A guide for members on pension augmentation and redundancy

This guide has been written for anyone being made redundant on, or after 6 April 2018.

As a part of the redundancy process, you will be asked to make decisions about many things, including your pension. While your pension may not seem like a high priority in the moment, it does offer a degree of long-term protection that shouldn't be overlooked.

One of the options you may be offered is pension augmentation.

In this guide, we'll give you a brief **explanation of pension augmentation**, including:

- What is pension augmentation?
- Who can augment their pension?
- Things to consider before augmenting your pension

We'll also look at **your options**, including:

- How much you can pay in through pension augmentation
- How your augmentation payment can be used
- Alternatives available to pension augmentation

And we'll consider **the impact of pension augmentation** if you choose to go ahead, including:

- How the augmentation payment can affect your retirement benefits
- The tax implications of augmenting your pension

We'll also explain the **actions you'll need to take if you choose to augment your pension**, including:

- Next steps if you decide to augment your pension
- The process for pension augmentation
- Options for your pension if you're made redundant

AN EXPLANATION OF PENSION AUGMENTATION

What is pension augmentation?

When we talk about pension augmentation on redundancy, we're talking specifically about paying some of the money you receive when you leave work – we'll call this your redundancy package – into your pension. In effect, increasing your pension pot. This is often done by your employer putting money from your redundancy package directly into your pension, rather than the money being given to you.

Who can augment their pension?

Anyone being made redundant may be able to use pension augmentation. However, there are a number of factors to consider first, and these are detailed below.

Things to consider before augmenting your pension

There are five key things you should take into account when you decide whether to augment your pension:

1. How much is your redundancy package?

If you are made redundant, you're likely to receive money covering a number of different things. These may include redundancy pay (sometimes known as severance pay), notice pay and other benefits such as holidays owed. By law, your employer must give you a breakdown of these payments, and this will give you a clear idea of how much you're likely to receive in your redundancy package overall.

2. Can you afford to put it into your pension?
Once you know how much you're likely to receive in your redundancy package (see point 1) you need to decide whether you can afford for any of that money to be put into your pension. If you're out of work, there may be other costs that are more pressing, like your everyday bills. However, if you can afford it, you could choose to invest in your future through pension augmentation.

3. Will your employer pay it directly into your pension?
Legally, your employer doesn't have to pay any of your redundancy package into your pension. However, many will be prepared to do so. This is known as pension augmentation.

The tax implications with pension augmentation are different, than if you:
- take all of your redundancy package and then put some of it into your pension at a later date
- choose not to augment your pension, i.e. don't pay any redundancy money into your pension at all

4. How much will a payment affect your income tax?
You won't pay tax or National Insurance on redundancy pay, including Statutory Redundancy Pay, up to £30,000. However, other aspects of your redundancy package may be subject to tax (see 'Your options' section below). Receiving all this as taxed cash could push you into a higher tax band and increase your rate of tax for the year overall.

If you choose to put some of your redundancy package into your pension instead, to augment your pension, then your employer will do so *before* any tax is deducted. This means if your redundancy package exceeds the £30,000 limit you may pay less tax overall. There are no deductions taken from the money that's paid directly into your pension pot.

If your employer does not pay directly into your pension, then you can make an Additional Voluntary Contribution (AVC) to your pension separately instead. Your employer may allow you to make this before any tax is deducted. However, some employers may only allow this to be done *after* tax has been deducted from the relevant parts of your redundancy package. If so, the Scheme's administrator, Railpen Limited (Railpen), will then claim basic rate tax relief on your behalf, though this may be lower than the tax you paid on your package initially. If you are a higher rate taxpayer, you would need to claim any further tax relief due from HMRC as part of its self-assessment process.

5. Will pension augmentation exceed your annual tax allowance?
In general, pension augmentation with full tax relief (as outlined in point 4) is only possible for payments within your Annual Allowance (AA) for that tax year, once they've been combined with your normal/other pension savings. For 2023/24, this AA was increased to £60,000. That limit may change in future and some exceptions do apply. For more information please see the section on tax implications on page 4.

