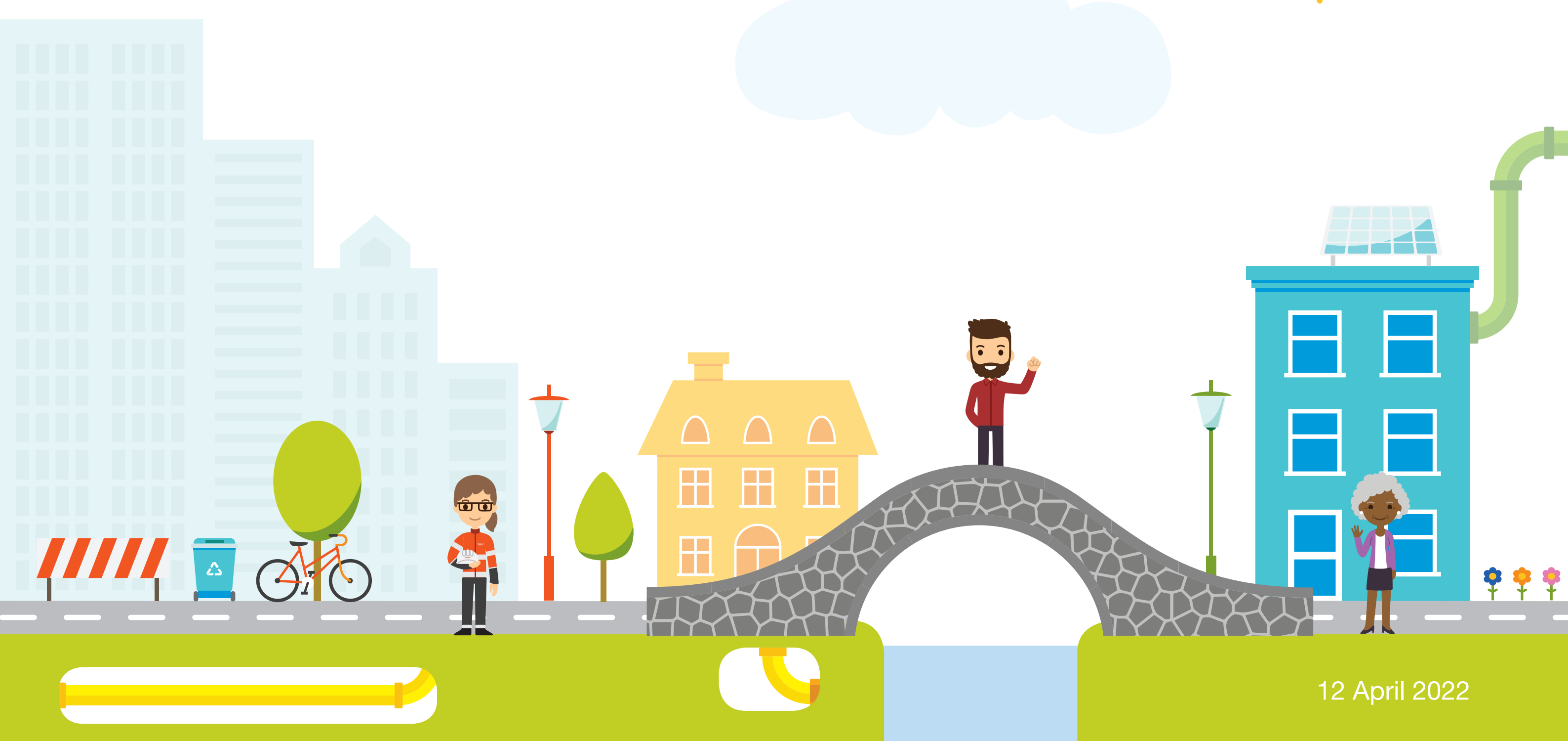
National Grid UK Pension Scheme

# Bridge the gap

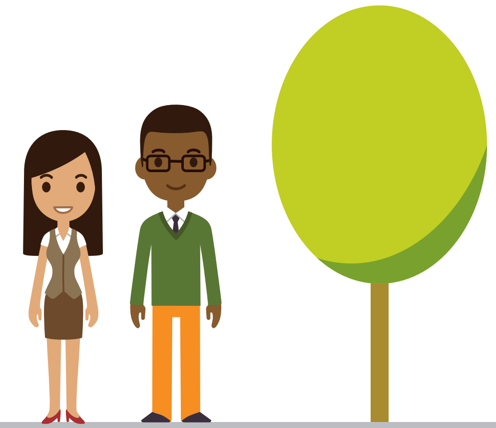
An option to help you bridge the income gap until your State Pension starts



12 April 2022

# WHAT IS THIS OPTION?

**This is the Bridge the gap option. It is open to anyone taking their pension from the Scheme before their State Pension Age, unless they are taking it on the grounds of ill health.**



## What does Bridge the Gap involve?

Available at retirement, this option enables members to receive a larger pension from the Scheme until they can start to claim their State Pension. They then receive a smaller pension from the Scheme afterwards. In the Scheme Rules, this is called the levelling option.

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

It is linked to the amount of the Basic State Pension received by people who reached their State Pension Age before 6 April 2016. The annual amount of this Basic State Pension as at April 2022 is £7,377.

A different State Pension system was introduced by the Government from 6 April 2016. The amount of State Pension you will get at State Pension Age will be based on this new system and will depend on your National Insurance contribution record.

You can check your State Pension online at:
**www.gov.uk/check-state-pension**

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

## Does this option affect other Scheme benefits?

No. Other Scheme benefits such as the retirement tax-free cash sum and the death benefits paid by the Scheme will be calculated in the same way, regardless of whether you take this option at retirement.

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

Your Scheme retirement quotation letter will tell 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 (see page 11 for more information about this).

