make a choice, when do I have to tell **CSP** about it?

If you make a choice you have to tell **CSP** about it by 24 February 2006.

## If I decide to **aggregate** my two periods of service, can I change my choice later?

No.

## If I don't make a choice now, what will happen?

**CSP** will treat your two periods of service separately.

## If I choose to keep my periods of service separate, or I don't make a choice at all, can I **aggregate** them later?

Yes, when you next leave the NICS or reach **pension age**. Don't forget, however, that the new tax rules will apply to you unless you start receiving your pension in the same tax year that you **aggregate** your periods of service.

## What would be my position if I leave my two periods of service separate?

You can choose to have your two periods of service treated separately when you next leave service, or when you reach **pension age**. If you choose to do this, we will pay you two pensions. **CSP** will calculate each pension on your reckonable service and pensionable pay at the end of each period you worked in the NICS.

## If I'm made redundant in the future, will **aggregation** increase my compensation payment?

Yes, if you rejoined before 1 April 1997. If you joined on or after that date, **CSP** will calculate your pension benefits on all your **aggregated** service, but they will base your compensation benefits only on your current period of service.

## What is the Civil Service Unions' reaction to the option that you are giving me?

The Council of Civil Service Unions, on which NIPSA is represented have been fully consulted and it has been agreed to proceed with giving you this option.

## How **aggregation** and the annual allowance works

Lisa has a preserved award from a previous period of 15 years' service. As a **classic** member she receives a one-off lump sum for each period of service. The lump sum is her annual pension multiplied by three. Her current period of service is 19 years. In the current tax year, the value of her benefits is:

| Pension benefits   |                |
|--|----------------|
| Preserved pension  | £2,250         |
| Current benefits based on 19 years' service and pensionable pay of £90,000 | £21,375        |
| <b>Total Pension</b>   | <b>£23,625</b> |

| Lump sum benefits               |                |
|---------------------------------|----------------|
| Preserved lump sum (£2,250 x 3) | £6,750         |
| Current benefits (£21,375 x 3)  | £64,125        |
| <b>Total lump sums</b>          | <b>£70,875</b> |

Lisa decides to **aggregate**. She leaves the NICS in the next tax year after completing 20 years' service in her second period as a civil servant. Her total service is 35 years. Her pensionable pay had risen to £93,000. Her retirement benefits based on her **aggregated** service are:

- pension of £40,688
- lump sum of £122,064

Remember, to work out the rise in Lisa's pension entitlement, The Inland Revenue must multiply by 10 the difference between her pension last year and her pension this year.

|                          |          |
|--------------------------|----------|
| Current pension          | £40,688  |
| Pension in previous year | £23,625  |
| Increase                 | £17,063  |
| Multiplied by 10         | £170,630 |

|                             |          |
|-----------------------------|----------|
| Current lump sum            | £122,064 |
| Lump sums in previous years | £70,875  |
| Increase                    | £51,189  |

The increase in the value of Lisa's pension entitlement is therefore:  
 $£170,630 + £51,189 = \mathbf{£221,819}$ . The annual allowance has to be deducted from this amount to find out if Lisa needs to pay extra tax.

|                              |               |
|------------------------------|---------------|
| Value of pension entitlement | £221,819      |
| Less annual allowance        | £215,000      |
| <b>Difference</b>            | <b>£6,819</b> |

Lisa therefore has to pay income tax at 40% on £6,819.

## Please remember...

If you are going to make a choice, you must do so by 24 February 2006.

## For further information

Contact **CSP** at the address given at the back of this leaflet.

## Disclaimer

This leaflet gives a simple guide to the **aggregation** option, it does not cover every aspect. The full details are contained only in the scheme rules, which are the legal basis of the scheme. You should note that nothing in this leaflet can override the rules, and, in the event of unintentional differences, the scheme rules will prevail.

The information in this leaflet only applies in the context of the additional **aggregation** option open to **classic** members. The option will only be available to members until 24 February 2006.

## Glossary

**Aggregation** – this is combining your pensions from two separate periods of employment into one pension.

**classic** – this is the PCSPS(NI) occupational pension arrangement that was open to civil servants from 1972 to 2002. The name **classic** came into effect in October 2002. Members had the choice of staying in **classic** or moving to **premium**, a different PCSPS(NI) pension arrangement. **CSP** assess **classic** benefits on the basis of the member's service (including any that they have transferred-in from other pension schemes) and their highest level of pensionable pay in the last three years of their service.

**CSP** – Civil Service Pensions administer your PCSPS(NI) pension.

**Pension age** – this is the earliest age at which you can choose to leave the scheme with immediate payment of your pension benefits without adjustment for early payment. For most members this is age 60. But some prison officers in post on 1 October 1987 have a pension age of 55. Some members who served in certain places overseas before 1 June 1972 have a lower pension age.

**Preserved pension** - these are benefits from an earlier period of service in the NICS that will come into payment when you reach **pension age**. Their value increases each year in-line with inflation.

## Scheme Administrator's Address

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