

# **AN INTRODUCTION TO THE LEVEL PENSION OPTION (LPO)**

# THE LEVEL PENSION OPTION – A NEW RETIREMENT OPTION

This e-guide explains how the Scheme's Level Pension Option (LPO) works. It highlights some important things that you should consider before you decide whether or not it is suitable for you.

We have also provided a separate document giving some examples of the LPO in action, which you can read [here](#).

The decision to use the LPO is irrevocable, which means you can't change your mind later, so please read this guide carefully and, if necessary, take advice from an independent financial adviser. The Trustee has arranged for a company called Origen Financial Services to provide free advice to members on their retirement options, including the LPO. Details of how to access this advice are provided by Hymans Robertson, the Scheme administrator, in the retirement packs they send out to members. You can also find Origen's details at [www.nwgpensionscheme.co.uk](http://www.nwgpensionscheme.co.uk), under 'Contact us'.

This booklet has been set up as an interactive PDF. Use the back and forward arrows below to navigate through it, or click on the tabs at the top of the page to jump to the sections that interest you most.



# WHY IS THERE A LEVEL PENSION OPTION (LPO)?

We recognise that, for many members, the State Pension will be a sizeable chunk of their retirement income.

The State Pension age is currently 66 and will be increasing to age 67 and then 68 (see [page 8](#) for more details). Compare this with the Scheme's normal retirement age, which is 65 (or, for some members, an earlier age of between 60 and 65). That gives at least a two to three-year gap between the Scheme's normal retirement age and State Pension age. There's an even bigger gap if someone needs or wants to retire earlier than 65.

We've introduced the LPO to give members more flexibility and choice around their retirement options. It may make it more affordable for members to retire earlier, if they so wish, and gives a smoother total pension income during retirement.

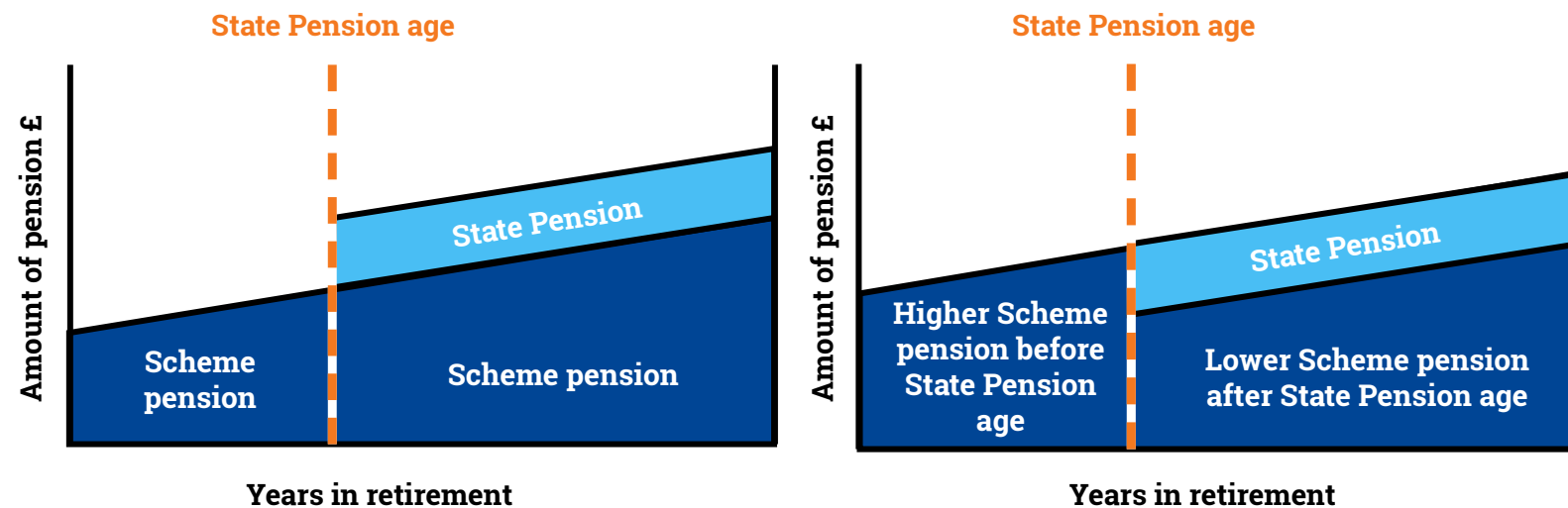


# HOW DOES THE LPO WORK?

The LPO lets you restructure your Scheme pension. You can take a higher Scheme pension before your State Pension age. Then, when you start to claim your State Pension, you get a smaller pension from the Scheme because your State Pension will then also be payable.