## Should I get financial advice?

This option will not be right or suitable for everyone, so a decision to take it should be made on a sound financial basis, and you should consider taking independent financial advice about this before deciding to go ahead. You should be aware, however, that a financial adviser will charge you for giving such advice. To find a suitable adviser in your area, please visit
**www.unbiased.co.uk**

# HOW DOES IT WORK?

**Here's an example. Gordon retires at age 60, six years before his State Pension Age of 66. The maximum increase which Gordon can have under this option is £5,946 a year up to his State Pension Age.**

| | |
|---|---|
| Gordon's Scheme pension for life without exercising this option is: | **£11,000 a year** |
| If Gordon opts for the maximum allowed with this option, his Scheme pension increases to: | **£16,946 a year** |
| From State Pension Age, Gordon's Scheme pension is reduced by: | **£7,377** to: **£9,569 a year** |

**This is a permanent reduction for the rest of Gordon's life.**

Gordon's increased pension (£16,946) and the amount of the reduction (£7,377) are both affected by any future Scheme increases.

Assuming his Scheme pension increases by 18% (3% per year) over the six years to Gordon's State Pension Age, then his figures would be:

| | |
|---|---|
| Scheme pension just before State Pension Age: | **£19,997 a year** |
| Amount of reduction from State Pension Age: | **£8,705** |
| Scheme pension from State Pension Age: | **£11,292 a year** |

**Here is a summary:**

| | If Gordon **does not** exercise this option | If Gordon **does** exercise this option |
|---|---|---|
| Scheme Pension at age 60 | **£11,000** a year | **£16,946** a year |
| Scheme Pension by age 66 (assuming increases of 18% over the six years to Gordon's State Pension Age) | **£12,980** a year | **£19,997** a year |
| Reduction to Scheme Pension from Gordon's State Pension Age of 66 | **£0** (no reduction applies) | **£8,705** (for the rest of Gordon's life) |
| Scheme Pension from Gordon's State Pension Age | **£12,980** a year | **£11,292** a year |