YOUR OPTIONS

How much you can pay in through pension augmentation
There are no real limits on how much you can pay into your pension via augmentation, it's really up to you. However, there may be limits on how much you can benefit in terms of tax savings.

Redundancy pay, including Statutory Redundancy Pay, is itself exempt from tax and National Insurance up to £30,000. However, other elements of your redundancy package are subject to tax and National Insurance (NI). This includes:

• Post-Employment Notice Pay (PENP) – the pay you are given to cover your notice period
• Other pay for your services, such as holiday pay or bonuses
• Payment in lieu of notice (PILON) - if granted, this is pay you'll be given if you leave before working your full notice period

If you augment some of your redundancy package into your pension, this will be done before tax. That means you'll pay less tax on the taxable elements of your redundancy package and on your redundancy pay itself, if it's above £30,000.

You could still choose to use the augmentation vehicle if your redundancy pay is under £30k. But there are no tax or NI advantages to doing this. You could also make a payment as an Additional Voluntary Contribution (AVC) instead (see alternatives to pension augmentation on page 3).

Bear in mind that any payments you make into your pension will still be subject to the Annual Allowance (AA). This is a limit on the amount of your pension savings that can benefit from tax relief each tax year (6 April to 5 April). You will also be subject to the Lump Sum Allowance (LSA), which means the most you can take as a lump sum, tax free is 25% of your pension benefits, up to a maximum of £268,275 (unless you have Lifetime Allowance protections).

How your augmentation payment can be used

In general, if you choose to augment your pension, then the money put in from your redundancy package can be split between buying more scheme pension (providing a regular monthly income) and buying an additional lump sum. Alternatively, you could make an Additional Voluntary Contribution (AVC) – see the ‘alternatives to pension augmentation’ section below.

The exact amount of the benefits that you can ‘purchase’ with any augmentation payment are based on a number of factors, including your age, sex and the rules of your specific section of the Railways Pension Scheme.

If you choose to go ahead with pension augmentation, then this will be outlined to you in greater detail as part of the augmentation process outlined on page 4. There are also tax rules, which cover the maximum you can take as a lump sum payment.

Limitations to splitting your pension augmentation

By law, you can usually take up to 25 per cent of the value of your total pension benefits as a tax-free lump sum, but no more than £268,275.

In general, if the amount you’ve already built up in your pension as a lump sum and BRASS AVCs is below this threshold, then you can use your augmentation payment to buy an additional lump sum within your Scheme pension. If not, you can only use your pension augmentation payment to increase what you will receive in your monthly pension payments.

You can check your current estimated lump sum and your BRASS AVC balance by logging in to your myRPS account at railwayspensions.co.uk/login.

Within the rules of the Railways Pension Scheme, you may also be able to convert some of your pension to a lump sum when you take your benefits, if the value of your scheme lump sum and BRASS is less than the 25 per cent limit. Any lump sum you do take in this way will effectively reduce the rest of your retirement income. This is known as the commutation factor and basically describes the rate at which you’ll be giving up your annual pension, in exchange for a lump sum upfront.

In addition, some sections of the Scheme have limits on what percentage of the total augmentation payment can be used to purchase a retirement lump sum, instead of Scheme pension. Please refer to your Member Guide or contact us for more details.

Alternatives available to pension augmentation

If you would prefer not to split your augmentation payment, to buy pension contributions and a lump sum (as outlined above), then you can instead ask for part of your redundancy package to be paid as a one-off Additional Voluntary Contribution (AVC).

This would be tax free, as long as it's within your Annual Allowance (see tax implications on page 4). And you would have the opportunity to choose, and change, which funds this money is invested in.

When it's time for you to retire, the money you've paid in through AVCs is considered separately to your main pension pot. It can also be taken in different ways to your main Scheme pension. This includes taking it as a lump sum, subject to tax, or transferring it to another scheme.