Your retirement pack tells you the maximum amount of Scheme pension that you can take under the LPO. You can choose a lesser amount if you want to.

Here's a simplified picture of how the LPO works: the diagram on the left shows what pension income normally looks like, and the one on the right shows what it looks like with the LPO.



Please note these diagrams are for illustrative purposes only.

In addition to smoothing the total pension income that you receive during your retirement, the LPO also allows you to take a higher tax-free cash sum if you want to.

The size of the reduction in your Scheme pension at State Pension age will depend on your age when you retire, the pension increases that apply to your pension and wider financial conditions and life expectancy assumptions. There is a possibility that your overall retirement income might be lower than if you had not selected the LPO, i.e., if you live longer than the assumed life expectancy.

The increased Scheme pension payable under this option also counts towards two pensions tax allowances called the Annual Allowance and the Lifetime Allowance. There are extra tax implications if you exceed the Annual Allowance (but the tax charge linked to the Lifetime Allowance was recently abolished). You can find out more on [pages 6-7](#). A financial adviser will be able to explain these to you in more detail. Your higher income in the early years of retirement might also affect any entitlement you may have to other State benefits.

# QUESTIONS & ANSWERS

## How is this option linked to the State Pension?

It is linked to the amount of the new full State Pension, which is £10,600 a year (2023/24 tax year) for someone with a full National Insurance record. The amount of State Pension you get will depend on your National Insurance contribution record. You can check your State Pension online at:

**[www.gov.uk/check-state-pension](http://www.gov.uk/check-state-pension)**

This website will also tell you when you can start to claim your State Pension.

## How does this option affect other Scheme benefits?

If you take the LPO, then you will be eligible for a higher tax-free cash lump sum at retirement. You will still enjoy a five-year guarantee on your Scheme pension, which will allow for the higher pension element up to State Pension age. Your spouse's pension will reflect the higher element up to State Pension age, and reduce proportionately at the point you would have reached State Pension age. So, your spouse's pension will be lower after State Pension age if you exercise the LPO.

## Is it possible to choose a different amount under this option?

Your Scheme retirement pack tells you the maximum amount that you can take under this option. You can choose a lesser amount, but not a larger one. You may want to choose a lower amount if you expect to receive a lower State Pension at your State Pension age; or to avoid being affected by the Annual Allowance and/or Lifetime Allowance (see **pages 6-7** for more information about this).

## Should I get financial advice?

This option will not be suitable for everyone. You should consider taking independent financial advice before deciding to go ahead.

The Trustee provides retiring members with access to impartial financial advice on their retirement options. This is currently provided by Origen Financial Services (**[www.origenfs.co.uk](http://www.origenfs.co.uk)**), who are authorised and regulated by the Financial Conduct Authority. Your retirement pack includes details of how to get in touch with Origen. Taking advice from Origen is entirely optional and you may prefer to use your own financial adviser. The Scheme meets the cost of the advice given by Origen but won't pay for advice taken from other advisers. You can find an adviser in your area at **[www.unbiased.co.uk](http://www.unbiased.co.uk)**

## What else should I consider before taking this option?

Before exercising this option, consider your likely income needs before and after your State Pension age. Think about your income requirements in the early years of retirement compared with what you may need later on in life, e.g., elder care.

You may wish to take the LPO to give you a higher income in the early years of your retirement so you can fund a hobby, a holiday or a house move.

Don't forget that if you take this option, you will receive a higher Scheme pension until you reach your State Pension age. However, once you reach your State Pension age, the pension payable to you from the Scheme will reduce for the rest of your life.

This option is designed to allow you to restructure your pension – to receive extra income for a limited period – helping you to meet your income requirements before you receive your State Pension. It can help you to smooth your income before and after your State Pension age.