**This page shows an example only. Figures will vary depending on a number of factors including your gender and grade.**

**The State Pension will become payable to Gordon at his State Pension Age. Whether his overall income (Scheme pension plus State Pension) goes up or down will depend on how much State Pension he receives, but he has used this option to smooth his overall income during his retirement.**

## What do I need to be aware of about this option?

- Under this option your Scheme pension is reduced at State Pension Age. Your total income from State Pension Age might go down under this option if:
  - your State Pension is lower than the reduction to your Scheme pension; or
  - you are by then already receiving some form of State benefit which you exchange for your State Pension.
- The reduction in your Scheme pension is for the rest of your life. It is therefore possible that you may 'give up' more total pension income after your State Pension Age than the extra pension income you receive before State Pension Age; this depends on how long you live.
- The increased pension payable under this option counts towards your Annual Allowance and Lifetime Allowance. There are extra tax implications if you exceed either of these allowances.
- You should check whether receiving a higher income through taking this option could affect any entitlement you may have to other State benefits.
- Your Scheme pension will reduce with effect from your State Pension Age even though your State Pension may start on a different day. Your State Pension statement will confirm the date it will start.

**A number of these points are explained further under the heading 'What risks should I be aware of?' Please see pages 9 to 11.**

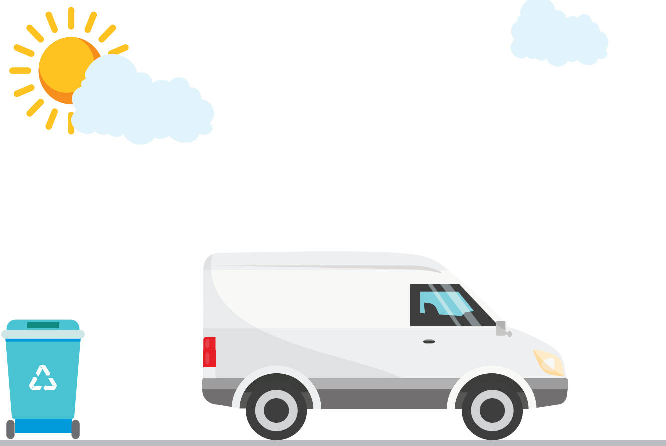
## What else should I consider before taking this option?

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 structure your pension – to receive extra income for a limited period – so helping you to meet your income requirements before you receive your State Pension. It can therefore help you to smooth your income before and after your State Pension Age.

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 will need later on in life.

For example, you may wish to take this option to give you a higher income in the early years of your retirement so you can fund some major expenditure, such as a big holiday or a house move.



**But don't forget to also think about possible future financial commitments you might have later in your retirement, such as providing for your care if your health worsens.**

# WHEN WILL I REACH STATE PENSION AGE?

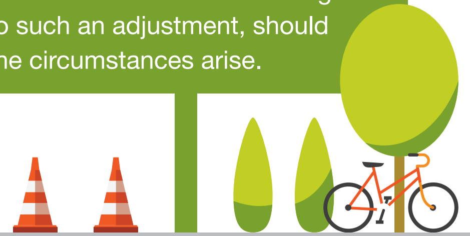
**The following table gives a brief guide under current legislation:**

| Date of Birth | State Pension Age |
|---|---|
| Before 6 December 1953 | 65 for men, and between 60 and 65 for women |
| 6 December 1953 – 5 October 1954 | Between 65 and 66 |
| 6 October 1954 – 5 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 Government is proposing to bring forward the increase in State Pension Age to 68, which would affect people born on or after 6 April 1970.**

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

The Government has said that it will carry out a review of 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 when you reach your State Pension Age will be more than was originally quoted to you. This is in order to reflect the extra period of time that the temporarily increased pension will have been paid. The adjustment will be calculated by the Scheme Actuary. If you take up the option, you will be deemed to have agreed to such an adjustment, should the circumstances arise.