Transferring your pension pot to another pension arrangement could give you access to a wider variety of options for taking the money including taking it a bit at a time in a flexible way known as drawdown.

The Trustee is partnering with Legal and General Investment Management (LGIM) to offer members access to a high-quality, drawdown arrangement, with preferential fees, that are not available elsewhere.

To find out more visit https://www.legalandgeneral.com/workplace/campaigns/rpmi-pas/

THE IMPACT OF PENSION AUGMENTATION

How the augmentation payment can affect your retirement benefits

If you choose to augment your pension, then any money paid in from your redundancy package will form part of your pension pot. It will not be treated any differently and will simply become part of the benefits available to you when you retire. This includes adding to any dependants' pensions.

If you choose to retire early, i.e. before your Normal Retirement Age (NRA), and take your pension benefits at that point, then your pension will be reduced. This is because your lump sum is being taken early and the remaining pension will need to be paid out over a longer period of time. Any benefits you have purchased by augmentation will be reduced by 'cost neutral early retirement factors' rather than any more generous 'Schedule 8 factors' that may apply to you. You can find out more about these in your Member Guide.

The tax implications of augmenting your pension

One factor that will affect whether it is tax-efficient to augment your pension or not is the Annual Allowance (AA).

This is a limit on the amount of your pension savings that can benefit from tax relief each tax year (6 April to 5 April).

The AA is usually 100 per cent of your earnings or £60,000, whichever is lower. Different AA limits may apply to high earners though. These rates are set by the Government and are subject to change.

If the increase in your pension savings is likely to be more than the AA in single year, you may be able to make use of any unused AA from the previous three tax years.

Therefore, to assess whether you wish to augment your pension – and how much by – you may wish to check that your pension payments within the current tax year are already within the Annual Allowance. You may also want to know how much additional scope you have to make pension savings before you exceed the AA.

In order to confirm this, Railpen can check the year's pension payments for any member wishing to augment their pension, and can also take into account whether they have any unused allowance from previous years.

This could then be compared to the extra pension amount that will be generated through augmentation, to confirm that you will remain within the AA limits.

You would also need to take into account any pension savings you've made elsewhere.

Similarly, there is a limit on the total amount of pension savings you can build up before you pay extra tax. This limit is known as your Lifetime Allowance (LTA) and may affect pension augmentation if you have a large amount of pension savings built up elsewhere.

You can find out more about tax allowances in the Read As You Need Guides on your member website.

