RAILPEN

National Grid Electricity Group of the ESPS

Information Sheet on Pension Benefits for those leaving on redundancy

This information sheet is for those active members of the National Grid Electricity Group of the Electricity Supply Pension Scheme (NGE Group) who may be looking at the possibility of leaving the company on voluntary **redundancy**.

We hope that this information sheet will answer many of the questions that may arise regarding the pension benefits payable on voluntary redundancy. If you are not a member of the National Grid Electricity Group of the ESPS, this information sheet will not apply to you.

If I leave due to voluntary redundancy, when do my pension benefits become payable?

If you were a member of ESPS on 5 April 2006, you are able to receive your pension benefits from age 50. If you leave the company and are over the age of 50, your pension benefits will be payable immediately to you. If you leave the company and are aged under 50, your pension benefits will be deferred in the pension scheme and will become payable when you reach age 50.

For anyone who joined the ESPS after 5 April 2006, the earliest the benefits can be paid is age 55.

If I leave due to voluntary redundancy, what pension benefits could I receive?

For members who joined prior to 6 April 2006, the standard benefit is an annual, unreduced pension payable monthly and an additional retirement lump sum, which is calculated as three times your annual pension. The pension benefit is based on your length of pensionable service and your Pensionable Salary at your date of leaving.

The basic formula is:

Pension of 1/80th of your Pensionable Salary for each year of pensionable service; plus Lump sum of 3 times your annual pension.

For example: If you have worked for 20 years and your pensionable salary is £22,000:

Pension: 1/80 x 20 years x £22,000 = £5,500 per annum **Lump sum:** £5,500 x 3 = £16,500

The pension is payable monthly in arrears and is subject to tax under PAYE, in the same way that your salary is liable to tax. National Insurance contributions are not deducted from your monthly pension. Your retirement lump sum is payable free of tax.

In the event that you retire, you are able to elect to receive a higher amount of lump sum, known as a maximum retirement lump sum. This higher retirement lump sum is payable tax-free, but will reduce the amount of annual pension you receive. In the event that you leave due to voluntary redundancy, and an immediate pension is due to you, a full retirement pack will be sent to you detailing this option.

We are unable to provide further information regarding the amount of the maximum retirement lump before this point, because the calculation of this amount has to take into account numerous factors, such as the amount of any Additional Voluntary Contributions (AVCs) you may have, the amount of any redundancy lump sum you have been awarded and also market-related factors that are subject to change.

However, we can confirm that the maximum retirement lump sum is calculated as 25% of the capital value of your total pension benefits, subject to a maximum of 25% of the current Lifetime Allowance.
If you are considering taking extra cash, the Group Trustee urges you to take independent financial advice, to ensure that giving up part of your pension is in your best interests to meet your needs in retirement.

How are the pension benefits paid?

The retirement lump sum is paid directly into your bank account, shortly after your retirement date. The pension benefit is paid to you monthly, into your bank account on or around the 24th of each month.
Your annual pension in payment increases each year in April by the annual increase in the Retail Prices Index (RPI), limited to a maximum of 5%. In your first year of receiving your pension, the pension increase will be prorated, based on the number of complete months from your date of retirement to the 1st April.

When you reach either age 60 for females or 65 for males, your increases will change slightly due to the Guaranteed Minimum Pension (GMP) becoming payable, but the majority of your pension will still increase each April by RPI, normally to a maximum of 5%.

In the event that you leave the company before age 50, your pension will be deferred within the scheme and will increase each year until it is payable at age 50. The pension then increases in payment as detailed above.

What salary is used to calculate my pension benefits?

When calculating your pension benefits, the Pensionable Salary used is the higher of

1) your pensionable pay in the last 12 months to your leave date
2) any of the last 5 years pensionable pay increased in line with RPI, or
3) annual average of 3 consecutive years pensionable pay the last 10 years increased in line with RPI.

The RPI used to calculate your Pensionable Salary is often not known until you have left the company. Your pension benefits are therefore initially settled on your Pensionable Salary at date of leaving and then recalculated using the RPI increased salary, once known and if higher. If this results in higher pension benefits, the balance of your retirement lump sum is paid direct to your bank account and your annual pension is adjusted and any arrears are paid.

I am aware that members' pensions may be reduced for pensionable service accrued before May 1990, if I retire before the age of 63. Is this true?

This reduction for the pre-May 1990 service is known as a Barber reduction. This reduction does not apply if you leave due to redundancy and are entitled to immediate unreduced benefits.