# QUESTIONS & ANSWERS CONTINUED

## What if I exercise this option and then the Government announces an increase to my State Pension age?

The Government intends to review State Pension ages every five years, which could lead to further increases. If this does happen and you've exercised this option, then the reduction to your Scheme pension will still come into effect from the State Pension age that applied when you originally selected the option. In such circumstances there will then be a gap between when your Scheme pension reduces and when the State Pension comes into payment.

## What risks should I be aware of?

There are a number of risks associated with this option.

- **Income tax**

Your personal tax position could be affected. Increasing your Scheme pension under this option until you reach State Pension age might mean you are subject to a higher rate of income tax.

- **Annual Allowance (AA)**

The temporary increase in Scheme pension counts as extra pension for the AA limit.

The AA is a tax relief limit on pension savings and takes into account how much extra pension you build up and how much you pay in pension contributions in each tax year (although it's called a 'pension input period' for the purposes of working out your AA). Contributions include payments to other arrangements, such as workplace pensions, personal pensions and AVC accounts. It is your responsibility to track how much you're paying into different arrangements and understand your tax position. The maximum rate of AA allowed was increased from £40,000 to £60,000 as of April 2023, and may be lower, depending on your circumstances.

If you haven't used up all your AA in a tax year/pension input period, you can carry forward the unused allowance (for up to three years) to offset any amount by which you exceed it in the current period.

To calculate the amount that counts towards the AA as a result of taking this option, the temporary increase to your Scheme pension needs to be multiplied by a factor of 16.

If you exceed the relevant AA in any pension input period, and you don't have sufficient carry forward allowance to offset this, you will be subject to an extra tax charge on the amount by which you have exceeded it.

You should consider talking to an independent financial adviser about whether you might exceed the AA by exercising this option and, if so, the impact of that.



# QUESTIONS & ANSWERS CONTINUED

- **Lifetime Allowance (LTA)**

The LTA is another tax relief limit on pension savings which, until recently, measured the total value of a member's pension benefits from all registered pension schemes, but excluding their State Pension. If this figure exceeded the LTA, then the member had to pay a tax charge on the excess. However, the Government announced that it would abolish this tax charge from April 2023 - and from April 2024, the entire LTA will be scrapped. Until such time as this happens, you may need to consider how the temporary increase in your Scheme pension from choosing the LPO will count as extra pension for the LTA limit. The LTA for 2023/24 remains at its previous level of just over £1 million.

Please note that the Scheme administrator, Hymans Robertson, cannot advise you on personal tax matters, so if you think you might exceed the LTA by exercising this option, you should consider talking to an independent financial adviser.

- **Variation in total income**

This option can help you to bridge an income gap before your State Pension starts, but you should not necessarily expect your overall income to be the same just before, and just after, State Pension age. Your income would only be the same if the reduction to your Scheme pension exactly matched your State Pension.

The amount of State Pension you receive depends on your National Insurance contribution record.

- **Irrevocable decision**

The decision to take the LPO is irrevocable. You can't change your mind later.



# ABOUT YOUR STATE PENSION

You can check your State Pension online at: [www.gov.uk/check-state-pension](https://www.gov.uk/check-state-pension). This website will also tell you when you can start to claim your State Pension.

Someone retiring today at age 60 will need to wait until 67 to claim their State Pension – as would someone who reaches the minimum age at which you can start your pension of 55\* in 2023.

Date of birth	State Pension age
Before 6 April 1960	66
6 April 1960 – 5 March 1961	Between 66 and 67
6 March 1961 – 5 April 1977	67
6 April 1977 – 5 April 1978	Between 67 and 68
On or after 6 April 1978	68

\* The minimum age is set by the Government and will go up to 57 from 6 April 2028.





# USEFUL LINKS

HMRC Annual Allowance Calculator:  
[www.hmrc.gov.uk/tools/pension-allowance](http://www.hmrc.gov.uk/tools/pension-allowance)

You can find out about State benefits at:  
[www.gov.uk/browse/benefits](http://www.gov.uk/browse/benefits)

Your State Pension age depends on your date of birth. To confirm when you will reach State Pension age, please use the calculator at:  
[www.gov.uk/check-state-pension](http://www.gov.uk/check-state-pension)

Find out about Origen Financial Services, the independent financial adviser appointed by the Trustee: [www.origenfs.co.uk](http://www.origenfs.co.uk)

If you have any queries about the information in this guide, please contact the administration team at Hymans Robertson.

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