ACTIONS YOU'LL NEED TO TAKE IF YOU CHOSE TO AUGMENT YOUR PENSION

Next steps if you decide to augment your pension

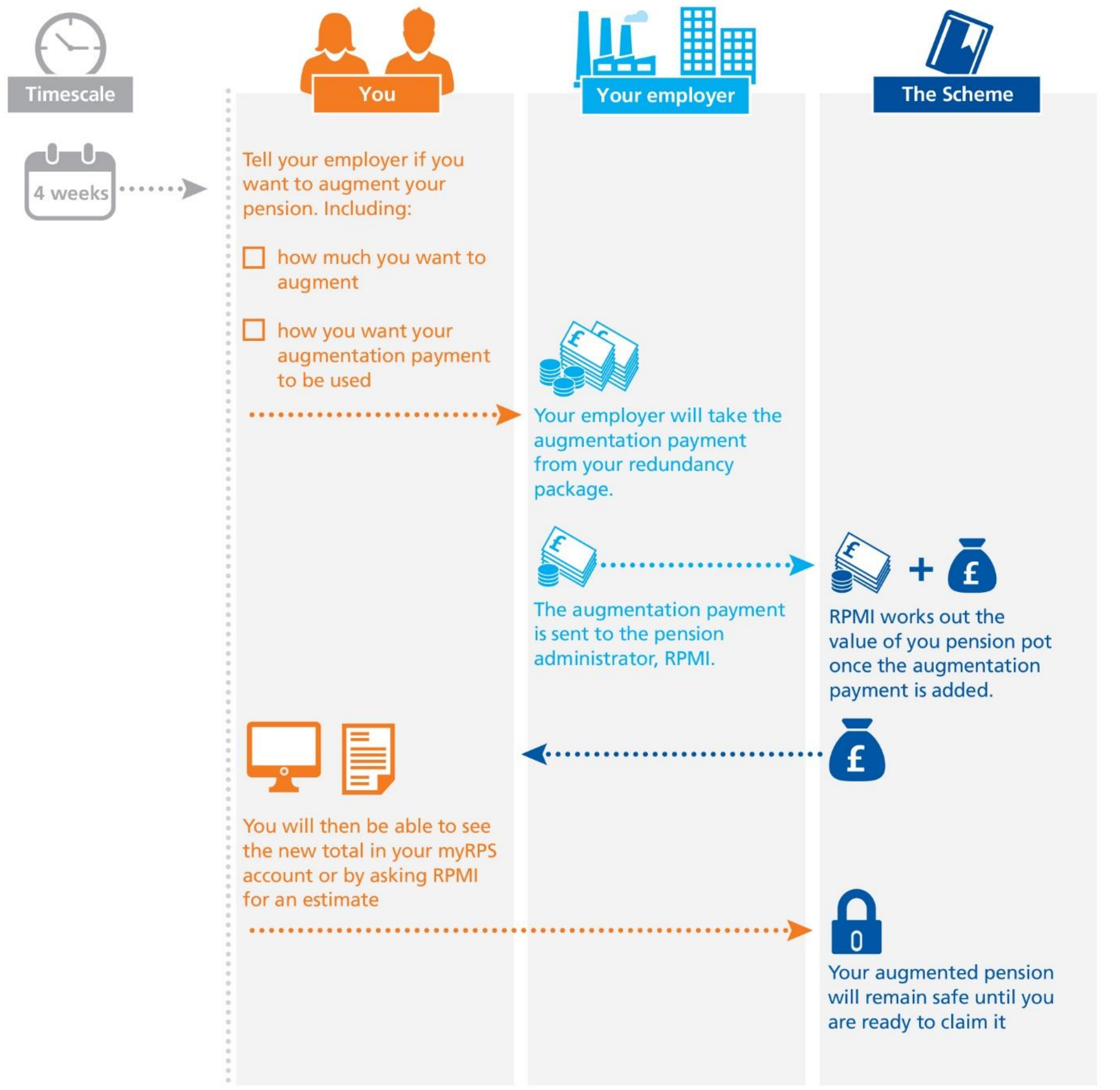
Making decisions about your pension, particularly as part of the redundancy process, can seem confusing and overwhelming. Many of our members find it helpful speaking to an Independent Financial Adviser and you can find one in your area by visiting unbiased.co.uk. This can be particularly useful when there are major life events such as redundancy, as there are often other items to consider too (e.g. life assurance).

Please let your employer know if you If you do decide to augment your pension. Remember to tell them:

- how much you want to augment
- how you want to use your augmentation payment

Your employer will then tell the pension administrator, Railpen, who will then process your request as detailed below.

The process for pension augmentation



Railpen aims to complete this process as quickly as possible, usually within 4 weeks.

The options for your pension if you’re made redundant

In addition to pension augmentation, there are a number of other decisions to take regarding your workplace pension if you’re made redundant. You can chose to:

- Freeze it – making no further contributions and simply leave it invested ready for when you retire
- Transfer it – moving the money from your workplace pension to another private scheme or one offered by your new employer if you find another role elsewhere
- Take early retirement – if you are old enough to be eligible to take your benefits from your section

Each of these options has its own implications and you should get advice before making any major changes to your pension. To find an Independent Financial Adviser in your area, visit unbiased.co.uk

You can also find out more about a range of pension topics through the Pensions Advisory Service, pensionsadvisoryservice.org.uk.