# WHAT RISKS SHOULD I BE AWARE OF?

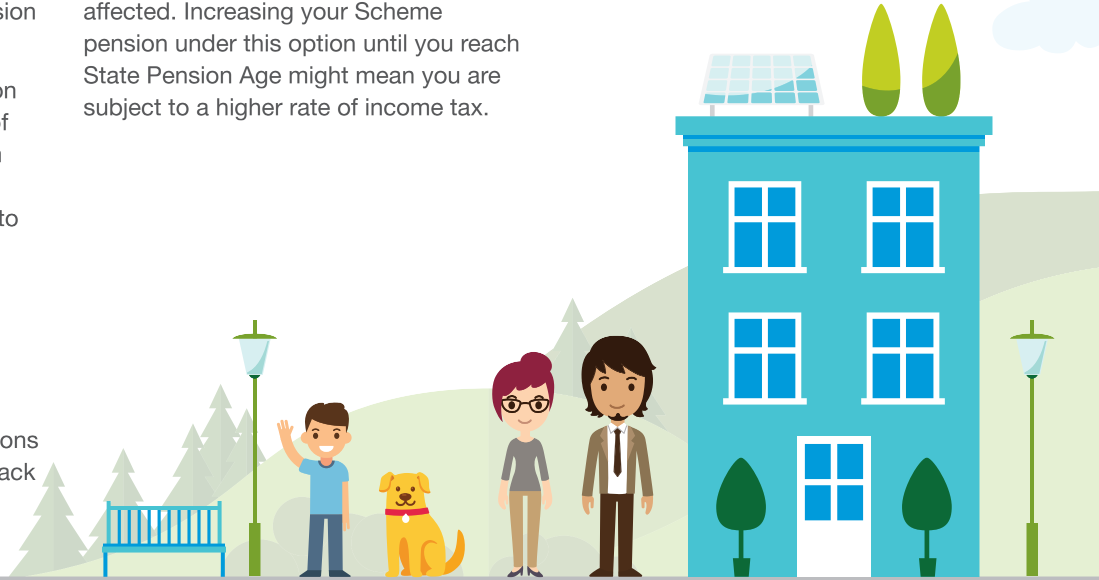
**There are a number of risks associated with this option.**

### Lifetime Allowance (LTA)

- The temporary increase in Scheme pension also counts as extra pension for the LTA limit.
- The LTA is another tax relief limit on pension savings. The total value of a member's pension benefits from all registered pension schemes, but excluding State Pension, has to be tested against it.
- The LTA from 6 April 2022 is £1,073,100.
- If you think you might exceed the LTA by exercising this option, you should get in touch with the pensions team (contact details are on the back cover) and consider talking to an independent financial adviser.