I have contributed to Additional Voluntary Contributions (AVCs). How are these additional benefits paid?

The AVCs can be paid as a lump sum, but only up to the maximum permitted by HMRC. The maximum is calculated as 25% of the capital value of your total pension benefits. If you are unable to take all of your AVCs as a retirement lump sum, they can be used to provide additional pension.

Members do have the option to take their AVCs as a pension benefit within the NGE Group and can also use the AVC fund value to purchase an annuity outside of the NGE Group with an insurance or personal pension company. This option is known as an Open Market Option (OMO).

Is it true that a member's pensionable service is rounded up to the next complete year?

If members have more than five years' service when they leave the company, their pensionable service is rounded up to the next complete year. This pensionable service is based on actual service, plus any transferred in service but excludes any added years' service. The cost of providing this additional part year of service is deducted from your monthly pension during your first year of retirement.

Is it possible to put my severance lump sum into the pension scheme, to ensure all my benefits are paid as tax efficiently as possible?

The first £30,000 of the redundancy lump sum is payable tax-free and will be paid through the company payroll normally in the month after your date of leaving in the same way as your salary is paid.

Members do have the option of putting some or maybe all of their taxable excess redundancy lump sum (over £30,000) into the pension scheme.

How much of my redundancy lump sum can I put into the pension without incurring a tax liability?

It is not possible to inform members how much redundancy lump they can put into the pension scheme and receive as a tax-free lump sum, because this involves a detailed complex calculation that needs to take account of the relevant RPI that will probably not be available until after your retirement date.

It is possible to put some or possibly all of the taxable part of your redundancy payment (above £30,000) into the pension scheme and receive it is as a tax-free lump sum up to the maximum HMRC limit (25% of the value of your pension fund). However, there is also a secondary complication to this, which is in respect of the tax relief members can receive on pension savings in any one year.

The Government announced changes to the tax relief on pension savings with effect from April 2011, which means that the amount of tax relief is greatly restricted. This has had the result of restricting the amount of redundancy lump that can be put into the pension scheme and paid out as retirement lump sum free of tax.

Can I transfer my benefits to an alternative pension provider?

You have the option to transfer your pension benefits to an alternative pension provider.

<u>Immediate retirement</u>

If you are entitled to immediate retirement benefits on leaving, you can still choose to take a transfer. A transfer value would be calculated once you have left and the relevant RPI is received. Your guaranteed transfer value will be calculated when your final benefits are known.

<u>Deferred benefits</u>

If you leave with deferred benefits (payable from age 50, or 55 if joined after 5 April 2006), you can request a transfer value at any time before your retirement benefits are paid.

Requirement to take financial advice when transferring

Deciding whether this would be the best option for you involves detailed analysis, as DB benefits are generally very valuable. We would recommend that you take professional advice before opting to transfer elsewhere. Indeed, the Government now insists that members with a transfer value involving funds of £30,000 or more must take financial advice from an FCA authorised adviser, and that evidence of this is made available to the transferring scheme prior to the transfer proceeding.

A firm of independent financial advisers called WPS Advisory Limited has been appointed to provide one piece of funded financial advice to eligible scheme members. Although it is intended that this service will be available on an ongoing basis, access to future funded advice is not guaranteed. Any recommendations made by WPSA are completely independent of the Group Trustee, the Company, Railpen, and the Electricity Supply Pension Scheme (ESPS).

You are welcome to use your own financial adviser if you wish. However, you would need to pay for any advice obtained from an alternative adviser.

Alternatively, if you do not have a financial adviser, the following may also be of assistance in selecting one:

Unbiased - www.unbiased.co.uk
Money & Pensions Service – www.moneyandpensionsservice.org.uk

You must understand the benefits you may be giving up by electing to transfer your benefits elsewhere, as well as the potential costs and tax implications of the receiving arrangement.

It should also be noted that after a transfer, the benefits would be subject to the rules of the new arrangement, but it is unlikely that you would be able to access retirement benefits in any other arrangements before the Normal Minimum Pension Age of 55.

If I have a further query regarding my pension benefits, how can I raise this?

If you have any queries relating to your pension benefits please email your query to the following email address: enquiries@railpen.com.

Railpen will endeavour to respond to your query as quickly as possible and within 10 working days.

You are also able to call our Pensions Helpline on 02476 472540.

If you have any non-pension related queries concerning possible redundancy, please contact a member of the HR Team.