### 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.

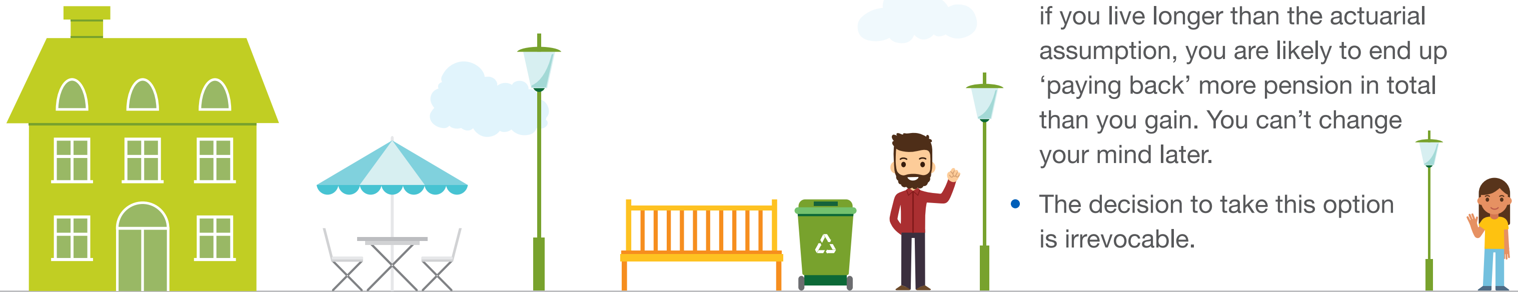


## Variation in total income

- 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.
- You should note that Scheme and State pensions increase at different rates.
- Your State Pension Age may increase after you have taken this option due to Government reviews, which are expected to occur every five years. This would mean that the reduction applied at your later State Pension Age would need to be greater than was quoted to you at your retirement, as the reduction needs to reflect that the additional pension paid under this option will have been paid for longer than was originally expected.
- The State allows you to choose to defer receiving your State Pension to a later date than your State Pension Age.

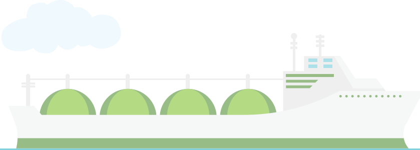
## You could give up more than you gain

- The additional pension is paid to you for a fixed period, up to your State Pension Age, whereas the reduction from your State Pension Age will continue for the rest of your life. This means it is possible (depending on how long you live) to end up 'paying back' more pension in total via the reduction than you gain through receiving the additional pension.
- The calculation of the reduction to apply after your State Pension Age is based on actuarial assumptions about life expectancy, and on your age at retirement, your gender and other relevant factors. Put simply, if you live longer than the actuarial assumption, you are likely to end up 'paying back' more pension in total than you gain. You can't change your mind later.
- The decision to take this option is irrevocable.



## Annual Allowance (AA)

- The temporary increase in Scheme pension counts as extra pension for the AA limit.
- The AA is one of the tax relief limits on pension savings and takes into account how much extra pension you build up and how much you pay in pension contributions in a 'pension input period', before becoming liable to tax. The maximum rate of AA allowed for the pension input period from 6 April 2022 to 5 April 2023 is £40,000.
- If you haven't used up all your AA in a 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 pension input 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.
- In the earlier example of Gordon, he took an additional temporary annual pension of £5,946 to bridge his income under this option; so multiplying this by 16 means that a value of £95,136 counts towards his AA.
- As a result, Gordon will exceed the AA of £40,000 in the 2022/23 pension input period.
- However, Gordon has only used £10,000 of his AA in the three previous pension input periods so he has plenty of 'carry forward' allowance to offset in 2022/23.
- This means he will not exceed the AA in 2022/23 and therefore won't incur an AA tax charge by taking this option.
- 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.
- If you think you might exceed the AA by exercising this option, you should get in touch with the pensions team (contact details are on the back cover) and consider talking to an independent financial adviser.



***The information about the AA pension input period is not relevant if you left service on or before 5 April 2006.**

# MORE INFO

For more information on the Annual Allowance, please visit the Scheme website at: **www.ngukgaspension.co.uk** or use the HMRC Annual Allowance Calculator at: **www.hmrc.gov.uk/tools/pension-allowance**

You can find out about State benefits at **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**

## Who to contact for more information

If you have any queries about the information provided, please contact the pensions team. Please quote your full name and your National Insurance number when contacting the team:


Email: NGUKGasPension@Barnett-Waddingham.co.uk

Web: www.ngukgaspension.co.uk

Tel: 0808 175 1336 (Freephone number)
(+44) 1483 661 340 (International dialling)

Post: National Grid UK Pension Scheme
Pension Administration
Barnett Waddingham
Building 2
Guildford Business Park
Guildford, Surrey
GU2 8XG


Every effort has been made to ensure the accuracy of this leaflet. It cannot, however, override the Trust Deed and Rules of the Scheme, or any legal requirements in force from time to time.

May 2022


DATA PROTECTION • THE ENVIRONMENT •
Designed and produced by Wordshop
Our environmental and data protection policies can be seen online.
www.wordshop.co.uk

J-071199